

**HEARING ON U.S.-CHINA RELATIONS IN 2020: ENDURING  
PROBLEMS AND EMERGING CHALLENGES**

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**HEARING**  
**BEFORE THE**  
**U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

**ONE HUNDRED SIXTEENTH CONGRESS**  
**SECOND SESSION**

**WEDNESDAY, SEPTEMBER 9, 2020**

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**UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW  
COMMISSION**

**WASHINGTON: 2020**

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The Commission’s full charter is available at <https://www.uscc.gov>.

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WEDNESDAY, SEPTEMBER 9, 2020

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

*Washington, DC*

The Commission met in Room 215 of Dirksen Senate Office Building and via virtual videoconference at 10:00 a.m., Chairman Robin Cleveland and Vice Chairman Carolyn Bartholomew (Hearing Co-Chairs) presiding.

## **OPENING STATEMENT OF CHAIRMAN ROBIN CLEVELAND HEARING CO-CHAIR**

**CHAIRMAN CLEVELAND:** Good morning. Welcome to the last hearing of the U.S.-China Economic and Security Review Commission's 2020 annual report cycle.

This hearing comes as we approach the end of a cataclysmic year for China's impact on public health, democratic processes, international security, and the global economy. The world is now poised to enter a global recession, which the World Bank characterizes as the worst in 80 years, owing to the Chinese Communist Party's mismanagement of the novel coronavirus outbreak.

Our hearing today will open by considering how Chinese leaders assess their own position in the world at the end of 2020. Our second panel will then take stock of China's current capabilities and challenges realizing its goals. And we'll conclude by examining China's regional engagement in the South China Sea and with Taiwan, India, and Iran.

The Commission began its research year by investigating the risks posed to the United States by greater financial integration with China, not least from China's rapid debt buildup, and the lack of transparency and structural fragility of its financial sector.

With debt eclipsing 260 percent of GDP at the end of the second quarter last year, China's room to maneuver in issuing new stimulus is narrow. Chinese leaders so far have shied away from loose monetary policy that created the current debt problems, and instead are employing a large fiscal stimulus to revive growth.

This alternative has nonetheless embraced China's old development model, reaffirming the primacy of heavily subsidized national champions, a dominant state sector, and state-led investment.

Of note, the World Bank reported by June fixed-asset investment growth by state-owned enterprises rebounded year-on-year with 10 percent growth in sharp contrast to a 7 percent year-on-year decline in private sector investment.

The CCP has rightly called attention to the fact that it was the only major economy in recovery in the second quarter. But asynchronous lockdowns may have given China a brief edge in the recovery timeline, but the CCP is relying on exports to restore growth.

In 2008, when Chinese leaders were last confronted with a global economic crisis, they opened up the spigots on credit, funding construction of ghost towns and white elephant projects across the country. This construction boom provided a burst of inefficient growth, but ultimately led to excess capacity in cement, steel and glass, dumped on global markets.

There is a real risk that today the government is using fiscal rather than monetary stimulus to repeat past mistakes. A state-led stimulus spurring Chinese factories to produce goods with no buyers could lead to another bout of surplus inventories dumping and driving down global prices.

In addition to risks related to debt and overcapacity, the virus has focused on weaknesses related to the CCP's promises of poverty reduction. The economic miracle that did indeed lift millions out of poverty has left millions more behind.

By the end of 2019, much of rural China, some 40 percent of the country's population, relied on remittances from an estimated 290 million migrant workers in factories, construction, and other low-paying jobs in China's wealthy coastal cities.

An internal passport system dating from 1958 prevents these workers from accessing public services in cities that they have helped build, creating two classes of citizens in Chinese society.

This urban-rural divide is only deepening in China's current economic recovery. Foot traffic at Beijing and Shanghai's high-end shopping malls has returned to pre-pandemic levels, but unemployment among migrant workers is estimated as high as 15 million.

Reopened factories are hiring fewer people, paying lower wages, and jobless migrants are far less likely to receive the unemployment benefits that their white-collar urban workers receive.

As the CCP approaches its 100-year anniversary next July, its promise to achieve a moderately prosperous society is clearly only met for some. The real question for all of our witnesses today is, does any of this matter to the CCP?

I look forward to hearing today's witnesses, and thank them for joining us and sharing their expertise. I'd also like to thank the Senate Finance Committee for securing this room for our use. And I will now turn the floor over to my friend, colleague, and co-chair, Vice Chairman Bartholomew.

## **PREPARED STATEMENT OF CHAIRMAN ROBIN CLEVELAND HEARING CO-CHAIR**

Good morning, and welcome to the last hearing of the U.S.-China Economic and Security Review Commission's 2020 Annual Report cycle. This hearing comes as we approach the end of a cataclysmic year for China's impact on public health, democratic processes, international security, and the global economy. The world is now poised to enter a global recession owing to the Chinese Communist Party's mismanagement of the novel coronavirus outbreak.

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The Commission began its research year by investigating the risks posed to the United States by greater financial integration with China, not least from China's rapid debt buildup and the lack of transparency and the structural fragility of its financial sector. With debt eclipsing 260 percent of GDP at the end of the second quarter last year, China's room to maneuver in issuing new stimulus is narrow. Chinese leaders have so far shied away from loose monetary policy that created China's current debt problems, instead employing a large fiscal stimulus package to revive growth. This alternative has nonetheless embraced China's old development model, reaffirming the primacy of heavily subsidized national champions, a dominant state sector, and state-led investment. Of note, the World Bank reported by June, fixed asset investment growth by state-owned enterprises rebounded year on year 10% growth in sharp contrast to a 7 % year on year decline in private sector investment.

The CCP has rightly called attention to the fact that it was the only major economy in recovery at the end of the second quarter. Asynchronous lockdowns may have given China a brief edge in the recovery timeline but the CCP is reliant on exports to restore growth. In 2008, when China's leaders were last confronted with a global economic crisis, they opened up the spigots on credit, funding construction of ghost towns and white elephant projects across the country. This construction boom provided a burst of inefficient growth, but ultimately led to excess capacity in cement, steel, and glass China dumped on global markets. There is real risk that today the government is using fiscal rather than monetary stimulus to repeat past mistakes. State-led stimulus spurring China's factories to produce goods with no buyers could lead to another bout of surplus inventories, dumping and driving down global prices.

In addition to risks related to debt and over-capacity, the virus has focused weaknesses related to the CCP's promises of poverty reduction. The "economic miracle" that lifted millions out of poverty has left millions more behind. By the end of 2019, much of rural China, some 40 percent of the country's population, relied on remittances from an estimated 290 million migrants working in factories, construction, and other low paying jobs, many in China's wealthy coastal cities. An internal passport system dating from 1958 prevents these workers from accessing public services in the cities they have helped build, creating two classes of citizens in Chinese society. This urban-rural divide is only deepening in China's current economic recovery. Foot traffic at Beijing and Shanghai's high-end shopping malls has returned to pre-pandemic levels, but unemployment among migrant workers was estimated as high as 50 million by a Chinese researcher in March. Reopened factories are hiring fewer positions and paying lower wages, and jobless migrants are far less likely to receive unemployment benefits than white



collar urban workers. As the CCP approaches its 100-year anniversary next July, its promise to achieve a “moderately prosperous society” is clearly only met for some.

The real question for all of our witnesses today is does any of this matter to the CCP? I look forward to hearing today’s expert witnesses, and thank them for joining us to share their expertise. In addition, I would like to thank the Senate Finance Committee for securing this room for our use today. I will now turn the floor over to my colleague and co-chair for this hearing, Vice Chairman Carolyn Bartholomew.

## **OPENING STATEMENT OF VICE CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR**

VICE CHAIRMAN BARTHOLOMEW: Thank you very much, Chairman Cleveland, and good morning to everyone. Thank you all for joining us. I'd like to extend particular thanks to our witnesses for the time and effort they have put into their testimonies, and their forbearance for the technical issues that we always go through when we do this kind of format.

This year has already proven challenging in so many ways. Adding to the tensions as the world struggles with the coronavirus, Beijing has ramped up a global campaign of antagonism, characterized by aggressive diplomacy and provocative military behavior.

China escalated a conflict with India at multiple points along their long border, raising suspicion that Beijing planned the incident. China's Coast Guard and Navy increased their patrols around Japan, and grew increasingly confrontational in their efforts to prevent Southeast Asian countries from fishing or drilling in the South China Sea.

And when Taiwan celebrated another successful democratic election, China sent its Navy and warplanes in an attempt to intimidate Chinese people -- Taiwan's people. With India, Japan, the South China Sea, and Taiwan, China's military is flexing its muscles all around its borders.

At the same time, the Chinese Communist Party's wolf warrior diplomats are matching China's military in their confrontational tone toward other countries. The CCP spreads conspiracy theories accusing the U.S. of manufacturing the novel coronavirus.

China punishes Australia with economic sanctions and cyberattacks for, among other things, advocating an independent investigation into the virus's origin. When Sweden took steps towards a national security review of Huawei, China's ambassador to the country threatened, "for our friends, we have fine wine, but for our enemies we have shotguns."

Last December, China's foreign minister, Wang Yi, called on China's diplomatic corps to show fighting spirit. They have delivered.

Unable to suffocate Hong Kong's vibrant freedoms with tear gas and batons, the CCP implemented a draconian national security law protecting not Hong Kong citizens, but Beijing's absolute control.

As China turns the vise, it has shut down freedom of the press, freedom of speech, and freedom of assembly. And now it is attacking freedom of movement as it forcibly detains Hong Kongers fleeing for safety.

China's response is telling. To quote the Executive Director of the Hong Kong and Macao Affairs Office, "the era when the Chinese cared what others thought and looked up to others is in the past, never to return."

Yet China's aggressive behavior may not have the intended results, as it provokes international backlash. Positive views of China are falling in populations around the world. The U.S., the EU, Japan, India, Australia, and others are responding by working to diminish their economic reliance on China and stepping up security cooperation with like-minded partners.

Today's hearing will explore factors motivating China's behavior, and the capabilities it is employing to try to achieve its goals. We look forward to hearing from our witnesses, and I will move into the introduction of Panel 1.

## **PREPARED STATEMENT OF VICE CHAIRMAN CAROLYN BARTHOLOMEW HEARING CO-CHAIR**

Thank you Chairman Cleveland, and good morning. Thank you all for joining us, with particular thanks to our witnesses for the time and effort they have put into their testimonies.

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Thank you.

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<sup>1</sup> Quote from Zhang Xiaoming, executive director of the Hong Kong and Macao Affairs Office. See Eva Dou and Shibani Mahtani, "With Hong Kong security law, China writes broad international powers for itself," *Washington Post*, July 1, 2020. [https://www.washingtonpost.com/world/asia\\_pacific/with-hong-kong-security-law-china-writes-broad-international-powers-for-itself/2020/07/01/cf1e2c0a-bb61-11ea-97c1-6cf116ffe26c\\_story.html](https://www.washingtonpost.com/world/asia_pacific/with-hong-kong-security-law-china-writes-broad-international-powers-for-itself/2020/07/01/cf1e2c0a-bb61-11ea-97c1-6cf116ffe26c_story.html).

## **PANEL I INTRODUCTION BY VICE CHAIRMAN CAROLYN BARTHOLOMEW**

All of our witnesses have distinguished careers, which I am truncating here so that we can get to their testimony, but their full bios are available on our website. Our first panel today will address how Chinese Communist Party leaders assessed China's strategic environment.

Our first expert speaking on the panel today is Dr. Kerry Brown, Director of the Lau China Institute at King's College, London. Dr. Brown will discuss the challenges and opportunities Beijing sees in its external environment.

Dr. Brown previously led Chatham House's Asia program and prior to that, worked as a diplomat in the British Foreign Service. Dr. Brown, thank you for joining us today.

Then we'll hear from Dr. Andrew Scobell, Senior Political Scientist at the RAND Corporation and currently the Bren Chair in Non-Western Strategic Thought at the Marine Corps University. He will speak on shifts in China's foreign policy approach.

Dr. Scobell is a prolific writer, publishing several books and over a dozen monographs and reports on China's security policy. Dr. Scobell, thank you for testifying for us again. Welcome back.

Finally, we will hear from Dr. Anthony Saich, Director of the Ash Center for Democratic Governance and Innovation at Harvard University, on the Chinese Communist Party's views on its own regime security.

Dr. Saich is an expert on Chinese politics, governance, and the interplay between state and society in China. Dr. Saich, thank you for joining the Commission today.

I'd like to remind the witnesses to please keep your comments to seven minutes. Dr. Brown, we'll begin with you.

## **OPENING STATEMENT OF KERRY BROWN, PROFESSOR OF CHINESE STUDIES AND DIRECTOR OF THE LAU CHINA INSTITUTE AT KING'S COLLEGE LONDON**

DR. BROWN: Great, thank you very much. I'm very grateful for you asking me to (audio interference). So I'm going to talk about maybe the kind of Beijing view of where it stands at the moment. Yes, I think COVID-19 has been as much of a challenge for China as it has for everyone else. So I suppose (audio interference) in China after the last few months.

I guess firstly, we shouldn't underestimate the fact that Xi Jinping really believes that this has validated the idea that socialism with Chinese characteristics works. It's better at dealing with public health issues, it is better at restoring your economy to growth.

I mean, that's what's happened so far. It may be that things deteriorate after this course, but so far that's what's happened. And it creates clarity. In that sense I mean that China is now probably more isolated, but it knows better where it stands, and it knows where its friends are and where its enemies are, and so it looks (audio interference).

So in terms of its sort of strategic intention, I guess that was always going to be led by these kind of fairly nationalistic narratives of the centennial goal next year, of 2021, (audio interference) and a kind of moment in which China is able to say that it kind of won the battle of modernity for itself, right? And it did it in its own way.

You know, they adopted a very bespoke and hybrid system that works for it and has worked for it, despite all of the challenges to the (audio interference). I think in talking to one another about China, we shouldn't underestimate the powerful emotions that derive from that.

It's often, as people have observed and as the comments made earlier have kind of, I think, outlined, been a hard thing to listen to, but China, I feel, is like (audio interference) of kind of great confidence.

And that confidence is fueled by this idea that, you know, its moment of winning the battle of modern history, of becoming a kind of middle-income country, of having a major middle class that matters not only to China, but to everyone else. You know, they stop all the working (audio interference), all the working (audio interference).

I think that the second thing is that there's no real easy alternative to this. I mean, if you're talking to a partner and they've got a number of options, that's one thing, but I think for the Communist Party, this is a powerful message.

And it's scary, (audio interference) easy kind of other route. You know, it can't kind of really produce a sort of nice sort of alternative. This is the path that the state can (audio interference) and it's the path that it's put almost all of this political, cultural, and spiritual kind of investment into.

In terms of the way in which this plays out, I guess one of the problems is that, domestically, this is all good. I mean, the kind of powerful nationalism, it really appeals to people in ways that obviously your kind of Marxist, Leninism ideology, that doesn't really kind of appeal to (audio interference) as it does anywhere else.

But this sort of nationalism that it supports, a very kind of powerful strong country, this is clearly very (audio interference) appealing (audio interference) and most other groups in China, so it gives a sense of security and stability, and it's a consistent message.

I mean, no matter what, there are kind of changes in particularities and nuances, you know, it kind of is a very consistent message the Party is able to (audio interference). And so, domestically it's all good, but in terms of how this works for kind of China, kind of externally, that's where it's obviously very problematic.

I think what we are seeing is a sort of world in which those who were close to China and had sort of more loyal feelings to China, in Pakistan for instance and (audio interference) and I think that their passion and ardor has only increased, and China is offering them more and more, practically.

Those who were probably kind of antithetic to China, well, I mean, they were never going to change their view. The most countries, though, I think, including probably Europeans and the United States, until recently, probably sat in the middle, holding to this line of pragmatic engagement and being more agnostic.

And I suppose what we've really seen is, the last sort of 12 months but particularly since COVID started, is a dramatic change where the spectrum has really divided the true loyalists, the Chinese (audio interference) as many of them and those who are more kind of agnostic have become very, very antagonistic.

And so I don't think that, you know, this nationalistic (audio interference) trying to (audio interference) that sort of divided world.

So, you know, does China have a strategy to deal with that kind of environment -- a very divided environment where its message is not an easy one, there's not a huge knowledge base in the world for dealing with this, and you know, there's lots of kind of (audio interference) to change its approach within China.

I don't think so. I mean, I think everything is dependent really, now, on one battlefield, and that is the economy. And, you know, this is a great kind of fight to China's (audio interference). It's a strength, but it's also, you know, a place where there could be many others who could win, or China could actually, you know, experience some upsets.

It's sort of playing on home territory because if it does restore its economy to growth, better than others, and if the rest of the world, which countries are going through really, really tough economic situations in which their political and diplomatic calculations towards China have to be modified and changed for pragmatic reasons, then that, you know, (audio interference) a lot of opportunity to, you know, (audio interference) that you've got to get benefit from China.

I suppose, in conclusion, those are the sort of two things that we really have to think about. Firstly, the ways in which (audio interference) by outsiders towards China can really be possible with the current environment, and secondly, what it is to get benefits and rewards from China.

I mean, not (audio interference) being given stuff, but what it is to have a sort of proper reciprocity where the significant negativities that we've been referring to are actually kind of balanced and justified by some semblance of getting something back.

That was always part of the calculation, but now I think that has become a very urgent part of the calculation. And there's no easy equation for how that is going to be worked out. Thank you.

**PREPARED STATEMENT OF KERRY BROWN, PROFESSOR OF CHINESE  
STUDIES AND DIRECTOR OF THE LAU CHINA INSTITUTE AT KING'S COLLEGE  
LONDON**

September 9<sup>th</sup> 2020

Kerry Brown

Professor of Chinese Studies and Director of Lau China Institute, King's College, London, and  
Associate Fellow, Asia Pacific Programme, Chatham House.

“Testimony before the U.S.-China Economic and Security Review Commission”

Panel One: China's Assessment of its Strategic Environment

1. *Characterize how Beijing assesses its external environment. What are the primary opportunities and challenges CCP leaders perceive in achieving their global goals? Do CCP leaders view their opportunities or challenges as predominant? How the COVID-19 pandemic shaped these views?*
  - The current administration of China under the highly centralised leadership of Xi Jinping (head of the Communist Party, the military and country president since 2012/13) are driven by a grand narrative of achieving middle income status by the end of 2020, and being in a strong position to celebrate the first of what, in Party discourse, they call the ‘centennial goals’ – the hundredth anniversary of the foundation of the CCP in July 2021. Anniversaries like this are important for the Party. They shape **history** and give it a teleological purposefulness. For the Xi leadership, as with those prior to it, the People's Republic of China is now at a moment where it has achieved modernity on its own terms. It has made its economy the world's second largest; it has restored itself to the status as one of the great global powers, and it has done this largely on its own terms.
  - While Chinese people may not care much for Marxism Leninism and its various sinified iterations, the underlying **nationalism** is something that appears to have wide popular appeal. Xi's leadership has been striking in the ways in which it has closely linked the domestic mission of creating a more middle class, urbanised, service sector orientated social and economic model with a transformation of China's role in the region and the world. China feels that its history since the middle of the 19<sup>th</sup> century of being a country victimised and weakened by exploitation by others, and by its own failure to industrialise, is now fully over. While there are many problems regarding the accuracy of this historiography, in terms of emotional appeal as an ‘imagined’ history it has proved unifying and almost intoxicating within the country.
  - Many external observers assume that the Communist Party is fully in control of these goals and the direction of the **aspirations** that flow from this historic narrative. In fact, it is more accurate to say that the Party in fact is as much controlled as commanding this. As economic growth has inevitably slowed down in the last few years (to around 6 per cent in 2019), it has had to shift the location of its source of legitimacy from simply producing wealth creating opportunities and access to more material goods for Chinese people to this far more amorphous objective of creating a ‘strong, rich country’ – one with status, which is able to spell out its vision to the world through notions like the Belt and Road Initiative, and which has a far more explicit role regionally, and in international organisations. Anything which, in the eyes of the Chinese people, indicates that China is not living up to these goals is a



source of potential frustration, and threat to the Party's legitimacy. The Party now has to feed the fires of the very thing that was originally meant to be serving it.

- The **mindset** of the current government is, by default, optimistic. Challenges are turned into opportunities. This is because of their ideological commitment to the positive historical trajectory of Marxism, where things are always moving towards a final good conclusion. But it is also because they do believe their historic moment has finally come, that their 'resurrection' through modern times from impoverished victim to enriched geopolitical giant is morally justified, and that the world therefore has no grounds to refuse them this grand act of restoration.
- Xi's leadership is one predicated on **confidence**. COVID19 has ironically, despite originating in China, reinforced this through the ways it has so far showed China's economic and crisis management to have been seemingly more effective than that of most other systems. It interprets the evidence of divisions and fragmentations of public opinion in major democracies like the US, and the UK, as signs of weakness, and decline. China does not seek the fall of the West in the way that the USSR did. It does seek a space for itself where it gets the things that it needs and is able to promote its own self-interest. It does not display the characteristics of a country seeking to covert others to its own world view. Rather it knows its own highly idiosyncratic version of Marxism Leninism is tailored for China and could not easily be duplicated elsewhere. The fact that some of the softer opportunities from the global management of COVID19 – creating a deeper sense of shared human struggle against generic problems – have not been ones China has seemed to take, but instead has adopted much more assertive, pushy language ('wolf warrior' diplomacy) shows that its mindset now is an unapologetic and confident one. It believes that it has the opportunity, the moral right, and the means to achieve a global position on its own terms. The main issue is that so many around it and engaging with it interpret this as something much more problematic and contentious.

2. *How successful do CCP leaders believe they have been in achieving their goals over the past year? How successfully has Beijing developed networks of international support for its foreign policy or leadership? What tools has Beijing used to build or deepen this support?*

- Broadly, contemporary China looks out at a world of **concentric rings**, where the US is its most important diplomatic challenge and partner, the Asia region its second, Europe its third, and then the wide world – Africa, Latin America.
- The **Belt and Road Initiative** has been the main means by which China has tried to address the challenge of communicating, in a non-normative, non-prescriptive way, its vision of its international role since 2014. This idea has been principally economic in its emphasis, largely because, until recently, that area has been the least contentious one for China to speak out on. On security issues, China's message is far more difficult.
- Before the global **COVID19** pandemic, as it has played a larger role in global affairs, China has seen the creation of three new classes of international partners. There are the '**true believers**' – countries like Pakistan – whose fervent admiration and closeness to China has only become more fervent and close. This group of countries is a small one. There are then the '**diehard opponents**' – countries perhaps like the

Czech Republic who have experienced persistent levels of public dislike and unease at China's rising influence for a number of years. On either side of these extremes, the largest group have been more agnostic nations – **the 'middle roaders'**, who have chosen managed engagement with China, with a view either to gaining economic benefits, and, if they are democracies, perhaps seeing benign political and social change in the country.

- We can say now that **COVID19 has shifted many more countries from the middle to the more critical end of this spectrum**. Australia, the US, most European countries, and India have all become far more antagonistic about China, many taking specific actions to counter it. Russia and most of the countries in the Middle East, however, seem to have entered the 'true believer' group.
- Despite this deepening of divisions, **there is little evidence that China has fundamentally changed its international messaging**. It still deploys defensive language on issues like Xinjiang, has acted largely heedless of international responses on Hong Kong and the imposition of the new National Security Law there in July, and has mandated its diplomats to use often aggressive language and tactics on social media and in print. On Taiwan, it has show no desire to compromise. China understands that its economic wealth can buy it support in many parts of the world. But its attempts to promote its soft power in the last decade are so seem to have led nowhere and created an attitude in Beijing that if there is so much entrenched hostility towards it, no amount of at least this sort of diplomacy is likely to shift this.
- The intransigence of China's diplomatic language and position is partly derived from the **nationalistic dynamics** that the Communist Party needs to serve (see answer to question 1), which means that domestically it has little room for manoeuvre before being accused of being weak. It is also partly due to the very deliberative and slow way in which consensus over foreign policy issues that matter to China in the last few decades has been reached. Once lines on Hong Kong, Taiwan, or the South China Sea issues are arrived at, they are very hard to undo within the Chinese decision making system because their construction took so long, and involved so many different partners, and no one figure (not even Xi) can revise them. Finally, the mindset of this moment now being one for China, no matter what, referred to in the previous answer, means that China's actions, and its view of itself, have a self-propelling momentum. China may well want to speak to the world in a different way. It may even want to act in a different way. But it feels it cannot, because of its commitment to its view of its own history, and where that history is headed.

3. *How is Beijing responding to its external environment? What major developments are likely shaping current CCP behavior, and in what ways might CCP policy shift in the near future? In what ways do Beijing's assessments of "comprehensive national power" shape its policy?*

- Beijing's response to its external environment is driven as much by domestic commitments to a **nationalist sense of historic development and mission**, referred to in the response to question one, as it is to any specific 'facts on the ground' that it encounters in partners around it. COVID19, as question two's answer showed, has created a deepening of divisions between those who regard China positively, and those who are antagonistic to it. China's response to this so far has been to attempt

to appeal to the pragmatism of others, and to continue its language of 'win win' outcomes, and global partnerships where values, particularly political ones, remain off limits and everything is concentrated simply on achieving material goals about which there is more shared consensus. The Belt and Road, for instance, has promised delivery of infrastructure to other countries – even though there has been considerable controversy over how much of this has actually been realised, and in what way.

- COVID19 is a crisis of such extent and seriousness, that it might well enforce change either on China or the world around it. It could do this because the depth of **economic recession** in many of even China's most trenchant critics mean that they have to engage with the world's second largest economy, and one still able to grow at 3 per cent a year despite the impact of the pandemic, for their own self-interest. In this outcome, China will have won the battle to show that diplomacy and international relations can be run largely value free (or at least Western value free), and focussed purely on economic and material outcomes. The main problem is that this will eventually lead to a deal of resentment – though when this might be, and how it manifests itself, is hard to predict. The bottom line is that while there may be evidence countries will want to engage with China for material outcomes, there is none that they wish to therefore adopt China's highly specific value system or its political model.
  - An alternative scenario is that countries are able to somehow address their post-COVID19 challenges in ways that make them **less reliant on China**. That would make fairly extensive economic and political decoupling viable. It would, however, create a dual track world, and one where the post World War consensus on a common global system of trade, and other standards had come to an end, and something more complex and segregated replaces it.
  - The third possibility is that the increasing signs of antagonism, anger and hostility towards China internationally might finally cause a **significant rethink in Beijing, and bring about a major change in its approach to the world around it**. This might be caused too by greater economic problems than the country seems to be confronting at the moment. Were very low, or negative growth, to appear going into the next year, China may well need to urgently rethink its mode of operation. At the moment, however, there is little sign of that.
4. How do CCP leaders' perceptions of their domestic regime security motivate or constrain their activities abroad? Similarly, how does the CCP's assessment of its external environment drive its domestic policy? In your response, please address the impact of the CCP's international messaging on its domestic audience and vice versa.
- The current quandary for Beijing and the Xi leadership is that **while strong nationalism and an assertion of the country's mission to be a great, strong, rich power is great for domestic politics, and something that lies at the heart of the Xi leadership, in terms of its external messaging, it is deeply, and increasingly problematic**. Again, COVID19 has illustrated this. The campaigns to celebrate China's attempts, largely successful till now, to control and eradicate the disease and then kickstart its economy gave the Chinese government irresistible opportunities for domestic propaganda – opportunities which it has fully taken. However, as this messaging was transferred out of the country, it hit major obstacles. It did not recognise the ways in which many held China responsible for the origination and

spread of the disease. It also placed too much emphasis on undertaking face mask and other equipment donation exercises in Europe and elsewhere which were clearly primarily geared towards Chinese domestic audiences, but which created irritation bordering on anger from those meant to be receiving China's help. This alone illustrates perfectly the challenges of a China in a more dominant position. Its identity as a donor is a new, and ill understood, one.

- Lack of knowledge is compounded by the differences in the manner by which China chooses to donate, and the lack of clarity about if, and whether it can, address non Chinese audiences in ways which really speak to them and show its good intentions.
- **The principle problem that China has, and which it presents to the outside world today, is that it is a complex, and ambiguous power, and is speaking to a world which largely does not like, or cannot cope, with this sort of level of complexity and ambiguity.** China is a power that on the one hand can factually say it has lifted more people out of poverty in the last four decades, and improved the material well being of more people, than any other in human history. It is a power that has dramatically changed, socially, economically, and politically, in ways which make the country of today almost unrecognisable from that of fifty years ago. And yet it is also a country that adheres to a value system where utilitarian ethics mean it is politically, and socially, permissible to consign minorities like the Uyghurs in Xinjiang, rights protesters, and other marginalised and disfavoured groups, to often inhumane treatment.
- China is neither good nor bad, but it is speaking to a world which wants to see it as clearly one or the other, because of the very huge claims that it is, and will make, as a rising global power. We are currently in a situation where Beijing has the mindset where it sees itself as good, but much of the wider world sees it as bad. This is a cognitive dissonance the likes of which has never been witnessed before, and which so far has proved beyond anyone to offer a cure for.

5. *Do you see 2020 as an inflection point in Chinese leaders' worldview and assessment of their external environment? If not, what are other defining moments shaping their current approach? (A similar question is asked of all Panel I participants)*

- The key battle ground, if that is the right metaphor, is now the **economy**. Strategically there are places where China can work deeply with international partners in terms of public health, climate change, and strengthening international crisis management. But the more divided and contentious political environment is going to make even these benign areas harder to operate in, and involve much more justification. But in 2020, COVID19's impact on the global economy is likely to dominate – and to change the parameters of engagement and co-operation by others with China.
- A world in which China emerges from the crisis economically the most strongly will present one set of challenges and opportunities. A world where everyone, including China, suffers equally bad impacts will present another. One, instead, where the US and its allies are able to return to growth and avoid mass unemployment while China languishes will mean that capitalism run on democratic systems has proved it can deliver in ways that capitalism on a one party model cannot. So while the battleground is now all about economic growth, and underlying question is to what

extent different systems can face their problems and prevail – a much more **political** issue.

- China currently clearly sees itself as being in a stronger position. Its greatest problem is over-stretch and over-confidence. It has shown little evidence that it finds its current diplomatic isolation sufficient cause to change the way it behaves and how it speaks to and sees the wider world. But a severe global economic crisis may well radically change that.

6. *The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony? (This question is asked of all panelists).*

- To insistently and consistently support a culture and discipline of **reciprocity** in all dealings with China, from trade to all other areas. The perception of China enjoying arrangements that work asymmetrically in its favour now does as much harm to China as to those suffering these deals. It has created deep deficits in trust. Some notion of what reciprocity means in terms of market access, treatment of intellectual property issues, must be supported. This is a rational thing to want, and something that has already partly been achieved by the US and others in their seeking new trade deals and new cooperation models with China.
- Far stronger support for the funding of **education**, for academics and the general public in Chinese studies. The current situation has exposed an asymmetry long understood, and never properly addressed – that on the whole there is far deeper and wider understanding of the US and Europe in China, than there is the other way around. Whether we seek to reform, recreate, or even upend, our relations with China, we are in a far better position to do this with a well informed political class, public, and a cadre of well trained and China literate specialists across government, academic, and into schools.
- Clear and consistent **messaging** to Beijing from political and other leaders that while its positive role in creating material benefit and good lives for many middle class, farmers and other groups in China is a major achievement, its actions towards minority groups, particularly those in Xinjiang, Tibet, and Inner Mongolia, have caused massive loss of credibility for China in the wider world. The values messages sent to China by other countries not sharing its political values are often weighted towards the negative side because of the understandable emotions these arouse. There needs to be a more measured language of diplomatic communication where recognition is rightly given to the country's achievements, and its right to take its own path, before then moving to the significant, and ongoing, issues in Xinjiang, Hong Kong, and elsewhere, and the ways which, for a rising power seeking new status like China is now, are only going to create bigger problems for it as it goes forward – and for those outside the country that deal with it.
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**OPENING STATEMENT OF ANDREW SCOBELL, SENIOR POLITICAL SCIENTIST  
AT RAND CORPORATION (ON LEAVE) AND DONALD BREN CHAIR IN NON-  
WESTERN STRATEGIC THOUGHT, MARINE CORPS UNIVERSITY**

VICE CHAIRMAN BARTHOLOMEW: Thank you very much. Dr. Scobell, we'll go next to you.

DR. SCOBELL: All right. Can you hear me? Great.

VICE CHAIRMAN BARTHOLOMEW: Yes.

DR. SCOBELL: Good morning. Thank you for the opportunity to appear before the Commission again. Many political leaders and analysts in the U.S. and elsewhere perceive that the People's Republic of China has become more assertive and more confrontational in recent years under paramount leader Xi Jinping.

But has Xi's China in fact adopted a new, more forceful and more aggressive foreign policy towards Washington and other capitals? To address this question, I will draw upon the written testimony I submitted to make three points.

First, in my view, China has become noticeably assertive and confrontational across the board in 2020. And this represents both continuity and change in Chinese foreign policy. Hawkishness and provocation are nothing new.

Indeed, today there is considerable continuity with China's foreign policy behavior of past decades. Nevertheless, this assertiveness seems new because China is far more powerful and Beijing is responding forcefully to near-simultaneous challenges, to multiple near-simultaneous challenges.

Yet we're also witnessing significant change. In recent decades, China's Communist Party rulers have become more ambitious in terms of the expansive scope of regime goals, and activities beyond their own borders.

While Xi Jinping receives credit as China's chief instigator and prime originator of a more robust and assertive China, in truth, this trend began under his predecessor. Under Hu Jintao, China also engaged in waves of muscular assertiveness.

Since significant elements of change blend with considerable continuity, Chinese foreign policy in 2020 does not appear to be at an inflection point. However, there does appear to have been a qualitative change in U.S.-China relations, and a corresponding sea change in Beijing's perceptions of Washington.

My second point, in 2020, Xi and his Politburo colleagues measure success in terms of how well China's foreign policy advances the Communist Party's long-term and short-term goals. The latter is measured in terms of whether two high-profile near-term events proceed without a hitch, and whether there are accomplishments to celebrate.

The first is the 100th anniversary of the founding of the Communist Party, to be celebrated in July of 2021. The second is the Party's 20th Congress, scheduled to be held in the fall of 2022.

The Congress should be a well-choreographed re-coronation for Xi and a coming-out party of a fresh slate of newly-promoted new senior Party leaders. Success for each event means running like clockwork without disruption or distraction at home or abroad.

For the latter, a long-term success is determined by making progress towards China's grand strategic goals. These goals are: to maintain political control and ensure social stability; second, to promote continued economic development; third, to advance science and technology; and fourth, to strengthen and modernize China's national defense.

These are all over-the-horizon objectives. Hence, their ultimate success or failure will not be discernible for many years. Yet the first goal, domestic stability, is something monitored and assessed on a near-daily basis, because it is a foundational prerequisite of the Communist Party to successfully pursue the other three goals.

My third point, despite China's burgeoning hard-power might, its Communist rulers perceive their regime in the country as remaining relatively weak, especially compared to the United States.

In 2020, when Communist Party leaders engage in SWOT analysis to assess their strengths, weaknesses, opportunities, and threats, they see China's strengths as its growing hard power, especially economic clout, and to a lesser extent its military muscle.

These leaders believe their regime's greatest weakness is soft power, and feel particularly vulnerable domestically, the threat from within posed by the risks of political infighting, societal turmoil, or democratization.

The Communist Party strives to remain perpetually vigilant and responds harshly to any signs of internal dissent, whether among ethnic and religious minorities, or among the Han majority in mainland China or Hong Kong.

Communist Party leaders identify foreign policy opportunities where they see leadership vacuums to be filled, whether at the United Nations or in the international effort to battle COVID-19. In terms of threats, the Communist Party perceives the United States as being far more hostile and more threatening in recent years.

Beijing has long held an image of the United States as intent on containing China and undermining Communist Party rule. But this image of hostility has increased by a sizeable order of magnitude during the Trump administration.

To wrap up, China's hawkish and assertive foreign policy has experienced both continuity and change. Beijing appears to be more aggressive and more confrontational, because its hard and soft power capabilities are far greater and more potent than they were in the past.

Moreover, China's muscularity is on display in 2020 on multiple fronts, near simultaneously. In addition, Communist leaders are becoming increasingly ambitious regarding the scope of regime goals beyond China's borders.

Nevertheless, all this activity masks a Beijing that sees itself still as weak, albeit growing considerably stronger, with major vulnerabilities. Xi and his Politburo colleagues are convinced that China must be tough, and they cannot afford to show weakness. Thank you.

**PREPARED STATEMENT OF ANDREW SCOBELL, SENIOR POLITICAL  
SCIENTIST AT RAND CORPORATION (ON LEAVE) AND DONALD BREN CHAIR  
IN NON-WESTERN STRATEGIC THOUGHT, MARINE CORPS UNIVERSITY**



# Something Old, Something New

## Continuity and Change in China's Foreign Policy

Andrew Scobell

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Testimony presented before the U.S.-China Economic and Security Review Commission on September 9, 2020.



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*Something Old, Something New: Continuity and Change in China's Foreign Policy*

Testimony of Andrew Scobell<sup>1</sup>  
The RAND Corporation and Marine Corps University<sup>2</sup>

Before the U.S.-China Economic and Security Review Commission

September 9, 2020

Many observers and analysts perceive that the People's Republic of China (PRC) has become more assertive and more confrontational in recent years. Certainly, this is the view of prominent political leaders and analysts in the United States and elsewhere.<sup>3</sup> Is this perception accurate? Has Beijing under PRC President Xi Jinping adopted a more forceful and more aggressive foreign policy toward Washington and other capitals? What is driving Xi and the PRC's fifth-generation of Chinese Communist Party (CCP) leaders?

In this testimony, I contend that while the PRC has been noticeably assertive and confrontational across the board in 2020, what the world has been witnessing is both continuity and change in Chinese foreign policy. Indeed, today there is considerable continuity with the behavior of past decades, but this is amplified because the PRC is now far more powerful and Beijing is responding forcefully to multiple, near-simultaneous challenges. Yet, there is also significant change: In recent decades, CCP leaders have become even more ambitious in terms of the expansive scope of regime goals and activities beyond the borders of the PRC. I suggest that Chinese foreign policy is not at an inflection point in 2020; rather, significant elements of change

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<sup>1</sup> The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation, any of the sponsors of its research, the Marine Corps University, or the Marine Corps University Foundation.

<sup>2</sup> The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

<sup>3</sup> In a mid-2020 speech, Secretary of State Mike Pompeo suggested that the PRC had become a "Frankenstein." See Michael R. Pompeo, "Communist China and the Free World's Future," speech delivered at the Richard Nixon Presidential Library and Museum, Yorba Linda, Calif., July 23, 2020, <https://www.state.gov/communist-china-and-the-free-worlds-future/>. See also, for example, Lindsey W. Ford and Julian Gewirtz, "China's Post-Coronavirus Aggression Is Reshaping Asia," *Foreign Policy*, June 18, 2020, <https://foreignpolicy.com/2020/06/18/china-india-aggression-asia-alliances/>; and Bernhard Bartsch, Evan Medeiros, Orville Schell, David Shambaugh, and Volker Stanzel, *Dealing with the Dragon: China as a Transatlantic Challenge*, Bertelsmann Stiftung, Asia Society Center on U.S.-China Relations, George Washington University China Policy Program, June 2020, [https://asiasociety.org/sites/default/files/inline-files/Dealing%20with%20the%20Dragon\\_Report\\_25.06.20.pdf](https://asiasociety.org/sites/default/files/inline-files/Dealing%20with%20the%20Dragon_Report_25.06.20.pdf).

blend with considerable continuity with themes from the past. That said, there does appear to have been a qualitative change in U.S.-China relations and a corresponding sea change in PRC perceptions of the United States (and vice versa).<sup>4</sup>

In this testimony, I first define the regime’s grand strategic goals, highlight continuities in PRC foreign policy, and discern new conditions that influence China’s behavior. Next, I pinpoint the distinguishing features of the ruling regime and the defining characteristics of the regime’s current generation of leaders. Then I identify the key domestic context for evaluating the success of PRC foreign policy and, finally, consider how domestic pressures affect Beijing’s foreign policy.

## A Foreign Policy to Advance Grand Strategic Goals

The overarching end state of Beijing’s grand strategy is to achieve national rejuvenation and, in so doing, realize the “China Dream.”<sup>5</sup> Realizing this dream, according to the formal resolution issued by the 3rd Plenum of the 18th CCP Central Committee, means “construct[ing] a wealthy, strong, democratic, civilized and harmonious socialist modernized country.” Although these goals remain unrealized, they continue to be espoused as aspirational CCP objectives. Speaking at the 19th Party Congress in October 2017, Xi outlined a “two-stage development plan.” The first stage extends to 2035, by which date China will have become a global leader in innovation, will possess greater “soft power,” and will have established “rule of law” domestically. The second stage continues to 2050, by which date China will have become “prosperous, strong, democratic, culturally advanced, harmonious and beautiful.” The revised CCP Constitution includes these goals and enshrines Xi’s ideological leitmotif: “socialism with Chinese characteristics for a new era.” What the phrase actually means is ambiguous, but its significance should not be underestimated: This mantra provides a fig leaf of ideological legitimacy to contemporary CCP policies and enables Xi to assert that he has made an important contribution to communist dogma.

Success in foreign policy is determined by making progress toward China’s grand strategy goals. These are all long-term objectives, so their ultimate success or failure will not be discernible for many years. The PRC’s grand strategic priorities are to

- maintain political control and ensure social stability
- promote continued economic development
- advance science and technology
- strengthen and modernize national defense.<sup>6</sup>

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<sup>4</sup> See, for example, David M. Lampton, “Reconsidering U.S.-China Relations: From Improbable Normalization to Precipitous Deterioration,” *Asia Policy*, Vol. 14, No. 2, April 2019, pp. 43–60; and Andrew Scobell, Edmund J. Burke, Cortez A. Cooper III, Sale Lilly, Chad J. R. Ohlandt, Eric Warner, and J.D. Williams, *China’s Grand Strategy: Trends, Trajectories, and Long-Term Competition*, Santa Monica, Calif.: RAND Corporation, RR-2798-A, 2020, [https://www.rand.org/pubs/research\\_reports/RR2798.html](https://www.rand.org/pubs/research_reports/RR2798.html).

<sup>5</sup> This paragraph draws from Scobell et al., 2020, p. 18.

<sup>6</sup> Scobell et al., 2020, pp. 18–19.

In fact, these four priorities have been articulated since at least the 1970s. Three of them—economic development, science and technology, and national defense—were trumpeted by Deng Xiaoping at the outset of the reform era and dubbed the Four Modernizations. The fourth—maintaining political control and ensuring social stability—focuses on internal security, which is a foundational prerequisite for successfully pursuing the other three. As Deng noted in 1980, “without [domestic] stability and unity we [China] have nothing.”<sup>7</sup> In other words, internal security is the regime’s top priority.

## A History of Hawkishness and Provocations

Since the very founding of the PRC, Chinese leaders have spouted hawkish rhetoric and engaged in militant provocations at and beyond China’s frontiers. While confrontational verbiage was more common when Mao Zedong—who dominated PRC domestic politics and foreign policy between 1949 and 1976—was alive, these pugnacious pronouncements have remained a part of Beijing’s playbook in the post-Mao era.<sup>8</sup> Furthermore, vigorous actions by the People’s Liberation Army (PLA) in furtherance of the PRC’s foreign policy goals began in late 1950, with the large-scale intervention of the so-called Chinese People’s Volunteer Army to support the Democratic People’s Republic of Korea. This military muscularity persisted through the Maoist era and continued into the post-Mao period, albeit mostly conducted on a much smaller scale.

Nevertheless, armed confrontations and bloody clashes have periodically occurred along China’s borders with a variety of states. Perhaps the most enduring flashpoint—if we exclude the Taiwan Strait—has been the PRC’s disputed border with India, commencing with a border war in 1962 through to a lethal melee in mid-2020 in the Galwan Valley.<sup>9</sup> Tensions have not been constant across the decades, but the dispute remains unresolved, with periodic clashes erupting over the years.

Hostilities have also simmered and bubbled up at times from 1979 until 1991 between China and Vietnam along their common land frontier.<sup>10</sup> As with China’s Himalayan boundary with India, the precise boundary between China and Vietnam was never properly demarcated. This issue, along with several others, contributed to a pervasive climate of hostility between Beijing and Hanoi. Sino-Vietnamese hostilities endure because, while the continental boundary was eventually resolved, maritime territorial disputes in the South China Sea have become quite

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<sup>7</sup> Deng Xiaoping, “The Present Situation and the Tasks Before Us,” in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, trans. Bureau for the Compilation and Translation of Works of Marx, Engels, Lenin, and Stalin under the Central Committee of the Communist Party of China, Beijing: Foreign Languages Press, 1984, p. 237.

<sup>8</sup> See, for example, Allen S. Whiting, *The Chinese Calculus of Deterrence: India and Indochina*, Ann Arbor, Mich.: University of Michigan Press, 1975; and Andrew Scobell, “Is There a Civil-Military Gap in China’s Peaceful Rise?” *Parameters*, Vol. 39, No. 2, Summer 2009, pp. 4–22.

<sup>9</sup> On the 1962 war, see Whiting, 1975, pp. 1–169. On the recent violence, see, for example, Andrew Scobell and Sumit Ganguly, “China’s Latest Tussle with India Could Lead to War,” *National Interest*, June 20, 2020, <https://nationalinterest.org/feature/chinas-latest-tussle-india-could-lead-war-163111>.

<sup>10</sup> Zhang Xiaoming, *Deng Xiaoping’s Long War: The Military Conflict Between China and Vietnam, 1979–1991*, Chapel Hill, N.C.: University of North Carolina Press, 2015.

contentious. Aside from the demarcation of the China-Vietnam boundary in the Gulf of Tonkin, the two countries' overlapping claims in the South China Sea remain in dispute.<sup>11</sup> Since the mid-1970s, PRC military and paramilitary forces have harassed, seized, and even sunk vessels from Vietnam (and those from other claimant states) and have occupied islands, reefs, and atolls around the semi-enclosed sea. These latter actions have entailed not just establishing a presence on uninhabited isles but also, at times, battling uniformed Vietnamese personnel and expelling them from their emplacements.<sup>12</sup>

Under Xi, who became CCP General Secretary in 2012 and PRC President in 2013, the regime has projected a more assertive and more muscular posture in and around Asia, especially in the maritime regions where China has long-standing territorial claims.<sup>13</sup> In the East China Sea, Beijing has ramped up its air and naval patrols in disputed waters, including in the vicinity of the contested Senkaku/Diaoyu Islands.<sup>14</sup> And in November 2013, China took the dramatic step of unilaterally declaring the establishment of an Air Defense Identification Zone (ADIZ) covering a sizeable swath of the East China Sea, which overlapped with existing South Korean and Japanese ADIZs, including airspace over the Senkaku Islands. In the South China Sea, meanwhile, China on Xi's watch has launched an unprecedented effort to build large artificial islands on existing reefs and rocks in disputed waters also claimed by countries such as the Philippines and Vietnam. The extensive effort, which includes considerable coordination between civilian, military, and paramilitary government offices and ministries, entails the construction of fortifications, airfields, and port facilities. While these developments seem ominous and intimidating to other claimants, the new construction has questionable strategic value from the U.S. perspective and is extremely vulnerable in wartime.

Since 2013, China's ability to enforce and advance these claims has been improved by the creation of a single supersized coast guard established by combining four of China's five maritime enforcement agencies. The outcome is that China possesses the world's largest coast guard in terms of total tonnage (190,000 tons) and the greatest number of vessels of any Asian coast guard.<sup>15</sup> Moreover, some of these ships are refurbished naval frigates, and many of these vessels are larger than many of the ships in the navies of China's neighbors. China's coast guard has engaged in frequent aggressive actions, including ramming, against the ships of other countries, most notably in the South China Sea. In March 2018, a further bureaucratic reshuffling

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<sup>11</sup> For a comprehensive and thorough overview of China's approach to this and other territorial disputes, see M. Taylor Fravel, *Strong Borders, Secure Nation: Cooperation and Conflict in China's Territorial Disputes*, Princeton, N.J.: Princeton University Press, 2008.

<sup>12</sup> For a comprehensive overview of the range of Chinese gray zone activities, see Lyle J. Morris, Michael J. Mazarr, Jeffrey W. Hornung, Stephanie Pezard, Anika Binnendijk, and Marta Kepe, *Gaining Competitive Advantage in the Gray Zone: Response Options for Coercive Aggression Below the Threshold of Major War*, Santa Monica, Calif.: RAND Corporation, RR-2942-OSD, 2019, pp. 27–41, [https://www.rand.org/pubs/research\\_reports/RR2942.html](https://www.rand.org/pubs/research_reports/RR2942.html).

<sup>13</sup> This paragraph and the following paragraph draw from Scobell, Burke, et al., 2020, p. 40.

<sup>14</sup> Edmund J. Burke, Timothy R. Heath, Jeffrey W. Hornung, Logan Ma, Lyle J. Morris, and Michael S. Chase, *China's Military Activities in the East China Sea: Implications for Japan's Air Self-Defense Force*, Santa Monica, Calif.: RAND Corporation, RR-2574-AF, 2018, [https://www.rand.org/pubs/research\\_reports/RR2574.html](https://www.rand.org/pubs/research_reports/RR2574.html).

<sup>15</sup> These figures are as of 2015. See Lyle J. Morris, "Blunt Defenders of Sovereignty: The Rise of Coast Guards in East and Southeast Asia," *Naval War College Review*, Vol. 70, No. 2, Spring 2017, pp. 75–112.

was announced: China's coast guard would be placed under the control of the People's Armed Police (PAP), which, in turn, was placed under the direct command of the Central Military Commission (CMC). Essentially, this reshuffling centralizes bureaucratic responsibility for maritime security as it further militarizes maritime security.

## A More Potent and More Pressured PRC in 2020

China has grown much stronger economically and militarily; consequently, other states perceive it as more threatening when Beijing acts assertively or provocatively. Moreover, President Xi is highly motivated to ensure that the 100th anniversary of the founding of the CCP (to be celebrated in July 2021) goes off without a hitch. Just as important for Xi and other leaders is that the 20th CCP Congress, scheduled to be held in fall 2022, runs like clockwork, without any disruptions or distractions: in other words, a well-choreographed recoronation for Xi and a coming-out party for a fresh slate of newly promoted senior CCP leaders.<sup>16</sup>

Xi almost certainly feels pressure to make sure that the run-up to these events is trouble-free and that there are accomplishments to celebrate. From Beijing's perspective, this means signaling unambiguously to other actors—both foreign and domestic—that the CCP will not tolerate any attempts to undermine the festivities. Foremost among those candidates to be put on notice are three actors with reputations in Beijing as spoilers: Taipei, Pyongyang, and Washington.<sup>17</sup>

Hence, in recent years, the PRC has been more overtly ambitious and bolder in pursuing its grand strategy, with greater attention to the global context, but Beijing's primary goals remain focused on the domestic arena, China's periphery, and the Asia-Pacific.<sup>18</sup> In short, the regime's grand strategic priorities continue to be largely regional.<sup>19</sup> It is within the Asia-Pacific that Beijing looks to establish spheres of influence and create what amount to “no-go” areas, where

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<sup>16</sup> In similar fashion, the 19th Party Congress of October 2017 was carefully scripted. Scobell, Burke, et al., 2020, p. 30.

<sup>17</sup> Each actor has long posed multiple and perennial challenges to China. On Taiwan, see Andrew J. Nathan and Andrew Scobell, *China's Search for Security*, New York: Columbia University Press, 2012, pp. 222–239. On North Korea, see Andrew Scobell, “China and North Korea: Bolstering a Buffer or Hunkering Down in Northeast Asia?” testimony presented before the U.S.–China Economic and Security Review Commission on June 8, 2017, Santa Monica, Calif.: RAND Corporation, CT-477, 2017, <https://www.rand.org/pubs/testimonies/CT477.html>. On the United States, see Scobell, Burke, et al., 2020, pp. 6–9; and Andrew J. Nathan and Andrew Scobell, “How China Sees America: The Sum of Beijing's Fears,” *Foreign Affairs*, Vol. 91, No. 5, September/October 2012, pp. 32–47.

<sup>18</sup> This paragraph draws from Scobell, Burke, et al., 2020, p. 21. In this testimony, the term *Asia-Pacific* is preferred over *Indo-Pacific* because the former is employed by the PRC.

<sup>19</sup> Nevertheless, Beijing's “overseas interests” in 2020 stretch far beyond the Asia-Pacific to all regions of the world, including as far as the Arctic and the Antarctic, the domains of outer space and cyberspace, and multilateral institutions. China is also modestly expanding its projection of military power out of area to include greater involvement in United Nations peacekeeping missions since the 1990s and China's establishment of its first official overseas military base in 2017. See, for example, Nathan and Scobell, 2012, pp. 170–191; and Andrew Scobell, Bonny Lin, Howard J. Shatz, Michael Johnson, Larry Hanauer, Michael S. Chase, Astrid Stuth Cevallos, Ivan. W. Rasmussen, Arthur Chan, Aaron Strong, Eric Warner, and Logan Ma, *At the Dawn of Belt and Road: China in the Developing World*, Santa Monica, Calif.: RAND Corporation, RR-2273-A, 2018, [https://www.rand.org/pubs/research\\_reports/RR2273.html](https://www.rand.org/pubs/research_reports/RR2273.html).

the military forces of other great powers—notably, U.S. armed forces—are unable to deploy or employ without exposing themselves to grave risk. China does not seek to invade or outright occupy areas of the Asia-Pacific (with the notable exceptions of Taiwan and formations in the South and East China Seas) but rather to establish a Sinocentric regional order leveraging both its burgeoning hard power and its growing soft power.

While Xi Jinping has received credit as the chief instigator and primary originator of a more robust and more assertive China, the truth is that this trend began under his predecessor.<sup>20</sup> Under Hu Jintao, China engaged in waves of assertiveness: For example, Beijing employed harsh rhetoric and strong arm tactics in 2009 and 2010 in Northeast Asia and Southeast Asia against the United States and a variety of China’s neighbors.<sup>21</sup> Although Hu Jintao, who assumed the office of CCP General Secretary in late 2002, the office of PRC President in March 2003, and the Chairmanship of the CMC in 2004, did not project a dynamic image or forceful persona, he presided over a gradual but impressive growth in Chinese power and influence on the world stage. Since assuming power in 2012, Xi has continued and accelerated this development well beyond where Hu left off. Moreover, it was Xi who promoted the China Dream slogan and backed it up with a blizzard of ambitious initiatives early in his first five-year term.

CCP leaders are convinced that China must be tough and that they cannot afford to show weakness. That said, the CCP believes its greatest vulnerability is domestic security: the threat from within posed by the risk of political infighting, turmoil, or democratization.<sup>22</sup> The CCP strives to remain perpetually vigilant and responds harshly to any signs of internal dissent, whether among ethnic and religious minorities or among the Han Chinese majority.<sup>23</sup> The United States is perceived by the CCP as being far more hostile and more threatening in recent years. The PRC’s latest defense white paper, issued in mid-2019, asserts that Washington has “provoked and intensified competition among major countries, significantly increasing its defense expenditure, pushing for additional capacity in nuclear, outer space, cyber and missile defense, and undermined global strategic stability.”<sup>24</sup>

Beijing has long held an image of the United States as intent on containing China and undermining CCP rule, but this image of hostility has increased by a sizable order of magnitude under the Trump administration. This Chinese assessment is based on Beijing’s analysis of key Trump administration documents, major speeches and public remarks by prominent U.S.

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<sup>20</sup> This paragraph draws from Scobell, Burke, et al., 2020, p. 18.

<sup>21</sup> Andrew Scobell and Scott Harold, “An ‘Assertive’ China? Insights from Interviews,” *Asian Security*, Vol. 9, No. 2, 2013, pp. 111–131.

<sup>22</sup> This paragraph draws from Scobell, Burke, et al., 2020, p. 12.

<sup>23</sup> On the brutal repression campaign in Xinjiang, see Adrian Zenz, *Sterilizations, IUDs, and Mandatory Birth Control: The CCP’s Campaign to Suppress Uyghur Birthrates in Xinjiang*, Washington, D.C.: Jamestown Foundation, June 2020, <https://jamestown.org/product/sterilizations-iuds-and-mandatory-birth-control-the-ccps-campaign-to-suppress-uyghur-birthrates-in-xinjiang/>.

<sup>24</sup> State Council Information Office of the People’s Republic of China, *China’s National Defense in the New Era*, Beijing, July 2019, p. 2.



officials, and a set of administration actions vis-à-vis China.<sup>25</sup> In 2020, U.S. words and deeds on two particular issues have seized Beijing's attention: bilateral trade and the coronavirus disease 2019 (COVID-19). On the former issue, President Donald Trump has strongly condemned China for long-standing unfair trading practices, and his administration launched a trade war. While outwardly feigning confidence, CCP leaders have been deeply worried and have sought to mitigate the damage to China's economy by placating Washington with a "phase one" trade deal.<sup>26</sup> On the latter issue, COVID-19 flared up in early 2020 as a contentious issue in U.S.-China relations (and has since become a significant issue in China's relations with a host of other states). U.S. officials blamed Beijing for mishandling the pandemic and for being neither truthful nor transparent with other countries, thereby abetting the global spread of COVID-19. Moreover, U.S. leaders have repeatedly referred to the pandemic as the "Wuhan Virus" or "China Virus."<sup>27</sup>

Throughout 2020, China has been pushing back hard on multiple fronts to prepare the way for smooth sailing in 2021 and 2022.

## More-Ambitious Alarmists

China's current wave of assertiveness is driven by a combination of ambition plus alarm.<sup>28</sup> Standard analyses of China's political system matter-of-factly opine that the highest priority of Xi and his fellow Politburo members is "regime survival."<sup>29</sup> But this terminology can be misleading: *survival* implies that Chinese leaders believe that they are in dire straits and are living in daily fear of imminent regime collapse or overthrow. Quite to the contrary, Chinese leaders are confident enough to believe that the CCP's hold on power is relatively secure for the near term and likely to endure through the medium term (out to 2030).<sup>30</sup> However, because there are no absolute guarantees in politics and statecraft, constant vigilance is required. Consequently, the regime employs a highly sophisticated, robust, and costly coercive apparatus to protect its hold on political power.

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<sup>25</sup> Beijing's reading of Trump administration documents and speeches suggests a more hostile Washington. See, for example, White House, *National Security Strategy of the United States of America*, Washington, D.C., December 2017; U.S. Department of Defense, *Summary of the 2018 National Defense Strategy of the United States: Sharpening the American Military's Competitive Edge*, Washington, D.C., 2018; and Michael R. Pompeo, "The China Challenge," speech delivered at the Hudson Institute, New York, October 30, 2019, <https://www.state.gov/the-china-challenge/>.

<sup>26</sup> Bob Davis and Lingling Wei, "Senior U.S., Chinese Officials Say They Are Committed to Phase-One Trade Deal," *Wall Street Journal*, August 24, 2020, <https://www.wsj.com/articles/senior-u-s-chinese-officials-say-they-are-committed-to-phase-one-trade-deal-11598322056>.

<sup>27</sup> Of course, Beijing has spread rumors that the U.S. Army is responsible for unleashing the virus in Wuhan. See, for example, Andrew Scobell, "Wuhan, From the Cultural Revolution to COVID-19," *Lawfare*, July 12, 2020, <https://www.lawfareblog.com/wuhan-cultural-revolution-covid-19>.

<sup>28</sup> This section draws from Scobell, Burke, et al., 2020, pp. 26–27.

<sup>29</sup> See, for example, John W. Garver, *China's Quest: The History of the Foreign Policy of the People's Republic of China*, New York: Oxford University Press, 2016.

<sup>30</sup> See Figure 1.1 in Scobell, Burke, et al., 2020, p. 4.

Nevertheless, Chinese leaders are preoccupied with maintaining domestic stability and tend to be ultrasensitive to the prospect of chaos. Notably, ordinary Chinese share this alarmism with regime elites. Party, military, and state elites, because of their confidence in the near-term hold on power, plan well ahead (in five-year and ten-year increments), and they anticipate that the regime will be around to celebrate the centenaries of the founding of the CCP in 2021, the PLA in 2027, and the PRC in 2049. Consequently, far from being desperate or limited in their goals, these leaders exude supreme confidence and articulate extremely ambitious agendas, despite regular bouts of alarmism.

Yet this deep-seated regime insecurity has a subtle but discernible impact on Chinese statecraft: It injects a wariness and suspicion that pervades Beijing's interactions with other capitals and a residual reluctance to commit major resources to projects beyond China's borders. However, this insecurity has not stopped large state-owned enterprises from expanding their involvement in building infrastructure around the world under the umbrella of the Belt and Road Initiative (BRI). A central reason for this apparent newfound boldness is Beijing's calculation that the overall risk to the Chinese economy of dispatching these "state-backed companies" to work overseas is far less than the risks of social instability and financial turmoil at home if these corporations are left to idle in China.<sup>31</sup> At the same time, PRC diplomats are motivated to spout confrontational verbiage so they are seen to be standing up to their country's foreign critics—something that wins them the approval of both Xi and the Chinese people.<sup>32</sup> Domestically, regime insecurity produces initiatives to concentrate power, undermine perceived adversaries, and cater to key constituencies (such as the PLA) and other elements of the coercive apparatus. Fundamentally, regime leaders are consumed with maintaining stability at home, which prompts streams of material rewards and jingoism combined with calculated intimidation that is reinforced by cold coercion. The ultimate irony of the regime presiding over the "people's republic" is that its greatest fear is that one day it will have to confront the wrath of the Chinese people directly. Thus, worrying about internal challenges is "what keeps Chinese leaders awake at night."<sup>33</sup>

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<sup>31</sup> The twin specters of hundreds of thousands of laid-off workers in the streets and a massive banking crisis at home are more terrifying than risky business ventures overseas. State-owned enterprises are the most inefficient and debt-ridden sector of the Chinese economy, with very "large volumes of delinquent loans." State banks "must roll over these loans or continue lending to ensure that the original loans are not lost." Scobell, Burke, et al., 2020, p. 47. The distinction between public and private business in China is extremely blurred. Because virtually every company in China is at least partially funded or in some way penetrated by the state, the term *state-backed company* is appropriate. Scobell, Burke, et al., 2020, p. 47.

<sup>32</sup> See, for example, Shi Jiangtao, "Coronavirus: They're Only Answering Xi Jinping's Call but Are China's 'Wolf Warrior' Diplomats Doing More Harm Than Good?" *South China Morning Post*, April 27, 2020, <https://www.scmp.com/news/china/diplomacy/article/3081592/coronavirus-theyre-only-answering-xi-jinpings-call-are-chinas>

<sup>33</sup> David M. Lampton, *Following the Leader: Ruling China, from Deng Xiaoping to Xi Jinping*, Berkeley, Calif.: University of California Press, 2014, p. 140.

## Fifth-Generation Smart-Power Nationalists

Xi and his fellow fifth-generation leaders recognize that although economic heft and military muscle are important for the ruling regime to maintain a firm grip on power in the 21st century, they cannot afford to ignore the promotion of lofty principles and inspirational ideals.<sup>34</sup> Hence, I dub this age cohort *smart-power nationalists*. Particularly during the post-Mao era (i.e., since 1977), the CCP emphasized political pragmatism and material incentives, focusing on building China's hard power (starting with the economy) and then turning to national defense. By the early 2000s, the regime had begun to pay greater attention to the potency of attraction.

In the lineup of the 25-seat 19th Politburo, announced in November 2017, engineers and scientists (six) were greatly outnumbered by CCP leaders who had studied social sciences and humanities (16). Of the 16, eight had studied politics, international relations, political economy, or philosophy; four had majored in Chinese language and literature; two had studied economics; one had studied law; and another had studied history. In comparison, only four Politburo members had studied engineering, one had studied pharmacology, and another had studied agriculture. Moreover, the 19th Politburo contains a smattering of worldly members: individuals with significant international exposure, including foreign degrees or some coursework at overseas institutions of higher education. At least one member (Yang Jiechi) speaks fluent English, and another (Wang Huning) speaks fluent French.

Given the nature of their training and work, engineers may be accustomed to thinking about the concrete measures of hard power and may be less concerned with softer and more abstract dimensions of national power. The current CCP Politburo has the smallest proportion of engineering majors as members in three decades—only 16 percent—whereas previous politburos were dominated by engineers, who made up at least 62 percent and up to 90 percent of the group in years past. This change is reflected in the greater focus on soft power among China's leaders. For fifth-generation leaders, the importance of soft power is two-sided: On the one hand, soft power strengthens the legitimacy of the regime by playing up nationalist goals, patriotic achievements, and Chinese values; on the other hand, it is also useful for counteracting dangerous Western ideas, such as democracy, human rights, and freedom of religion. Fortifying the former is considered essential to successfully combating the latter. A more ominous extension of this focus is the expanded use of influence operations or political warfare beyond China's borders.

The most obvious domestic manifestation of this greater attention to soft power is Xi's articulation of the China Dream (see next section). The intent is to capture the imagination of the Chinese people by offering a vision of a prosperous and promising future for the country. Unlike the American Dream, which is more about individual opportunity to attain greater material wealth through determination and hard work, the Chinese version is about collective achievement and national glory. In other words, the China Dream is about the concrete achievement of "national rejuvenation" under the wise and farsighted direction of CCP leaders. Indeed, the China Dream is intended to inspire the Chinese people.

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<sup>34</sup> This paragraph and the next three paragraphs draw from Scobell, Burke, et al., 2020, pp. 24–26.

The most prominent foreign policy manifestation of Beijing’s greater attention to soft power and the focus of China’s fifth-generation exercise of smart power is the BRI.<sup>35</sup> The initiative is not just about fueling further economic growth within China—important in itself—but also about countering a “China threat” narrative, presenting China as a positive force in the world that promotes international development and builds global prosperity. Officially launched by Xi in 2013 in two high-profile speeches—one delivered in Central Asia and a second delivered in Southeast Asia—the BRI is designed to integrate more than 65 nations into China’s economy through lending for infrastructure projects as well as investments totaling an estimated \$200 billion to date.<sup>36</sup> BRI has been characterized as a Chinese Marshall Plan. Ostensibly a new program, it is best viewed as a rebranding of ongoing efforts to expand existing overseas infrastructure projects and to construct new ones. BRI is designed to export the output of excess production capacity in China—particularly by building infrastructure (including digital)—and to export excess labor while fostering export markets for Chinese goods. With these efforts, the BRI strengthens economic linkages between China and these countries, promoting closer geopolitical relations.<sup>37</sup>

In association with the BRI, China has advanced in setting up alternative institutions that allow it to exercise influence abroad. One example is the recently created and Chinese-led Asia Investment Infrastructure Bank (AIIB). Established in 2015, the AIIB has 70 member countries, including many U.S. allies and partners and five of the G7 leading economies, excluding Japan and the United States. These projects have the potential to anchor regional economies to the Chinese market. The BRI could be a method for participating nations to collectively export as much as \$2 trillion in goods over the next five years. The fate of the BRI will largely depend on the success of delivering infrastructure projects across Africa, Central Asia, and the Middle East and the extent to which China will allow market access to imports from BRI investment recipients.

Ideology, if defined as a worldview or way of interpreting global affairs and China’s international relations, remains a significant factor in PRC foreign policy. While there are few, if any, remaining true believers in Marxism-Leninism and Mao Zedong Thought, the legacy of this dogma remains pervasive.<sup>38</sup> Particularly relevant is an enduring belief in the primacy of economics and a hard realpolitik outlook that perceives a world of state and parastatal actors ruthlessly battling to monopolize international markets and control scarce raw materials and energy resources.<sup>39</sup> The tenets of this ideology produce a 21st century CCP elite who believe that

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<sup>35</sup> This paragraph and the next paragraph draw from Scobell, Burke, et al., 2020, p. 51.

<sup>36</sup> Andrew Chatzky and James McBride, “China’s Massive Belt and Road Initiative, Council on Foreign Relations, updated January 28, 2020, <https://www.cfr.org/background/chinas-massive-belt-and-road-initiative>.

<sup>37</sup> For a more-detailed analysis of China’s burgeoning economic, political, and military relations with countries around the world, see Scobell, Lin, et al., 2018.

<sup>38</sup> Nevertheless, regular formal deference and reference to communist dogma is important in speeches by Xi and other senior leaders as well as in major party documents so as to maintain the fiction that ideology guides CCP policies and actions. If this pretense was abandoned then the party would significantly undermine its own political legitimacy.

<sup>39</sup> Nathan and Scobell, 2020, p. 92.

it is vital for the PRC to engage in zero-sum struggles with other states and foreign-controlled multinational corporations fighting for a fixed number of markets and dwindling natural resources around the globe.<sup>40</sup> This is the only way to ensure continued economic dynamism. Hence, when Xi recently insisted that Marxist ideology required the continued centrality of “public ownership” in China’s domestic economy, he was serious.<sup>41</sup>

## Criteria of Success

Yet it is relatively straightforward to gauge progress on long-term CCP priorities on a year-to-year basis. The criteria of success are basic, albeit not so simple to sustain routinely. The CCP achieves a passing grade if (1) it retains power and suppresses dissent and disorder, (2) the economy keeps growing, (3) China periodically makes some high-profile achievements in science and scores well in at least some measures of technological advancement, and (4) continues to build powerful and modern armed forces.

The CCP can monitor trends across the board, as can the Chinese people. Of course, a significant part of this reporting and monitoring is an ongoing exercise in managing popular perceptions and expectations by the regime. Indeed, the critical element is how the people of China—both the CCP rank and file and the ordinary citizens—process and perceive this information and reporting. It tends to boil down to how the people assess two items: (1) whether families are prospering and whether their economic outlooks seem bright and (2) whether China is afforded respect by other countries. Although parts of these criteria are objective, there is also a subjective dimension that involves spin control by the regime. On the first item, for example, individuals can quite easily assess whether they are better off in socioeconomic terms than they were a year or five years earlier and whether the career prospects for their offspring are good or not. Yet the regime can and often does inflate statistics to support a rosier picture of the economy than is warranted. On the second item, for example, individuals can monitor whether senior leaders are routinely engaging in summitry with the leaders of other consequential states and are active in prominent international arenas.<sup>42</sup> Despite controlled media pumping out official messages, Chinese citizens are skillful at parsing official media pronouncements—both what is explicitly stated and what is left unsaid. Nevertheless, the official narrative is important when the overarching theme tends to be that China is winning or at least *gaining*: whether it be in terms of a rising gross domestic product or becoming only the second country on the planet to land an astronaut on the moon (planned for the 2030s).<sup>43</sup> At a minimum, the messaging should persuade

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<sup>40</sup> While Beijing constantly asserts that PRC foreign policy is focused on “win-win” outcomes, the reality tends to be dramatically different. Scobell, Burke, et al., 2020, p. 44.

<sup>41</sup> See Karen Yeung, “Chinese President Xi Jinping Says Marxist Political Economy Is the Bedrock for Nation’s Growth,” *South China Morning Post*, August 16, 2020.

<sup>42</sup> Xi has, to date, demonstrated considerable success at this endeavor. Scobell, Burke, et al., 2020, p. 38.

<sup>43</sup> China’s lunar program and its mission to Mars are mainly about prestige and status. See R. Lincoln Hines, “China’s Space Program Is Driven by a Desire for Prestige, Not Military Might,” *World Politics Review*, August 20, 2020, <https://www.worldpoliticsreview.com/articles/29004/china-s-space-program-is-driven-by-a-desire-for-prestige-not-military-might>. Nevertheless, China also has significant military ambitions vis-à-vis space. See, for

the people that, under CCP rule, China is at or nearing the forefront of the latest technological breakthroughs and vigorously pushing back against unfair foreign pressures or malicious attacks. “China has become a global leader,” Xi told the 19th Party Congress in October 2017.<sup>44</sup> Beijing’s public messaging is always that someone else is to blame or mistaken if another country is criticizing China. A convenient target for the blame game is the United States. Thus, the international backlash against China in 2020 is attributed to a campaign orchestrated by Washington in coordination with other anti-China forces headquartered in other capitals, such as Tokyo.<sup>45</sup>

## Impact of Domestic Pressures

Domestic pressures influence PRC foreign policy in at least two ways—one “soft” and one “hard.”<sup>46</sup> The soft-power impact refers to the efforts that Beijing must devote to messaging and propagandizing to counter what it perceives as the real threat of foreign ideas about democracy and human rights. Here, the United States tends to be the top concern because Washington is viewed as the prime instigator and messaging agent of Western-style democracy and freedoms. Beijing’s discovery in recent decades of the concept of soft power comes from a place of fear and unease. The CCP sees itself as under grave threat, and its efforts at promoting soft power are best considered necessary defensive measures. Beijing’s promotion of Chinese or Asian values is an effort to counter the sinister idea of democracy and human rights as universal concepts, which are labeled “Western values.” The rehabilitation of Confucius and the promotion of Confucianism in the PRC of the 21st century underscore the seriousness of this initiative, with the foreign policy component being the establishment around the world of Confucius Institutes and Confucius Classrooms. Meanwhile, China’s influence operations against the United States and other countries are also manifestations of both the great importance ascribed to Beijing seizing the initiative in the realm of soft power and the degree of vulnerability felt in Beijing. Regarding the latter, it is worth noting that the CCP believes it is merely doing to the United States what it assumes Washington is overtly and covertly doing within China. It is no coincidence that the country with the largest number of Confucius Institutes is the United States.<sup>47</sup>

The hard-power impact refers to the drain on resources and the diversion of funding away from efforts to defend China against external threats. Beijing prioritizes internal security and allocates large amounts of manpower, technological capabilities, and overall level of effort

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example, Scott W. Harold, *Defeat, Not Merely Compete: China’s View of Its Military Aerospace Goals and Requirements in Relation to the United States*, Santa Monica, Calif.: RAND Corporation, RR-2588-AF, 2018, [https://www.rand.org/pubs/research\\_reports/RR2588.html](https://www.rand.org/pubs/research_reports/RR2588.html).

<sup>44</sup> Scobell, Burke, et al., 2020, p. 38.

<sup>45</sup> See, for example, the discussion in Shashank Bengali, “Trump wants an ‘Alliance of Democracies’ to Oppose China. It’s Starting to Take Shape,” *Los Angeles Times*, July 24, 2020, <https://www.latimes.com/world-nation/story/2020-07-24/chinas-aggressive-tactics-provoke-growing-opposition>.

<sup>46</sup> This paragraph draws, in part, on Scobell, Burke, et al., 2020, p. 9.

<sup>47</sup> Scobell, Burke, et al., 2020, p. 42.

toward sustaining a vast coercive apparatus and surveillance system within China. This functions as a “domestic drag” on external power projection efforts and overseas operations by China’s armed forces.<sup>48</sup> Extensive resources are devoted to monitoring PRC citizens, especially dissidents and certain groups deemed to be subversive. This structure is called the *stability maintenance system* and employs substantial manpower, including neighborhood committees, regular law enforcement personnel (the Public Security Bureau), a national paramilitary formation (the PAP), and a plainclothes investigative and counterintelligence force (the Ministry of State Security) that combines the types of roles performed by the U.S. Federal Bureau of Investigation and the Central Intelligence Agency.<sup>49</sup> This system can be reinforced, if necessary, by mobilizing millions of People’s Militia, with the ultimate backstop of the CCP’s hold on power being uniformed units of the PLA. Indeed, regular military formations are concentrated in eastern coastal regions of China near major population centers and can be called out as a last resort to suppress unrest or rebellion.<sup>50</sup>

## Conclusion

In sum, China’s hawkish and assertive foreign policy has experienced both continuity and change. Beijing appears to be more aggressive and more confrontational because its hard- and soft-power capabilities are far greater and more potent than they were in the past. Moreover, China’s muscularity is on display in 2020 on multiple fronts near simultaneously. Furthermore, CCP leaders have become increasingly ambitious in recent decades regarding the scope of regime goals beyond China’s borders. Nevertheless, all this activity masks a Beijing that still sees itself as weak—albeit growing progressively stronger—with major vulnerabilities. A fundamental weakness continues to be in the realm of soft power, where the CCP feels particularly vulnerable to concepts of democracy and human rights. For Beijing, these ideas are insidious and subversive, whether targeted at Hong Kong, Xinjiang, Tibet, or the Han heartland of China. The main source and transmitter-in-chief of this highly infectious ideological contagion is the Trump administration, under which the United States is believed to have fully revealed its true colors as the PRC’s most implacable adversary. The key criterion for measuring success in Beijing’s execution of foreign policy is whether China is advancing its grand strategic goals. The two consuming strategic priorities are perpetuating CCP rule and continuing economic growth.

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<sup>48</sup> Andrew Scobell and Andrew J. Nathan, “China’s Overstretched Military,” *Washington Quarterly*, Vol. 35, No. 4, Fall 2012, pp. 135–148.

<sup>49</sup> Scobell, Burke, et al., 2020, pp. 31–34.

<sup>50</sup> Scobell, Burke, et al., 2020, p. 33.

**OPENING STATEMENT OF ANTHONY SAICH, DIRECTOR, ASH CENTER FOR DEMOCRATIC GOVERNANCE AND INNOVATION, AND DAEWOO PROFESSOR OF INTERNATIONAL AFFAIRS AT HARVARD UNIVERSITY**

VICE CHAIRMAN BARTHOLOMEW: Thanks very much. Dr. Saich, your turn.

DR. SAICH: Yes, thank you very much for the invitation to be with the Commission. I want to echo most of the comments made by my other two colleagues, which I tend to agree with.

Since the death of Mao Zedong, and I would say even more so since the suppression of the student-led demonstrations in 1989, the Chinese Communist Party has really focused on improving the standard of living for its citizens, with a somewhat moderated decrease in its traditional modes of legitimacy, such as ideology and the manipulation of history.

So initially, that approach focused on a thriving economy, improving incomes for the majority of people, including lifting hundreds of millions out of poverty -- but as I wrote in my written testimony, there are a number of caveats to place around that -- and I generally refer to as performance legitimacy.

However, I think it's true that since 2002, 2003, the Party has invested much more in social policies, which I do think have appeared to have an impact.

In counter to the view that there is a social volcano -- stoked by rising expectations, weakening or worsening income inequality, that might trigger large-scale political unrest -- citizens tend to express relatively high levels of satisfaction with the central government, and tend to blame local governments for any failings in service delivery or ineffective governments.

Importantly, in both rural and urban China, average satisfaction with local government increased significantly faster among low-income individuals than amongst the high-income individuals.

It also -- satisfaction increased most significantly in the periphery, in the hinterland, rather than in the wealthier coastal areas of China.

And those improvements, I think, are explained by local-scale changes in quality of life and government service provisions, and satisfaction generally increased when the combined percentage of the local government spent on healthcare, welfare, and education, was increased.

However, I want to stress that performance legitimacy is fragile. As measures such as good performance can wax and wane, it is inherently unstable and insufficient for maintaining power, as citizens would grow used to this improvement, pushing government to push ever-better outcomes to maintain its rule.

And that is recognized by the leadership, and that's why I think in recent years we've seen them seeing this as unstable, and they've revived traditional appeals to legitimacy. Ideology, nationalism, which has been mentioned, and appeal to historical justification.

Interestingly, in recent years, the Party has put a lot of emphasis on it being the inheritor of a long Chinese tradition. I think that's very noteworthy, because when the Communist Party took power -- and of course in the Cultural Revolution -- it saw its mission as destroying that traditional culture.

Now it's using that, I think, to appeal to an affinity amongst its population towards that tradition, and also to challenge the idea that that tradition is preserved on Taiwan, and they are actually really preserving it on the mainland.

Now despite significant reforms that were outlined in 2013, Xi has resorted to maintaining the traditional support base from the state-owned sector.



It's very clear that he sees, as was mentioned in the introduction, state-owned enterprises as providing the core basis of support, both domestically within the economy -- we see that also in the COVID recovery plans, more money going to state-owned sector rather than stimulating the private sector -- and of course it lies also at the core of the Belt and Road Initiatives.

And that makes it much more difficult for the Party to overcome the vested interests from the state-owned sector, real estate sector, the energy industries, that really lie at the core of Communist Party power, and dominate much of the policymaking.

To just show how hard it is to shift such a huge shift, the priorities today are almost the same as those that were outlined in 2002, 2003. So in assuming power, Xi Jinping felt a united, strong, disciplined Party was essential to retaining power.

This gives the impression of confidence and strength, and perhaps taking a slightly different emphasis than Dr. Brown, I would say that that does, as Dr. Scobell mentioned, mask a certain insecurity and sense of weakness.

A regime, essentially, that needs to suppress alternative views, rail against bourgeois influences, arrest dissidents and repress populations, such as the Uighurs, seems to me to present a different picture of concern and lack of confidence.

And so it's tried to develop -- boosting nationalism, as was mentioned, appealing to history, so on and so forth, and it's very frightened of any system that has an alternative history. Most recently, we see that with the moves towards Hong Kong. We're seeing it domestically with relationship to Uighurs and Tibet.

So those domestic trends, as Dr. Scobell pointed out, especially the promotion of nationalism, and the confidence that China is developing a successful alternative to the West, has impacted on the external behavior.

The CCP is now willing to step up to global leadership in those areas where it thinks, or it feels, that the United States is withdrawing. It's clearly abandoned Deng Xiaoping's mantra of keeping a low profile, and as Xi Jinping said, we cannot be a bystander, but must be a participant and a leader.

Xi's grip over this community was tightened in 2018, when its Work Conference on Foreign Affairs asserted the grip of the Party rather than traditional bureaucrats to run that system, and Xi announced that China would lead the reform of global governance systems with the concepts of fairness and justice.

Let me conclude briefly with two aspects of governance under Xi Jinping which I think might present future -- problems in the future.

The first is that centralization of decision-making goes against the grain of what has been successful in the last decades, the flexibility we don't normally see with a Leninist system. I think that is a problem, moving forward.

And secondly is Xi's decision not to retire, which really pushes the whole challenge of succession down the road, and the Party has never dealt with succession successfully. Thank you.

**PREPARED STATEMENT OF ANTHONY SAICH, DIRECTOR, ASH CENTER FOR  
DEMOCRATIC GOVERNANCE AND INNOVATION, AND DAEWOO PROFESSOR  
OF INTERNATIONAL AFFAIRS AT HARVARD UNIVERSITY**

**Hearing: September 9, 2020**  
**Tony Saich**  
**Daewoo Professor of International Affairs**  
**Harvard Kennedy School**  
**“Testimony before the U.S.-China Economic and Security Review Commission”**  
**Year in Review**

- 1) What is the current state of the social contract between the CCP and the Chinese populace? What do Chinese citizens expect from the CCP, and how satisfied are they with the CCP’s performance? How have these changed over time?

It is incorrect to refer to the arrangement between the Chinese people and the CCP as a “social contract” as this implies that both sides have entered into the contract knowingly and freely. This is clearly not the case as there is no way for Chinese citizens to express their views on such a “contract.” That said, there seems to be an implicit agreement on the part of many that the CCP is expected to deliver stability, economic progress, and social support for its citizens.

This is referred to as “performance legitimacy.” It is distinct from CCP appeals to ideology or nationalism. It is pragmatic in nature with concrete goals covering economic growth, stability, and the enhancement of national power. “Performance legitimacy” is fragile as measures such as good performance can wax and wane. It is inherently unstable and thus is insufficient for maintaining power, as citizens will grow used to the progress, pushing government to produce ever better outcomes to maintain its rule.

If the economy continues to slow and the largesse to dispense benefits diminishes, does this mark the end to legitimacy based on economic performance? Recognizing this inherent flaw, since 2002-03, the CCP has invested more in social policies, which appears to have had a positive impact. All available surveys of Chinese citizens’ attitudes about government performance tell the same story, with relatively high levels of satisfaction with Central government and increasing dissatisfaction as government gets closer to the people. This has even held true with the Chinese government’s response to Covid-19. China’s citizens initially expressed outrage at local government mishandling of the response, but this was soon followed by general support once the country’s central government took tough action to lock down the city of Wuhan, followed by a shutdown of most of the country. This positive sentiment was reinforced by the Chinese media portraying “how badly” other governments had performed in controlling the virus.

There are three predominant analyses about how citizens view their government and what the likely consequences might be. **First**, there is the view that the government is sitting on a “**social volcano**” stoked by the rising expectations, worsening income inequality, and with citizens now having alternative information sources, there could be a crisis that triggers large-scale political unrest. **Second**, there is the view that “**performance legitimacy**” has been effective with citizens crediting the CCP for decades of rapid income growth and therefore they are not likely

to challenge its rule, unless performance drops precipitously. **Third**, there is the view that maintains that the CCP's **grip on social order** is so powerful that even a clear failure of leadership would be unlikely to affect the loyalty of most Chinese citizens.

To understand citizen satisfaction with government performance between 2003 and 2016, we at the Ash Center for Democratic Governance and Innovation analyzed the results from a series of surveys to assess levels of citizen satisfaction by combining such survey results with economic data.<sup>i</sup> Obviously, satisfaction is not the same as legitimacy, but our findings shed light on the durability of regime resilience. The survey has **two general findings** (see figure 1). **First**, like many others, the survey confirms that **respondents “disaggregate” the state**, and while they express higher levels of satisfaction with the Central Government, satisfaction declines with each lower level of government, which provide most public goods and services. This is the reverse of the USA where satisfaction is higher with local government and lower with Federal government. In 2016, 93 percent of respondents were satisfied with the Central government (but only 32 percent were “very satisfied”). At the township level, while 70 percent were satisfied, only 13 percent were “very satisfied.” **Second**, it is noticeable that across the board, **satisfaction levels have risen since 2003**.

Further, we tried to understand which services citizens were most satisfied with and which they wanted the government to pay more attention to (Figure 2). **First**, there are higher levels of satisfaction with the public goods and services that the central planning system is good at delivering (water and electricity provision, constructing roads and bridges, maintaining social order). **Second**, those services that citizens thought were most important but where they were least satisfied were those that are created by the reforms and that tend to be household or individual based (combatting corruption, creating employment, medical services). There are two other points worth noting here. First, family planning often enjoyed the highest marks for satisfaction. This is not surprising, given that family planning was a government priority. However, when asked how important it was for government to be involved in this work, respondents indicated that **family planning was not seen as an important task** for government. Second, when at the time the survey began, environmental health and governance was not seen as highly important. As pollution has increased and the government has talked about it more, citizens have started to view **environmental protection and health as very important** and are not satisfied with government work.

In terms of whether there is the potential for a “**social volcano**” to threaten the regime, two further findings are important. **First**, between 2003 and 2016, in both rural and urban areas, **average satisfaction with local government increased significantly faster among low-income individuals** than among high-income individuals. **Second**, average satisfaction **increased significantly faster in China’s periphery** than in the wealthier coastal and eastern areas. This difference was more pronounced at the local government level and in the countryside. These improvements are explained by local-scale changes in quality of life and government service provisions. Satisfaction generally increased when the combined percentage of the local budget spent on healthcare, welfare, and education was increased.

Thus, citizen perceptions of government performance respond most to real, measurable changes in individuals' material well-being. This raises challenges. There remains good will toward the central government that is not identified with the problems that seem to blight the performance of some local governments. However, seemingly stable authoritarian regimes can unravel quickly, and citizen frustration can spill out onto the streets. The Xi Jinping administration has received mixed yet increasingly supportive responses in terms of citizen satisfaction. This cuts both ways, however. The rejection of any meaningful political reform would indicate that absent coercion, the administration will remain increasingly reliant on ensuring citizen satisfaction via the provision of public goods and services. Satisfaction trends can reverse, citizens accustomed to increases in living standards and the benefits they are provided will expect them to continue.

There are **three challenges**. The first two depend on how well the government deals with the problem of **corruption** and the **environmental damage** that have been part and parcel of the reform program. The third relates to the levels of **local government debt**. The ability to continue providing public goods will depend on there being adequate fiscal revenue. We know that many local governments in China are heavily indebted and this could diminish their ability to keep up social investment. If economic growth continues to decline, providing adequate financial support could become more problematic. In 2018, local government debt was already calculated to be 44 trillion *yuan* and in 2020, the Chinese government has been using debt spending to try to keep the economy moving in response to Covid-19. In the first five months of this year, local government added a further 3 trillion *yuan* (compared to 1.9 trillion *yuan* in 2019) and the government issued an extra 1 trillion *yuan* in government special purpose bonds to fund infrastructure projects. These debts combined with the aging of the population will place a major strain on government budgets and China might find itself locked into the common "guns versus butter" debates.

- 2) Please address the impact on regime legitimacy of the CCP's ability to achieve the key economic development goals it has set for itself this year, such as achieving a "moderately prosperous society in all respects." What other forms of legitimacy underpin societal perceptions of the CCP and what forms of legitimacy is the CCP prioritizing?

Given the vulnerability of relying on performance alone, the CCP has been attempting to promote deeper forms of legitimacy for its rule. Concerning achievements for this year, there are **two main goals**: eradicating absolute poverty and doubling the size of the economy since 2010 to produce a "**moderately prosperous society in all respects**." One thing we do know is that official statistics will reflect what the leaders want them to show and local officials will prioritize meeting key objectives set down by the Central leadership. Thus, there is a reasonable chance that on paper these objectives will be met. However, there are certain caveats. It was instructive that at the meeting of the National People's Congress (May 2020), the Premier did not offer any projection for the 2020 growth rate, indicating that the government was not sure about the impact of Covid-19 on the economy. While in the first quarter of 2020, GDP

contracted by 6.8 percent, it increased by 3.2 percent in the second quarter. Optimistic accounts suggest that the economy might expand by 2.5 percent over the whole year. This might just be enough for the CCP to declare that it had basically achieved its economic goal.

**Poverty alleviation is complex.** There is no doubt that the reduction of those living in absolute poverty has been impressive but we need to understand what has caused this reduction. General Secretary Xi Jinping (October 2015) has set the eradication of absolute poverty (not enough food to eat, inadequate shelter and clothing) as an absolute priority for 2020. Before Covid-19 struck, there were estimated to be 5 million people living below the Chinese official poverty line of 2,300 *yuan* (\$324). The government was intending to invest 146 billion *yuan* this year to meet the objective. The World Bank line is \$700 and in May 2020, China's Premier stated that there were still 600 million people with a monthly income of 1,000 *yuan* (\$140) or less. Covid-19 has clearly impacted on poverty levels and a Stanford University study revealed that 92 percent of respondents in surveyed villages saw their income reduced by pandemic prevention measures.

There are four general points about understanding poverty alleviation. **First**, on the whole **government direct interventions have not been very effective** and most of the reduction in poverty has come from policies that freed farmers from collective labor, opened up markets, and increased the availability of off-farm employment opportunities. The most dramatic decline occurred 1978-85 before China set up a poverty alleviation program because of these general pro-rural policies. **Second**, currently **local officials know that poverty alleviation is a key priority** for their work and thus direct attention and funds to this. Once the target is achieved, will they pay as much attention moving forward? **Third**, there is a rising number, admittedly still small by comparison, of **urban poor** who often are not included in the statistics. **Finally**, there is the challenge of **those who fall back into poverty** and these are also often missed in the official statistics. Illness is identified by over 40 percent of households as the main cause of poverty. Thus, a large percentage of the population live just above the poverty line who remain vulnerable.

Given the fragility of "performance legitimacy," it is not surprising that the CCP leadership has sought to establish alternative sources of justification for their rule. Crucial for Xi Jinping is a unified, strong, centralized party to implement his policies. For those party members, the study of Marxism has been strengthened as it has for those in the media and the universities. For others, the party is promoting **nationalism, historical justification, and cultural appropriation**. Following the 1989 student-led protests and the collapse of the Communist Party of the Soviet Union, patriotic education was intensified for all students. Inevitably, this led the public to adopt more critical views of Japan (the old foe) and the United States (the new foe). In turn, this has laid the groundwork for a more assertive form of nationalism under Xi Jinping, which finds strong support among some online activists (netizens) within society. The promotion of nationalism is aided by the indigenous nature of the revolution, which not only permitted the CCP greater flexibility with domestic policy, but also informed its global stance. Unlike the former regimes in Eastern and Central Europe, the CCP came to rely on its self-told history of humiliation at the hands of foreigners to enhance its legitimacy. Drawing on China's own

traditions facilitates a strong argument for Chinese exceptionalism, underpins the promotion of pride in the party's achievements, and is a source of nationalist sentiment. This inheritance also necessitates maintaining territorial integrity, a territory that is based on the late-Qing dynasty and is the most expansive in Chinese history. It defines Tibet and Xinjiang as integral parts of China and justifies that Taiwan must be reunited with the "motherland." However, the CCP is concerned to keep nationalist sentiment in check as, on occasion, strong nationalist sentiment has caused some to turn on the party for being too weak in challenging other powers.

**History** has always played an **important role in CCP justification** for its rule. The party has ensured this in two ways. First, official history is constructed to place the CCP and its leaders at the center of all that is good (even if that history changes). Second, and more recently, the CCP has appropriated elements from the Chinese tradition that are useful to its rule. The "correct" retelling of history and control over narrative are crucial elements of the CCP's legitimacy to rule. Chinese history is carefully nurtured, promoted, and disseminated by the party. Failure to accept the official history indicates a lack of loyalty and, even worse, opposition. However, this "**historical legitimacy**" is fraught with problems and explains the party's need to keep a tight grip on the history that is told.

With the talk of moral decay, the loss of faith in Marxism, and the lingering influence of "Western liberal values," the CCP leadership turned to a **selective interpretation of traditional culture (especially Confucianism)** to bolster the appeal to socialism and to portray the CCP—not the nationalists in Taiwan—as the true descendent of the imperial past. Xi Jinping's claim that the CCP is the genuine "successor" to China's glorious past is remarkable. When the CCP took power in 1949, and especially during the Cultural Revolution, the CCP portrayed itself as representing a radical break with the past, dedicated to destroying the vestiges of a feudal culture. The notion that the CCP has inherited and developed good practices and moral principles from the Chinese tradition seeks to anchor CCP legitimacy as the rightful inheritor of all that is good in China's past.

When things are going well, these other sources of legitimacy may be appealing but it remains to be seen how robust they might be in a severe downturn or a time of crisis.

- 3) How secure do Chinese leaders view their regime as being and what means have Beijing employed to maintain or increase its security? How effectively do they believe they have addressed endemic corruption and overcoming vested interests?

**Outwardly General Secretary Xi Jinping expresses a strong, confident persona** and yet a regime that needs to suppress alternative views, rail against "bourgeois" influences, arrest dissidents, and repress populations such as the Uighurs, seems to present a different picture of concern and lack of confidence.

The concerns of the leadership were laid out in "**Document Number Nine**" (April 2013) and made the ensuing tough stance clear. Many in China's intellectual community were shocked by one of the most conservative documents issued during the years of reform. The document

outlines **seven topics that should not be discussed**. The document is interesting in that it reveals the streams of thought circulating in Chinese intellectual circles. First, those who promoted “Western constitutional democracy” were criticized for negating the positive features of the Chinese socialist system. Claims of “universal values” shook the party’s ideological and theoretical foundations. Promotion of “civil society” undermined the social basis of the ruling party, and the promotion of “neoliberalism” was viewed as an attempt to change the basic economic system. Not surprisingly, “press freedom” was rejected. Finally, anyone who questioned the policy of reform and opening-up denied the party’s “line” and principles. Resorting to a common refrain, “Western influence” was blamed for many of the ills with which China was wrestling. The document criticized Western embassies, consulates, and NGOs for spreading Western values and cultivating anti-government forces. Outsiders used “dissidents” and “human rights activists” to promote their objectives, and the self-immolations in Tibet and the unrest in Xinjiang were the result of “outside manipulation.” Clearly, the CCP remains incapable of accepting responsibility for the outcomes of its own actions.

**The CCP has developed its own narrative about its right to rule and is threatened by alternative narratives.** This is clearly the case with respect to Xinjiang and Tibet, where inhabitants have a point of reference outside of China and an alternative history. Most recently, this has become clear with respect to Hong Kong. The leadership has taken a very tough line on the issue of the northwestern province of Xinjiang and is intent on crushing any independent Uighur identity once and for all. Two things have driven this harsher approach. **First, Xinjiang is a crucial artery for the corridor of the Belt and Road Initiative through Central Asia. Second, there is a fear that independence activity in Xinjiang may link up with groups across the border.** The possibility for a harsher response was set by Xi Jinping following his 2014 visit to Xinjiang when, in addition to calling for development and integration, he proposed a “people’s war on terror” to combat separatism, terrorism, and religious extremism, with “absolutely no mercy” to be shown. Xi had reacted strongly to three “terrorist” attacks in the spring. This led to abandoning the long-held belief that economic investment and growth would develop the problem away. A campaign of “mass reeducation” was required.

In 2016, the party secretary of Tibet was moved to Xinjiang, bringing with him the tougher practices that he had implemented while working in Tibet and soon reports began to surface about “reeducation camps” in the province. The CCP hopes that assimilation, repression, and eradication of local culture will resolve the problems. However, this seems unlikely and, over time, may even increase the challenge over time.

**In Hong Kong**, what appeared to be protests about a narrow topic of extradition of “criminals” burgeoned over the spring and into 2020 and turned into a movement that called for democratic and other reforms in the Hong Kong SAR. As the demonstrations progressed, sentiments went beyond the question of extradition, and four more demands were added: for the Chief Executive to step down; an inquiry to be launched into police brutality; for those arrested to be released; and greater democratic freedoms. Underpinning this is a general sense in Hong Kong that “**one country, two systems**,” which guarantees Hong Kong’s way of life until 2047, **was being eroded** as Beijing chipped away at freedoms and Hong Kong identity.



During the Umbrella Movement (2014), Chinese officials signaled that the Sino-British Joint Declaration (1994), which effectively enshrined the principle of “one country, two systems,” was no longer valid. This shifting attitude toward the agreement on Hong Kong’s autonomy was clearly signaled in 2017 when the Ministry of Foreign Affairs stated that the Joint Declaration was an historical document with no current practical significance, a position reiterated by Beijing’s Hong Kong liaison office in 2020. However, the document is a legally valid agreement that was deposited with the UN (1985) and according to British authorities remained in force. Such measures and statements challenged Hong Kong’s identity and created uncertainty about how long the Beijing leadership would remain committed to the fifty-year process. **While Hong Kongers stressed the “two systems,” Mainlanders tended to emphasize the “One Country.”**

Beijing’s strategy has stressed that Hong Kong’s future is tied to that of the Mainland and through this linkage, all will enjoy economic success. This may be true for the tycoons, but it is not the case for many young people who experience unaffordable housing costs and dismal job prospects. **Identity has trumped the claim of economic prosperity offered by Beijing.** As in Tibet and Xinjiang, and even in Taiwan, the CCP leadership thinks that such problems can be developed away. The initial response in Beijing was to impose censorship on reporting about the demonstrations, but as they continued and spread, the propaganda network moved to present scenes of chaos and violence. The party resorted to its usual defense that the situation was created by a handful of instigators and that foreign forces (the UK, the United States, and Taiwan) were behind the movement, a view echoed by supporters in Hong Kong. The adoption in Beijing of the National Security Law, rather than by the Hong Kong authorities, was the culmination of the CCP’s response to the situation in Hong Kong. The proposed legislation is tougher than that which failed in Hong Kong in 2003 and criminalizes subversion, separation, terrorism, and foreign interference. Despite pronouncements that this would not affect Hong Kong’s freedoms, it provides Beijing with increased license to intervene in Hong Kong. Indeed, a number of arrests have occurred, books have been removed from libraries, and critical academics dismissed. The principle of “one country” was clearly prioritized as the foundation for the implementation of the “two systems.” It is highly unlikely that the divisions can be healed and Beijing’s policy of “one country, two systems” has failed, while Hong Kong’s future as a major business and financial center is unsure.

In terms of overcoming **vested interests**, it is indicative that the priorities set out by the Hu Jintao and Wen Jiabao leadership in 2002-03 remain the same almost twenty years later. This reveals how difficult it is to shift the fundamental structure of the system that has consolidated during the reform years. On multiple occasions, the leadership, including that of Xi Jinping, has stressed that **the economic model that served China well previously needed to undergo significant change moving forward.** The reliance on state investment and exports has reached its limit and consumption needs to be developed as a major driver of growth. This requires a greater emphasis on the quality of production rather than quantity, a greater role to be given to market forces in determining allocation etc., enhanced productivity, which would come from the non-state sector (as productivity and return on investment have been declining in the state-owned sector), and a shift to more effective environmental policies. This agenda seemed to

represent the core CCP policy in November 2013 but subsequently, there has been little progress in reform momentum. Even before the onset of Covid-19, the key economic role that state-owned enterprises would play was reasserted. Reform is more difficult to implement because of opposition from “**vested interests**” (state monopolies and real estate and energy industries that benefit from close connections to local governments and central ministries) that lie at the core of the planning system set up by the party.

**Xi Jinping sees the state-owned enterprises as providing the core of the domestic economy and central externally through the Belt and Road Initiative.** Xi Jinping has stated that state-owned enterprises are “an important foundation of Communist Party rule.” The 2017 Party Constitution contains the following phrase: “The leading party member groups of party committees of SOEs shall play a leadership role, set the right direction...and discuss and decide on major issues of their enterprise in accordance with regulation.” This goes further than previous statements. Domestically, this centrality has become even clearer with the post-Covid-19 recovery, as investment allocation has favored the sector. **Externally, SOEs are at the center of China’s outbound investment.**

As a part of Xi’s drive to restore the party’s credibility in the eyes of the people, he has implemented the **strongest campaign in recent memory against corruption** within party and government ranks. The length and persistence of the campaign against corruption caught most observers by surprise. The movement was to catch “tigers and flies,” that is, senior officials as well as those working at the grassroots. Later, “foxes” were included, referring to those who had fled overseas with their ill-gotten gains. The highest profile “fox” was the Chinese head of Interpol who was brought back in September 2018 and, in January 2020, was sentenced to 13 years imprisonment. A further colorful phrase is “naked officials,” that is, those who remained in China while their families relocated abroad. In 2014, regulations were introduced barring any such officials from promotion.

Some felt that the campaign was merely a ploy to remove political opponents, a view reinforced by the removal and subsequent charges against Bo Xilai, which had paved the way for Xi’s ascendancy. Nevertheless, it is clear that Xi and his supporters wanted to use the movement to broaden beyond a factional struggle to help restore party prestige. By late 2018, 2.7 million officials had been investigated and over 1.5 million were punished. Despite the initial sense that, similar to previous efforts, the campaign would soon wind down, the numbers have increased over time, with 172,000 cases in 2013 and 621,000 cases in 2018. The current campaign has netted seven national leaders, two dozen ranking generals, and 58,000 who have been tried by prosecutors, two of whom have been sentenced to death.

**The campaign has proved popular, but citizen suspicion remains.** In the earlier surveys of what citizens think about government performance under Hu and Wen, dealing with corruption always ranked as the area of work with which they were the most dissatisfied. Given the regular exposure in the press of spectacular cases of corruption, it is not surprising that this is a major concern. Without allowing external mechanisms to engage citizens and the media to expose

corruption and to hold officials accountable, and without serious structural reforms, the factors that lead to corruption will not be eradicated.

During Xi Jinping's rule, **popular perceptions of the honesty of local officials have improved slightly but it is clear that citizens do not see the problem as eradicated.** In the 2016 survey, 10.1 percent thought that government and government officials were very clean (up from 2.6 percent in 2011, see figure 3), while 4.4 percent thought they were very unclean (down from 8.4 percent in 2011). The strength of the campaign has affected citizens' views about the determination of the government to deal with corruption. During the initial years, the percentage of respondents who felt that the government was strongly committed to fighting corruption rose to 31.9 percent (in 2014). However, perhaps indicating that people were tiring of the campaign, the figure dropped to 26.6 percent in 2016. Even though 50 percent thought that corruption had declined, there were still 20 percent who felt that it had increased. Although perceptions are changing, large percentages still see corruption as part and parcel of daily life, suggesting that should the pressure be lifted, there is a potential for a return to previous practices.

- 4) How does China's domestic governance affect its external behavior, and is increasing emphasis on ideology in domestic governance changing its foreign policy?
- 5) Do you see 2020 as an inflection point in the Chinese leaders' worldview? If not, what are other defining moments shaping their current approach?

I have combined these questions as there is considerable overlap.

I do not see 2020 as an inflection point in the leaders' worldview but rather the culmination of changes that have taken place over the last decade or more. There are **three key moments** that have led to this change. **First, there was the collapse of the Soviet Union**, which allowed the CCP to focus on the "Chineseness" of its own revolution and stress the particularities of China to persuade people that "only socialism can save China." A number of witty students claimed "only China can save socialism." The brand of socialism the CCP proposed would combine the best elements of traditional socialism and the innovations of its application to China. The way forward was to promote carefully guided economic reform under an authoritarian political structure that would prevent the possibility of social dislocation leading to chaos and upheaval. Whatever was useful in both the traditional and the present order would be adopted and, when appropriate, some best economic practices from the West could be introduced gradually. The proponents of this view at that time, are among the generation that rules China today. **Second**, this laid the grounds for **elite and public perceptions of the West to become more critical as the nation has grown more powerful economically.** A noticeable turn in opinion followed the 2008-09 global financial crisis, which led to a questioning of the West's economic model and its general competence.

The **third development** has been the **consolidation of power by Xi Jinping.** He has strengthened the emerging trends but has been more assertive about China's global role, given its growing economic importance to many nations. Xi is certainly more ambitious in the

international arena than his predecessor Hu Jintao, and his slogan of the “rejuvenation of the Chinese nation” projects his vision. The CCP is now willing to step up global leadership in those areas from which the United States has withdrawn, redressing the relationship with the United States and within the Asian region. At a December 2014 Politburo session, Xi noted that China was now embarking on a “new round of opening to the world,” emphasizing that China would no longer be passive in global economic governance. He stated: **“We cannot be a bystander but must be a participant, a leader.”** Further at the Nineteenth Party Congress (October 2017), Xi announced that by 2050 China would be a “global leader in terms of composite strength and international influence,” and in June 2018, the notion of “foreign policy with Chinese characteristics” was proposed.

Deng Xiaoping’s mantra of “hiding one’s capabilities and biding one’s time,” namely keeping a low profile and not claiming leadership was buried at the November 2014 Central Conference on Work Relating to Foreign Affairs” and replaced by Xi’s desire to adopt a more active international role. The gathering was one further step in the centralization of power in the hands of Xi. **The starting point for action derived from the assessment that the USA was in relative decline and that the US would not confront China militarily as China sought to expand its regional presence throughout the region.** China’s economic importance to many countries would enable it to exert greater influence. This prefaced a number of actions over the next few years: the reclamation of islands in the South China Sea, the Belt and Road Initiative push, the development of alternative institutions for global affairs such as the AIIB, and the development of a string of naval bases overseas.

The second Conference in June 2018 pushed this agenda further while **tightening Xi’s grip over the foreign policy establishment.** The meeting also asserted the grip of the party and ideology over foreign policy rather than the technocratic working of state bureaucrats. Foreign policy officials were reminded that first and foremost they were party cadres. Marxist analysis and Xi’s thought were now to guide China’s actions in the global sphere. Historical materialism confirmed the prior assessment that the global order was at a turning point conducive to China expanding its influence while the USA and the West was in decline. **Xi announced that China would lead the reform of the global governance system with the concepts of “fairness and justice.”** What we have seen emerging subsequently is a more nationalist, assertive foreign policy that is based on China’s core interests. Those institutions that serve its purpose (such as the WHO), it will work to strengthen, while seeking to weaken or emasculate those international agencies that do not support its purposes (Human Rights Council).

This more aggressive stance is best revealed by the maneuvers in the East and South China Seas, the passage of a National Security Law (in Beijing) that will govern Hong Kong, and the rise of an assertive “Wolf Warrior” diplomacy. The dual assertion of China’s success and its mistreatment at foreign hands has led to a more aggressive breed of Chinese diplomat not afraid to criticize those countries within which they are posted. This is a new generation of diplomatic “wolf warriors,” (named for the successful chain of movies) who appeal to the strident nationalist voices within China. Eschewing polite, diplomatic language, they aggressively counter comments they deem to be anti-China and often use pithy statements

encouraged by the diplomats' access to Facebook and Twitter, both banned within China. This approach was given a seal of approval by China's Foreign Minister, Wang Yi, in May 2020 when he noted that China would push back against "deliberate insults" and "resolutely defend [its] national honor and dignity." As China came under criticism internationally for its handling of the outbreak and spread of Covid-19, a number of its diplomats hit back, accusing foreign governments of incompetence and defending China's own actions. While this style of diplomacy has been met with approval among nationalist circles, others within both the diplomatic community and the international affairs academic community have expressed caution. They have warned that this more aggressive response may play well at home but is damaging China's reputation globally.

6) What are your recommendations for Congressional action related to the topic of your testimony?

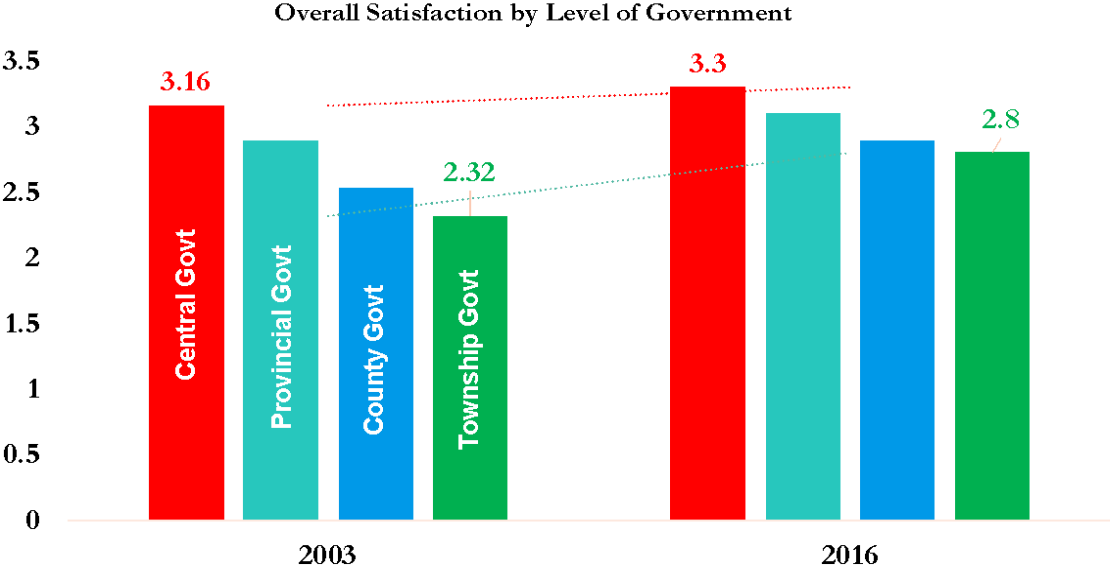
**It is highly unlikely that any policy measures adopted in the US will change the nature of governance in the People's Republic at the present time.** The Chinese leadership seem to have decided that any costs with respect to treatment of the Uighurs and Hong Kong are manageable. Sanctions might provide some comfort to those in China or Hong Kong who are being repressed and send a positive signal to the international community, if they are followed up with coordinated support. Obviously, the US has advantages that should be enhanced in the fields of energy, demographics, our research universities, technology (biotech and AI), alliances and international institutions

While there may be little that can provide direct influence, I think there are two basic principles. First, as opposed to simply banning activities or Chinese products, I think that the emphasis should be on reciprocity. Thus, **rather than only banning Chinese apps, we should make sure that non-Chinese apps can operate within China.** Google as a search engine is far superior to Baidu, for example. Second, **actions should be taken in concert with other nations as this is what China fears most.**

There may be more ability to impact China's behavior globally, especially with respect to the management of new global public goods where the international architecture is not yet fixed. I would divide these into three categories:

- Global Commons
  - Climate change
  - Fisheries
  - Water shortages
- Global Engagement
  - Natural disasters
  - Peacekeeping
  - Fighting infectious diseases
- Global Regulation
  - Finance and trade regulations
  - Cybersecurity

# 1 Trends: Satisfaction Rise, but Hierarchical Gap



## 2 Which Services? Satisfaction vs. Importance – 2016

### High Importance/Low Satisfaction

Environmental Health  
Environmental Governance  
Combatting Corruption  
Employment Creation  
Medical Services  
Traffic Management

### High Importance/High Satisfaction

Water and Electricity Provision  
Road and Bridge Construction  
Middle/Elementary School Management  
Social Order  
Health Insurance

### Low Importance/High Satisfaction

Cultural/Educational Facilities  
Market Management  
Tax Management  
Family Planning

## From Acceptance to Anti-Corruption

### 3 Public Perception of the Integrity of Local Government Officials (%)

	2007	2009	2011	2015	2016
Very unclean	5.2	6	8.4	8.8	4.4
Not so clean	41.6	42.8	46.8	44.7	24.9
Relatively clean	40.1	41.2	32.8	39.4	55.1
Very clean	1.2	1.5	2.6	4.8	10.2
Refused	0.9	0.8	0.6	0.3	0.4
<b>DK</b>	<u>11.1</u>	<u>7.8</u>	<u>8.8</u>	<u>1.9</u>	<u>4.9</u>
<b>Total Unclean</b>	<b>46.8</b>	<b>48.8</b>	<b>55.2</b>	<b>53.5</b>	<b>29.3</b>
<b>Total Clean</b>	<b>41.3</b>	<b>42.7</b>	<b>35.4</b>	<b>44.2</b>	<b>65.3</b>

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<sup>i</sup> Regular surveys of seven sites were conducted of about 4,000 respondents regarding their levels of satisfaction with government provision of services. Sites were chosen based on their geographic locations, average income, and populations.



## PANEL I QUESTION AND ANSWER

VICE CHAIRMAN BARTHOLOMEW: Thanks very much to all three of you for your interesting observations.

I should have warned my colleagues, but in terms of questioning, we'll start with Chairman Cleveland, and then we're going to go in normal alphabetical order from the top of the alphabet, instead of reverse, this time. So, Chairman Cleveland, do you have any questions to start with?

CHAIRMAN CLEVELAND: I do, but I defer to you, because you're first, with B.

VICE CHAIRMAN BARTHOLOMEW: Well, I'm going to put myself at the end of this, so --

CHAIRMAN CLEVELAND: Okay.

VICE CHAIRMAN BARTHOLOMEW: -- go ahead and start.

CHAIRMAN CLEVELAND: Okay. So Dr. Brown, you used an interesting phrase in describing decision-making in Beijing, and talked about self-propelling momentum. And other witnesses today talk about the CCP's inability to back up, to reverse course, and I think my colleague Carolyn's comments on how in Hong Kong their views are -- they don't care what the rest of the world says at this point.

I'm curious if that is the case, where there is this sort of hurtling forward, how it is that the United States and policymakers here can have any influence on that process?

And I'm curious whether or not, Dr. Scobell and Dr. Saich, you share the view that, once on a path, once a decision is made, it becomes irreversible or difficult to amend or modify in any way.

DR. BROWN: Do you want me to -- I mean, I guess it's difficult for China, having seen the way in which there's been so much division in kind of Western systems in Europe and America in the last few years, to take much comfort from that when you think of its sense of deep insecurity.

I mean, it's in a tough neighborhood with 14 bordering countries that are very varied and not particularly pleasant. North Korea and, you know, Russia, and Pakistan, Afghanistan, India, that has very kind of negative relations with it often, and often kind of competes with its sense of being a great culture, a great nation, on a historic mission.

So that neighborhood alone is not an easy one, and I think, therefore, it is risk-averse, and it doesn't feel, after thinking about this for 30 or 40 years, that Western systems, you know, in America and Europe, are going to help with that.

They may have many merits. I don't think China makes any judgment on that. But the sticking point is, it doesn't think that they solved the particular problems that it articulates to itself. And I don't see them getting any more --- I mean they're getting less convinced about that day by day.

So I think in approaching China we have to really remember that, that we are not really coming along, I guess, which we may have been in the past, with potential solutions. We are coming along in a more sort of transactional way to say, there are areas where we can work together, there are areas where we can't work together.

I mean, broadly, we kind of segregate the word, I suppose, into things like climate change and public health and all these areas where we have an interest to work together. And we have to kind of realize there are other areas where we don't have any easy ability, or maybe will not be able to work together.

I suppose a good analogy of this is, you know, The Economist last week had something about media in China. There's almost like a desegregation, you know? Like, Chinese films -- Hollywood is making films for the Chinese market, because it's the world's biggest market.

The imaginations of the Chinese people are very Chinese now, and the kind of films that used to work there from the, you know, kind of Hollywood don't. They have to be made more Chinese.

And it's like a kind of massive act of segregation, you know? You've got the Chinese media market and the rest of the world, and that, I think, is going to be duplicated in other areas. Thank you.

CHAIRMAN CLEVELAND: Thank you. Any other --

VICE CHAIRMAN BARTHOLOMEW: Dr. Scobell --

CHAIRMAN CLEVELAND: -- comments on this irreversible nature of decision-making?

DR. BROWN: Well, and I think the problem is, the decision-making process in China and the Communist Party principally is, it's hard to get there, you know, in making a decision, and once you get there, that consensus is so hard-won and so difficult that, you know, it's very, very hard to row back from.

I mean, this is true in all sort of areas, particularly on foreign policy. Once you have your mind -- you know, the strength of the Chinese position is that it has been tested through this incredible bureaucratic sort of process, where it's gone through God knows how many levels of testing.

But the problem is, of course, once it's reached, it's really tough to row back from. So I think Chinese are tough to negotiate with, because when they devise these positions, they're hard-won, and once they've devised them, they're really, really tough to give up, because they have to go through the process again, even with an autocratic leader.

CHAIRMAN CLEVELAND: Thank you.

VICE CHAIRMAN BARTHOLOMEW: Dr. Scobell or Dr. Saich, anything you want to add to this?

DR. SCOBELL: Yes, that I think it is tough to influence China and effect change, for outsiders to do that. However, I think it is possible, because -- two things.

One is, Chinese leaders are pragmatic, they are adaptive, and they care about certain -- maintaining workable relationships with key countries, especially the U.S. They care about trade.

So we can leverage -- it's possible to leverage those interests, to press for change, but it needs to be very much targeted and focused, and when you get a Chinese -- when you think you have a Chinese agreement on something, then you really have to constantly monitor to make sure they're following through on their agreements.

VICE CHAIRMAN BARTHOLOMEW: Dr. Saich, anything you want to add?

DR. SAICH: Yes. I mean, I think the -- in relation to the question, I think that the Communist Party made the calculation that, one, that they were so important to other nations economically, they would go along with China's views and its more aggressive approach, and there was not the will in the West to stand together to resist those more aggressive moves around its border.

So I think that was their calculation, and that was their starting point. So that brings the question, can you shift that view or not?

And I think I probably come out somewhere in between Dr. Scobell and Dr. Brown, in the sense that I do believe it's possible, and I think we do see instances where China has modified its approaches.

The second Belt and Road Initiative meeting, for example, was much less triumphant than the first, and that was responding to criticisms and pushback that China was getting from nations participating in that. And one could think of other examples.

Secondly, the leadership itself is not unanimous in its views, and I think there are people clearly within the foreign policy establishment, and within the think tanks, who feel that the more aggressive stance has been detrimental to China's international standing.

So I think that does give some potential. What China's most afraid of, and that's where I prefer pitching everything at a bilateral level, is when people demand reciprocity, and where there is a united common push against China's actions, which is not something I would say that we in the West have been able to achieve to date.

I would underscore what Dr. Brown said, but that relates, I think, more to its domestic views, that China feels it's got it right with its policy and its approach to the economy, and the West has not.

I think that's different, though, from the international arena that Dr. Scobell was talking about.

CHAIRMAN CLEVELAND: Thank you.

VICE CHAIRMAN BARTHOLOMEW: Thank you. All right, we'll move to Commissioner Borgeas.

COMMISSIONER BERGEAS: Thank you. And thank you to all our speakers for being part of today's panel. Maybe I'll pose this question to Dr. Scobell, and then the other two, if they'd like to chime in.

Can you describe, in your opinion, how Chairman Xi or the Chinese apparatus is explaining its significant role change, internationally? And how are they projecting a consistent message to their domestic audience? And how is it thematically being pushed out?

Is it a, China is at a manifest destiny moment in time, or is this a natural evolution? Maybe you can comment. What type of messaging is being put out there domestically by the apparatus?

DR. SCOBELL: My view is that it's more of a natural evolution as China grows stronger, it takes its place as one of the major powers in the world, and this is a natural evolution.

And to the extent that there's pushback to that, it's the work of anti-China forces, in particular, headquartered in certain countries, especially the U.S. And I think that's the general messaging.

VICE CHAIRMAN BARTHOLOMEW: Dr. Brown or Dr. Saich?

DR. SAICH: Yes, I -- unless you want to go first, Kerry? Yes, I would add a couple of things into that. This has been the culmination, I think, of a long process.

I think, as was mentioned earlier, the global financial crisis in '08, '09, I think, was really important in shifting China's attitudes towards Western models and what they can learn from the West.

And many people I know became significantly disillusioned with what they would see as Western models, and more convinced that China was getting it right. And I think that laid the basis for a shift in elite opinions about the West and its own model.

I think what we have to throw into this mix, as well, is remember, after 1989, China introduced a very strong program of patriotic education. If you're going to have patriotic education, the old foe is Japan and the new foe is America.

And I think that is inculcated in a whole generation, several generations of people, a different attitude about, you know, China is getting it right, China has the strength, and these people are out to constrain us.

And I think that is put out through, you know, ranging from huge sweeping slogans -- rejuvenation of the Chinese nation, taking pride in China's achievements -- and then of course through the propaganda system, you know, showing on television true or untrue images of the West in chaos, in a mess, even pre-COVID.

The way Hong Kong was covered was extremely judgmental and partial. And I think that inculcated amongst the general population, through the views they were seeing, that China's getting this right, and the rest of the world is not.

VICE CHAIRMAN BARTHOLOMEW: Dr. Brown?

DR. BROWN: Yes, I mean, I guess it's sort of like an AMM, to use an acronym, so Audience (audio interference) Message. So the audience, I think -- we talk a lot about Xi Jinping, the autocratic leader, as though he's all-important and controls everything.

But I think, you know, him and the Party, their key audience is the great emerging middle-class, urban-sector, sort of service-sector, working -- the greatest economic asset on the planet, right?

I mean, these people, with their spending habits and maybe rising consumption, are going to be the key group, I think, you know, kind of in getting any kind of growth going after this pandemic. And they're important, they've just become more important, so that is a huge economic asset.

So you know, Xi Jinping talks to this group, they're his base. I mean, they don't vote but they certainly, you know, kind of figure their economically (audio interference) means to do that, I guess, is through nationalism.

As I say, the sort of narrative, the story, as it were, of a great powerful country (audio interference) the world. So for a politician to use that messaging, that sort of mystery that they use in that message.

And I guess the sort of, you know, the means is the nationalism and the message is, you know, make China great again. I mean, to sort of translate from one politics to another. You know, this is China's moment of renaissance and resurgence and resurrection.

I think the issue is that, you know, this middle class really believes in that, because it's a natural thing to believe in. It gives some sense of pride, status, and stability.

But also it's a kind of, not just a material thing, but a moral thing. A big issue is that China believes its leadership and its people, after their suffering in modern history, you know, kind of losing the initial waves in the battle of modernity, now they're winning.

And so that's an incredibly powerful motivator for an audience, and for a politician to give that audience.

COMMISSIONER BERGEAS: Carolyn, can I ask a quick follow-up?

VICE CHAIRMAN BARTHOLOMEW: Very quick?

COMMISSIONER BERGEAS: All right, well, maybe this is to Dr. Saich.

Does this idea that there's enough infrastructure and underpinning of how China is evolving, it's part of a natural evolution, does that in any way undermine the insecurity of, what I refer to in your second point on your first page of your report, performance legitimacy?

Meaning, must they perform to maintain legitimacy if there is enough character in (audio interference) underneath this idea of an evolving China?

DR. SAICH: Yes, I think that's a good question, and I feel, honestly, we can't know the answer to that.

And the reason I say we don't know the answer to that is that I don't know how robust appeals to, you know, the glorious history, Marxism, Leninism, and nationalism, how robust those are at a time of, say, if it meets economic distress or there's economic decline.

I do agree with Kerry that the middle class is a product of Communist Party policy, the way it's portrayed, and I think many of them are willing to go along with the regime as long as it keeps delivering.

Now, I think many of them are worried that, were the Communist Party to implode, collapse, or something happen, you know, their lives might be affected, and the situation could be far worse. So I don't think it's a real strong, positive, robust support, it's just not seeing what an alternative might be.

The one thing that we do know, historically, is that at times, the Communist Party, if the leadership falls out amongst itself it's liable to very rapid collapse and decline. We saw that in the 1960s, we saw it in 1989, for example.

And what we do know from 1989, when people thought there might be an alternative, they were willing to abandon ship and look for something else. So it's not a satisfactory answer to your question, because I don't think we really know what the answer to that is, until it becomes tested by some kind of significant crisis.

I think COVID maybe gave an indicator that we know that the initial responses online to COVID were extremely critical and negative of the government. But of course they rallied once it seemed the Center got it under control, and the media displays of the chaos, bad management in other countries -- whether that was true or not, that's not relevant in this context.

And even with a laudatory meeting recently, online, a number of netizens were complaining, you know, why wasn't the doctor who blew the whistle, was persecuted or, you know, died, and then rehabilitated, why didn't General Secretary Xi Jinping refer to him?

COMMISSIONER BORGEAS: Thank you.

VICE CHAIRMAN BARTHOLOMEW: All right. I'm afraid we're going to have to cut short the others. We're way over time. I'm going to move on to Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you. First, I want to say that I think these meetings often don't have enough divergent opinion, and it's really been refreshing that we have kind of a spectrum between the three of you speaking today, and it's very, very interesting to see that you don't agree on everything, and giving me some sense of the confusion that's coming out of the change that's occurring over there.

I think, from listening to all of you, that there is an inflection point, in that they suddenly are displaying their power more than they ever have.

So I'm curious, in listening to you all talk about their focus internally, suddenly, on making China great, as an example, are we -- do you all think that it's not possible, or that it is very possible, in fact, at the ground level, to influence the things that they're doing that give them tremendous advantages?

For instance, we require of almost every country in the world that they have certain human rights, that they pay their people certain ways.

Our companies have been moving over there, and constructing -- as an example, Apple, constructing iPhones -- and largely because they can do it so inexpensively, not because they're

smarter, and not because they have technology advantages. They're using our technology, and our education, to get that done.

So my question is, how would you -- and I would ask this of Dr. Scobell first, but I'd love to hear what each of you think -- strategically, what would you think might work for us to be able to influence what they're doing internally, despite this show of power?

Because all of you are saying that they have this great -- there's this great insecurity. And I just know, as a businessperson, that when people have insecurity, what they usually do is project great power initially, right up until they collapse.

And just because -- and we're seeing that today, in America, there are a lot of companies that two months ago were very confident, and they're just shutting down, literally, because of the pandemic. They didn't survive it, because what they had was a great show and not a great substance.

So my question is, from a strategic viewpoint, can we still, and how would we still, affect those issues that give them the economic advantage that they've developed?

DR. SCOBELL: Yes, that's a great question. I would say we, you know, the U.S. needs to focus -- again, following up on what I was saying earlier, focus, and economics is a great place to start.

Focus on the trade deal, continue to press the Chinese to make sure they follow through on their commitments, and continue that. Because, A, that's one area that the Chinese really care about, and B, we actually have some leverage there.

And in an environment where there's tremendous distrust, where people use the phrase, distrust but verify, it's really hard to make progress on any areas. So let's start with economics, with following through on trade deals where we already have some traction, and try and build from there.

COMMISSIONER BOROCHOFF: Thank you.

DR. SAICH: Yes, I have a couple comments. I think the -- I would say that, you know, reciprocity is one of the most important things, to keep pushing for that.

And we all know, I think, many of us, speaking in the panel today, remember when it was, made in Japan, when it was, made in Taiwan, and now it's, made in China. So low-cost destinations will attract businesses.

Now, as China moves up that production value chain, obviously some American companies will want to stay there, with a 250 billion dollar market, pre-COVID. But many might look at other destinations. So do we want to work with India to enhance capacity? Do we want to work with Vietnam, and so forth?

And then I think we need to think about where do we really have an advantage? And I would say the finance sector is really important for the U.S. to keep focusing on. You know, the percentage of inbound FDI is declining. The percentage of outbound FDI is declining.

Forex reserves are declining. Renminbi internationalization is limited. There's capital controls, the stock market interventions. So I think, you know, the U.S. has a massive, massive advantage, and China needs access to global financial markets to keep going.

So I would think that is one point for the U.S. to pay particular attention to, and use that as a way, not to push China to do things which are contrary to global regulations, but simply push for reciprocity.

I mean, if any of you have ever been in China and used Baidu as a search engine, it's awful, you know? And most Chinese people I know would rather use Google. So the U.S. didn't start that decoupling. That started in Beijing.

VICE CHAIRMAN BARTHOLOMEW: Dr. Brown, anything to add quickly?

DR. BROWN: Yes, just very quickly, I think the middle class is really key to this. And, I mean, they're going to be the ones that sort of decide the outcome of this story.

And, you know, you have their nationalistic take but they also quite like some of the particular kind -- some of the kind of values that are embodied by brands, for instance, from outside of China.

And they still want to send their students in large numbers abroad, even with COVID, extraordinarily. So I guess this middle class is going to be the one that we are increasingly wanting to speak to, sell to, and deal with.

And I guess, you know, The Economist last week had an interesting report about finance. You know, Goldman Sachs and JP Morgan seem to be finding it easier to do stuff in China now, rather than harder.

And that is showing you that while there's a big decoupling, but there's also areas where we're coupling more than ever.

VICE CHAIRMAN BARTHOLOMEW: All right, thank you. We're going to move on to Commissioner Fiedler.

COMMISSIONER FIEDLER: Thank you. I'd like to pursue a little more deeply the insecurity of the Party, and understand why that is so deep, and that they're daily vigilant, right? And that they spend so much money to repress.

And I would also like to sort of challenge the notion that the middle class drives everything. We aren't talking about workers in China, whether or not their ability to organize, which is nonexistent, matters to the development of the country.

And we also are not talking so much about the internal -- I know it's opaque, but the internal dynamic within the Party, where dissent was tolerated before, but less so now. And there may in fact be a purge going on at the moment in the Party ranks. Would you guys comment on that?

DR. BROWN: Yes, on the insecurity of the Party, I mean, it's just, you see, I think the Party sometimes exploits this feeling, this insecurity. You know, it's hard to -- it's excellent at sort of creating the sense of perpetual crisis and perpetual threat.

I mean, the function of the Communist Party of China, I think, administratively, is it's the world ultimate risk manager. You know, that's what it does. It kind of works out risk, and I feel there's a very specific way of calculating that in China.

And, you know, the assumption is that if you remove the kind of unity or the, you know, sort of capacity of the Party, what have you got? It's like taking the spine out of the body, right? You know, the whole operating system kind of goes.

And so although it is the only -- I mean the fact that it is the only option that China has, this form of governance at the moment, because to remove it would be incredibly risky and create all sorts, you know, enormous amounts of uncertainty.

You know, the fact that there's that kind of rigidity is also worth -- yes, it's a form of brittleness, but also strength. So I guess to kind of -- I mean the issue of China, you know, kind of repressing -- I don't know.

I mean, so the really strange thing is, to have discussions on contentious issues like Xinjiang and Hong Kong, in China, it never leads to a good place, not because, you know, people don't want to talk about it, and it's not because you can't point out -- I mean, some places, you can point out how problematic it is.

The point is that you're dealing often with people who are absolutely kind of convinced that there's no way to have a dialog on this, A, because we don't intend well. You know, we're going to exploit these issues to make the system weaker from outside.

But also because there is this threat they see that we don't. And I'd thought, in the past, this was actually kind of in their imagination. But I think it's sincere, and I just don't quite know how to articulate what that threat is. It's just that that sense of threat is always there.

COMMISSIONER FIEDLER: If you look to 1989, and you see the spontaneity with which people moved throughout the country, and I think it's fair to say that they were less concerned with intellectuals, but they were more concerned when workers joined a demonstration. That's when the crackdown began.

And so you can't have, physically, strength and brittleness in physics. Right? And so, I mean, you may think you can, politically, but apparently they don't, which is why they're so vigilant, and why they repress individuals so dramatically and so quickly. Anyone with organizational ability.

I don't know that any of us have the answer to this, frankly.

DR. SCOBELL: Well, what I've -- if we're right that Chinese leaders are very insecure, then that raises what I've dubbed a paradox that -- the paradox of China's great leap outward. If they're so paranoid and insecure at home, then why is China globally more active than ever before?

And my two cents' worth is that they've drunk the Kool Aid of globalization, and they believe that thinking locally demands acting globally. And so they really cannot -- there's no alternative to disengage with the world.

And then if you -- drawing an example from my written testimony, you have to ask yourself, if we look at the Belt and Road initiative, why is China going full bore on this and investing in infrastructure or financing and building infrastructure, in some of the riskiest places in the world?

And going back to Professor Brown's point that the Communist Party are risk managers, I think the reason is because they've done the -- they're balancing the risks.

And in the view of the Communist Party, it's less -- they're more willing to risk going to these countries like Pakistan and financing and building infrastructure -- that's considered less risky than the risk of having the state-owned enterprises stay idle at home, and Chinese banks not be able to continue to finance loans.

Because if they are allowed to remain idle, then that risks workers in the streets, and that risks financial turmoil at home.

COMMISSIONER FIEDLER: Thank you.

DR. SAICH: Yes, just very quickly, I would just say there's three things. I think the first thing is that when Xi Jinping took power in 2012, and in 2013, I think if he looked around, I think he thought things looked a mess.

It was chaotic. He just had the huge political infighting within the Communist Party, corruption was increasing, local governments seemed to be pursuing their own interests.

And so his conclusion was that a tight, unified, disciplined Party was key to both keeping, obviously, the Communist Power in power, but also moving China forward.

Secondly, I think they're not related to the fact that concern that even though many of the ideas amongst dissident communities may have been marginal, certain ideas were getting greater traction, about rule of law, constitutionalism, and I think they wanted to make sure those didn't spread.



And then thirdly, on your point of organization, as you know, the Chinese Communist Party, being Leninist, organizes vertically. It doesn't like any systems which begin to cut across political divisions and organize horizontally. And that is when it begins to crack down on organizations.

We saw that in 1989, when the Worker's Federation organized across Beijing. The fear, of course, was, you know, Solidarity, Poland, would they link up with the students?

And once that sort of cross-country horizontal organizing comes into play, whether it's a religious movement or another movement, then they'll move in to stop it.

VICE CHAIRMAN BARTHOLOMEW: All right, thank you very much. We're going to move on to Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Carolyn, and thank you, gentlemen, for your time this morning.

We've been hearing a lot about this notion of reciprocity, and Dr. Brown, in your written testimony, you recommended that one approach that the U.S. should take is to insistently and consistently support this notion of reciprocity in our dealings with China across all routes, from trade to market access to intellectual property protections to media access, and so forth.

I suppose the million-dollar question is how? Thus far, I think we've tried to accommodate China's growth and rise into -- and for some notion of reciprocity within the existing framework of international rules, norms and processes, which of course are designed to impose obligations or responsibilities on members of the international community, and impose consequences when violations occur.

But yet, as we've heard in earlier hearings this year, the Chinese tend to view these institutions and these liberal democratic norms as a threat to the Chinese Communist Party's own legitimacy and their survival.

If that's the case -- first, do you agree with that assessment? And if that's the case, how do we accommodate their rise within that existing framework?

And how do we enforce obligations and impose consequences when they violate treaty obligations, when they violate trade rules, and when they ignore international tribunal rulings?

DR. BROWN: Yes, I mean, I think it's slightly -- so this question is impacted on by the economic situation that we're moving into, where a possible scenario will be China is going to be able to restore itself to reasonable growth, kind of in the next year.

And the rest of the world may suffer, you know, America and Europe in particular may suffer. So I guess in that kind of situation, there's more clarity about what we will need. And that will kind of answer these questions.

You know, there will be things that we will definitely be very focused on getting. Presumably, job creation, presumably investments in certain areas. And, you know, that will kind of change our notion of what it is to sort of, you know, kind of where the risks are and where they aren't.

And there's some areas where we will continue to not be able to work. There are some areas where we say we can't work at the moment, but I suspect the economic situation may change that. And there'll be some areas where I think we're going to work more deeply. Like I said earlier, finance, it seems, is opening up.

We also have to remember that China itself is going to be in a tough position no matter what, and it does want and expects certain things from the world around it, you know, kind of particularly in the development of the services sector and healthcare and, you know, other technologies.

And we also have to remember, in a strange way, that China is no longer in technology deficit in a lot of areas. You know, we have -- I guess the thing that I really kind of would stress is that our mindsets are often that China is somehow technologically behind, that in AI and other areas, it really isn't.

And so in a strange way we have invested in kind of getting access to the China that will be technologically attractive. You know, it can kind of give us things it didn't in the past.

And if we withdraw from that now, you know, for all sorts of different reasons, then we kind of go away from the thing we've invested in. So I think we have to think about these -- it's not so much what we do, in a way, it's how we think about these things.

I don't think that we are kind of engaging with China now to see it become like us. That's obviously, under Xi Jinping, not happening and not likely to happen. But we're certainly engaging, because we do not want to continue economically suffering.

And there are things that we need, and we want, that China can give, and are in its own interest to give. And I kind of think, you know, services sector, healthcare sector, and these things, are pretty natural places to look for that.

VICE CHAIRMAN BARTHOLOMEW: Dr. Scobell or Dr. Saich, anything you want to add? No?

DR. SAICH: I mean, I agree entirely with what Kerry was saying.

The one thing I'd add in is to really look at what I mentioned briefly at the end of the written statement around what I called new public -- global public goods, in areas where the system is not yet fixed, where there might be possibilities to negotiate with China, and with other important nations, about rules of the road and framework.

And to use that as a basis where there's not trust in other areas, to at least maintain some momentum in key areas that are going to affect all of us on the planet moving forward.

VICE CHAIRMAN BARTHOLOMEW: All right.

COMMISSIONER GOODWIN: Thank you.

VICE CHAIRMAN BARTHOLOMEW: Thank you. We'll move on to Commissioner Kamphausen.

COMMISSIONER KAMPHAUSEN: Good morning. Thanks to our panelists. I have a question for each of you, if I have time.

I'd like to start first with Dr. Saich. In your testimony, you talk about the potential emergence of what you call a social volcano, with three key challenges stoking that volcano: corruption, environmental damage, and local government debt.

But you also note that in low-income areas, and on the peripheries, satisfaction with local government has actually grown most significantly. So I'd like to ask your net assessment of this challenge.

Is it simply, as you suggest later, that the social volcano doesn't blow if poverty alleviation is properly addressed? Or is it much more complex than that?

DR. SAICH: Yes, I mean, I think the thing, really, that I wanted to recognize out of that is that those groups -- which we usually sort of identified as presenting regime threats, those we see as sort of usually marginalized -- actually have been more satisfied and increased their levels of satisfaction in comparison to the middle class, which we've been spending a lot of time talking about, in the urban areas.

That's where the question comes in around those debt and other issues, because the question is, can the government still keep investing in those social programs to keep those groups

happy? That of course depends on the strength of the economic recovery over that period of time.

So personally I don't think there's a social volcano there. I think most of those people are satisfied. And I would go back to one comment that was made at the beginning, about the migrant workers and migrant laborers.

It is absolutely true, as was said, that they are, in urban areas, treated as second-class citizens, but when you speak with many of them, they just say their life is immeasurably better now than it was before, that, you know, they'll say to you, yeah, it looks tough here, but look what my life was like when I was on the farm.

And they see the remittances that they're providing to the rural areas as being quite beneficial, in fact. So a lot of this is subjective in the way people are perceiving things.

That's why I think the real challenge will come when people's expectations continue to rise, and the system may not be able to fulfill those expectations.

And that is the point at which, going back to an earlier question, we'll see, do these deeper levels of trying to provide legitimacy around national pride, ideology, telling of history, will they be sufficient to support that? My suspicion is, probably not.

COMMISSIONER KAMPHAUSEN: Thank you. Dr. Brown, in your written testimony, you say, the principal problem that China has, and which it presents to the outside world today, is that it is a complex and ambiguous power, and is speaking to a world which largely does not like or cannot cope with this sort of level of complexity and ambiguity.

Is this challenge simply one for the West, or does it pose challenges for China as well? If you could elaborate a little bit. Does the complexity and ambiguity -- does that provide opportunities for Beijing to pursue its goals, or does it itself serve as a sort of constraint on China's aspirations?

DR. BROWN: I guess sort of yes and no. I think it means that China, in speaking to the world, can sometimes conceive itself quite well, and that suits its purposes in some areas.

But I think it's also, you know, kind of a problem, because, to be honest, the position that China is in now of being so prominent and kind of geopolitically exposed, I don't think is the one that it wanted to be in. I don't think it planned this.

I think it probably kind of had a strategic plan where it was maybe more visible and more geopolitically powerful maybe five, ten years down the line.

But because of various things -- you know, the financial crisis 2008, and then all the political issues over the last few years -- it looks at a world which is becoming probably, in its eyes, weaker, or more divided.

And its role therefore, if it had remained static, wouldn't have been so dominant, and now, because of that, because of others, it's more dominant. So I think, you know, its confusion about its own identity certainly contributes to the ambiguity.

And then finally, you know, we have to remember that there's a People's Republic which has existed for 70 years, and there of course is -- different Chinas have existed in the past, going back many many centuries. So we also deal with their residue on the current, you know, kind of situation.

COMMISSIONER KAMPHAUSEN: Thank you. Dr. Scobell, I also have a question for you, but in the interest of time, I'd like to submit it as a question for the record and ask for your feedback after our hearing. Thank you.

VICE CHAIRMAN BARTHOLOMEW: Thank you. Commissioner Lee, your turn.

COMMISSIONER LEE: Thank you, Carolyn, and thanks so much to all of our witnesses, for their excellent testimony and the conversation so far this morning. It's been really interesting.

I wanted to focus on the economy, and we talked about it a little bit this morning, as both central to China's projection in reality of internal and external power.

And also the questions that have been raised around domestic vulnerability and insecurity that I think each of you have raised in some way, some of the paradoxes or conflicts that are interesting at the current moment.

So I think about the challenges that China's facing at the current moment. You have a global economic downturn with a big impact on export markets, ongoing health crisis, also this rising tension between China and the United States.

This is obviously an incredibly important economic relationship to both countries, and it's at a period of a lot of uncertainty around the future. And then the internal weaknesses, I think, some of which Commissioner Cleveland talked about, rising debt and inequality in China.

So you have things -- both the bravado, the projection, that everything's great, and that China's response has been tremendously successful. And in some respects it has.

And then in some respects I think that there are advantages to being an autocratic government at a moment like this, that, you know, fiscal stimulus, for example, which is incredibly effective at a moment of global economic downturn.

It really does work, and China is not faced with the same kind of political infighting, partisan pressures, bottlenecks, that the U.S. Congress seems to be facing right now in terms of acting.

But I think it's also clear that there are big headwinds coming for China and for China's economic model, particularly around export markets and outsourcing and global supply chains, where, you know, multinational corporations are rethinking what their business strategy is.

But my question for the three of you, and I invite you all to answer, is, is the U.S. strategically prepared for a post-COVID global economy where China, in many ways, is using this current period where we are in pretty much complete chaos to consolidate and to increase its advantages? Have we done what we need to do?

And I know some of you talked about this earlier in terms of the pressure points, domestic pressure points around the China deal, around finance markets, but I'd like to ask you go a little deeper. And I invite any of you to respond.

DR. BROWN: Well, I mean, the kind of battleground I said earlier was now the economy, you know, that this is where things are sort of heading.

And I suppose why I speak about the middle class as being important is because, you know, they are a great asset, because their consumption is low. I mean, they do consume a lot, and in Shanghai and places like that, urban centers, are, you know, good consumers.

But, you know, there's many that don't. I think it's only a third or, you know, a bit over 40 percent of GDP activity is from consumption. And, you know, anywhere else, it would be kind of a lot more than that, particularly a developed economy. So this is a very natural place to look.

So the question I think is, this group, in what sense are they going to be available for partners in America or Europe? And in what sense is, you know, are there going to be opportunities for American companies and others to get what they want from this group, despite the very difficult political circumstances?

So I mean, I kind of think that makes this question more, you know, easy to address. And as I said earlier, you know, there's areas like healthcare, there's areas like finance, the service sector, generally, where these opportunities seem to be able to exist. So that's where I think the action will be.

COMMISSIONER LEE: Thank you, Dr. Brown.

DR. SAICH: Yes, if I could just make a couple of comments. I talked earlier about finance. I want to mention that again.

I think one important thing to bear in mind, and this relates to Kerry's point, is that for a decade or more now, the Chinese leadership have been telling themselves and telling the public that the model that worked well in the past, the economy, will not work going forward.

And the overreliance on state investment, the overreliance on exports, is not viable as a long-term strategy. That has led them to keep talking about where Kerry was going, the emphasis on consumption as a driving force of the economy. And secondly the Made in China 2025, to upgrade the quality, the technological upgrading.

But this brings us back to the challenges of shifting, because they've been saying that for, what, since 2002, 2003, and yet they've not been able to shift significantly that, yet.

We know that the rate of return on investment in state-owned enterprises has declined. We know TFP is low. We know that it's much lower than the non-state sector, but because of the politics, you know, there's always this heavy reliance on the state-owned sector domestically and in the future.

So what we do know also is there was a very strong reform documented at the end of 2013, which would have represented a very significant shift in economic practice in China, greater use of the market, greater role for the non-state sector, more opening to outside.

So I think, ultimately, and this is where I think is the advantage to the U.S., for China to keep its economic momentum going, it will have to go back to some of those reforms.

And I think that will open up opportunities, not just to the U.S. but for other countries, where I think one could push more effectively for a level playing field, one can think about consumer engagement, one can think about the tech sector, the health services sector, finance sector, areas where the U.S. has a lot to contribute, and I think could be involved.

But I don't think the U.S. currently is well enough prepared in a kind of post-COVID world, and I think the debate is open, you know? It's hard to see any leader at the moment in a post-COVID world really stepping up to take on those agendas.

And I think that's something for this administration and a new administration to think about quite deeply and seriously, because I think the opportunities are there.

COMMISSIONER LEE: Thanks. Dr. Scobell, anything to add?

DR. SCOBELL: Okay. Sorry about that. Just one point to add.

We talked about decoupling in terms of, really, in economics and the impossibility of completely decoupling, because the global -- China and the U.S., our economies are intertwined. But I think an important aspect of that is really technological, and technological decoupling.

And when you talk about Huawei and 5G and how different countries are pushing back against it, we're on a trend, on a trajectory to move toward -- moving towards sort of two worlds, where you have one world that's dependent on, or relies and consumes, you know, the U.S. and Western technology, and another that consumes Chinese technology.

And that creates tremendous -- in the process of that, creates tremendous dislocation for companies, and countries around the world. And so are we ready for that, or can we avoid that? I think that's the fundamental question.

COMMISSIONER LEE: Thanks so much.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Lewis.

COMMISSIONER LEWIS: I'd like to thank the panel for their extraordinary knowledge and coming before us today. I want to ask you all a question about China's foreign policy and what they see as their successes and failures, and what we could have done to diminish the successes.

Is the foreign policy of China really an outgrowth of the leader's rule himself? We know from -- the Lowy Institute's written a little article by I think Richard McGregor, and the purge that's going on now in China, that Xi Jinping is trying to increase his power and he does it through corruption and other means.

And his foreign policy may be a reflection of trying to get China to come behind him. But what do you see as the Chinese's own perception of their successes and failures in foreign policy? I ask that of all three of you.

DR. SCOBELL: Well, I would say Chinese leaders claim only successes, because China's always a winner. And so they only see successes, and success measured in relative terms. Right?

Given the difficulties and challenges, whether it's on the Korean peninsula or in U.S.-China relations or with challenges with India. And so it's mainly -- overall, it's a record of success, and any lack of, or current lesser success, is blamed -- is someone else's fault.

And often the United States, but other countries that are blamed, too. So they don't publicly -- never acknowledge a failure. It's a record of success.

COMMISSIONER LEWIS: Do they see that their role, their actions in the South China Sea, are driving all those countries closer to the United States? Do they see that happening?

DR. SCOBELL: No, my assessment is that Beijing doesn't see that -- understand that China's own actions have contributed to that. Rather, they see the U.S. interfering in the region where it doesn't belong, and stirring up trouble in the South China Sea.

COMMISSIONER LEWIS: Thank you very much. Dr. Kerry?

DR. BROWN: I slightly dissent, I slightly disagree. I think they would believe what sort of economic cooperations they've started, you know, looking okay. I mean, the Belt and Road Initiative, as long as you stick to the economics, I think, they feel has been a good process.

And this explains China's kind of role for the world. I think they would probably say this has been worth the effort. I think they would probably, you know, internally, think that the way that things have turned out with the U.S. is not good. I think they would feel that it's gone wrong, and, well, I guess it's a question of who they would blame for that.

But I think clearly they do know that things have gone badly wrong. And I guess it's a question of how do you sort of really speak to that?

Because I don't think, despite all the kind of very tough rhetoric, publicly, you know, the wolf warrior stuff and all the rest of it, I think there is an acknowledgement that having this kind of relationship, when China is at the stage it's at, when it's looking for the strategic kind of space around it, with the world's most powerful military and economy and country at the moment, I think, is not a good thing.

I think they would say it's not a good thing. And I think they also have shown that they don't feel that it's any longer worth investing in their soft power.

I mean, Confucius Institutes are now being closed, and I think that they probably would regard their attempt to convey China's message in Europe and America has not really kind of

worked. And they might blame us for not being able to listen, but I think that they, you know, won't be making investments in that area anymore.

DR. SAICH: Yes, I would agree with Kerry on that question of the economic cooperation. Just three quick points. A lot of people I interact with, come across, in China are deeply disturbed about where their foreign relations have moved.

Both in terms of, you know, how could we have got ourselves in this position, it's such an enormous conflict with a powerful nation, with the United States? How could we get so much pushback on what we think is a great project, the Belt and Road? And also concerns about South China Sea.

So I don't think there is a unanimity across the board, that everything has turned out extremely well. I think on the South China Sea, secondly, their views really related to what I said earlier.

I think their calculation has been quite simply that other countries have such a strong economic interest in China, and the U.S., before, had not shown the appetite to push back significantly on that expansion, and I think they felt it was therefore worth pushing.

Moving forward, I think, is an interesting question of what might global governments look like with a more assertive and stronger China.

And I think what we're going to see is China moving to take stronger roles in those organizations that it feels the United States might be withdrawing from -- trade being one, WHO, climate change, for example -- and then working to undermine those kinds of global institutions that don't necessarily coincide with China's perceptions of its values, such as human rights, the council in Geneva, because that's also something the U.S. has not engaged with, most recently, either.

So I think we're going to see that, you know, where can we take advantage of what is there to push our interest? What are these organizations, if the U.S. has withdrawn, that we can work to undermine their effectiveness or turn it to our own advantage?

COMMISSIONER LEWIS: Thank you very much for your responses. Thank you.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Talent.

COMMISSIONER TALENT: Thank you, Carolyn, but I had missed the first hour, and so I'm going to prepare some questions for the record, but I'm afraid I'll ask questions that have already been asked. So I'll pass.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Wortzel?

(No audible response.)

VICE CHAIRMAN BARTHOLOMEW: Larry, you're muted.

COMMISSIONER WORTZEL: -- and speaking. You got me?

VICE CHAIRMAN BARTHOLOMEW: All right. We can hear you now.

COMMISSIONER WORTZEL: Okay. This is really for all the panelists. There have been a number of pretty prominent scholars from China, either in or out of China, that have complained about Xi Jinping's aggressive policies, and approaches.

Have you found any hints, credible hints, from inside the Politburo, of discussion, even at Beidaihe, of the wisdom of this approach?

DR. BROWN: Well, I mean, so I can kind of have a go at answering that. I mean, the standing committee of the Politburo is only seven, and they're not argumentative people.

I don't think it would be likely that there would be any reflection there. I mean, maybe Wang Huning. I don't think, you know, he's regarded as the kind of foreign policy supremo, at least in the past.

But I think in the elite, you know, the Central Committee, you know, the kind of 200 -- what is it, 200, 250 kind of full and alternate members -- it doesn't seem that there's that kind of relationship. You know, it's not about, as Andrew said earlier, admitting failure.

I guess the question is, you know, is there a sense that things like Xinjiang and Hong Kong and, you know, the treatment of dissidents, these are the -- you know, are they making the Party reflect on the impact on its reputation?

And I have to say that there's not a shred of evidence that they are. Or, I think what we see is, on Hong Kong, an unapologetic approach, which is, it's our issue, leave it alone. We're on the case, and you can get out. And that's particularly to the UK, more than to the rest of the world.

And I mean, on Xinjiang, even more adamant. You know, security issue, terrorism, we're not going to deal with any kind of, you know, debate on this, and everyone is unified.

Is there likely to be, you know, kind of dissent about other areas? Possibly, but at the moment, the most remarkable thing is that, you know, in the second decade of the 21st century, the world's second-biggest economy has a political elite which is water-tight.

It's extraordinary, and, you know, you think everywhere else is leaking like hell. We know less about the elite and their discussions with each other in China now than we did 20 years ago. That's absolutely extraordinary.

DR. SAICH: Yes, I would just say, you know, I think Kerry is right. Where there is debate, it's on tactics, not on strategy. That would be the only sort of -- and we see that around the economy, for example.

You know, there's an overall agreement on strategy, but it's more currently around the tactics and, you know, it's continually reported that there's these divisions between the Premier, who wants to see more role for the market, and perhaps from the General Secretary. But they're not significant differences.

And it all depends, you know? As we know, in these systems, everything goes well until it doesn't. And we have never successfully predicted unraveling, caving in, in such regimes, until it's happened, and then we turn to historians to tell us why it happened.

DR. SCOBELL: Okay. Yes, I would tend to agree with my fellow panelists, and if there is any disagreement, I think it's in style over substance. But maybe a softer approach in terms of foreign -- when you focus on foreign policy and foreign policy-making.

The big challenge is for anyone who wants to speak up, or thinks about speaking up is, you don't want to be labeled unpatriotic, or in poli-sci-ese, a wuss. You know, you don't want to be a wimp. And so I think there's not likely to be much in the way of debate or dissent or serious discussion on major foreign policy issues.

COMMISSIONER TALENT: Thank you.

VICE CHAIRMAN BARTHOLOMEW: All right. My turn, I guess. Thank you. There are so many issues that come up, sometimes it's difficult to pull it all together. But I was really struck by this -- how the CCP leadership is embracing the past, right, that they once sought to destroy.

But I'd like to take it to a more current, sort of a more immediate history, which is the Cultural Revolution and the tactics of the Cultural Revolution. And it just seems to me that at the same time that we are seeing China expanding its role on the global stage, it is clamping down even more on information, is what I'm thinking of right now. Right?

So we talk about decoupling, and obviously the Chinese decoupled on information with the establishment of the Great Firewall.



But the recent reports about these Australian journalists who basically had to flee lead me to wonder about if the Great Firewall is not only stopping information coming in, but stopping independent information coming out, with so many -- you know, it's very easy to say, well, they kicked the, you know, New York Times journalists out, because the U.S. said this about visas.

But it's a fundamentally different situation. Right? I mean, the sources of independent information from inside China seem to be drying up in a way, of course, that they aren't here in the United States.

And so I just wonder if you could expound a little bit more on that? There's sort of a tension there, right? That they are moving out, but shutting down internally at the same time.

DR. SAICH: Yes, I could -- a couple of comments just to start off with. I do think this is one of the most problematic areas that, whether it's deemed a sort of tit-for-tat or whatever it is, and I think it's not just journalism, I think it's in the academic sphere.

And we run a very serious risk of not having a proper understanding of what is happening within the country, because we're being denied access, either through our journalists or through researchers who are able to interview, who are able to work at Chinese universities, who are able to undertake survey work or, you know, work in archives.

And I think that has been incredibly important over the last, you know, 20, 30 years, in helping us shape a better understanding of the dynamics of what is happening in China, positive and negative.

And it does worry me, that sort of tightening of independent authorization of what is the reality within China is declining.

And I think that's going to be very problematic for decision-makers, because we'll be making decisions on poor information, on whim and fantasy, of a world that we'd like to see existing, without knowing whether it really does exist in any kind of reality.

So I think that is a truly worrying trend that you've highlighted.

VICE CHAIRMAN BARTHOLOMEW: Dr. Scobell, you want to add anything?

DR. SCOBELL: I would add a dimension of this -- and I'd be interested in, my fellow panelists, whether they see this too -- but my concern is more that there's a suppression of different views.

And so it means that you tend to have a marginalization of think tanks in China. I mean, there's tremendous expertise on the U.S. and on a whole range of issues in think tanks across China.

But what I think we're seeing is a muzzling of those -- of alternate views and what you see emerging is an echo chamber, where anything about Xi Jinping or Belt and Road is -- that's what people write about, and it's more about platitudes than actual suggestions or critiques, you know, of what amounts to a loyal opposition of policy.

So what does that mean? It means, to me, it means that you're less likely to see changes or revisions in policies, and it's more cheerleading. China's think tanks function more in a cheerleading world, sadly. And that really -- the implications of that are quite serious, I think.

VICE CHAIRMAN BARTHOLOMEW: Dr. Brown, anything to add?

DR. BROWN: Yes, just I kind of think the Xi Jinping era is ironically an era of clarity. So we've got the answer to whether China wants to adopt Western political models. That's no. That's pretty clearly no.

Yes to commercial law, there's been improvements there. No to, you know, any other area of law. Yes to the Party being completely in control of politics. No to anyone else being able to go into political realms.

So people, you know, they do their business, but don't think that you can use that as a route for environmental activism or any of those as the route into politics. The Party has a monopoly there.

And I guess, you know, the messaging is, look, Beijing thinks it's tried to explain its message to the world, and the world hasn't got it, and so you get these fairly brutal moves where journalists are kind of chucked out.

And also the messaging of China abroad, I think, has become more categorical, because I think at the root there is this clarity. What does that mean? I guess, the whole engagement now is that they basically think it is a kind of creation of a dual world, in a way.

You know, we're moving from a bungalow into a two-story house, right? I mean, you know? And most accidents happen on the stairs. So this is where we are, you know?

And because China is such a significant economic and geopolitical player and a fifth of humanity, we've got to kind of supply that upper story, right? I mean, there's nowhere else for them to go, right? They've got to have their own story.

And so I think this is going to be a kind of huge change to the global architecture of decision-making. There will be duality from now on, in all areas, from journalism to, you know, business. Everywhere.

VICE CHAIRMAN BARTHOLOMEW: So, Dr. Brown, I mean the duality, I can certainly understand them. I guess my concern, of course, about the journalists' access and academic access and all of that is that it ends up not being -- well, I suppose it's a duality of one sort, but it's really China's view that is being pushed forward.

Dr. Saich, I just would note that we have, for a number of years in this Commission, actually expressed concern about what kind of analysis American researchers and scholars will be able to do when we know that people who think critically are not allowed in.

I mean, there's a generation -- of course, Perry Link and Andy Nathan -- a generation of people who are no longer allowed in to do any sort of research.

But there's a new generation, several new generations, of younger researchers who, I think, understand that if they're going to be able to get access to do their research, they are going to have to toe a Party line. And that's a dilemma for our policy-makers, too.

But anyway, very interesting. Great metaphor on the moving from a bungalow to a two-story house.

Thank you very much to all of our witnesses. We very well may come back to you with more questions and more thoughts. On that note, we're going to take a break until 11:55. Five minutes to noon, we'll come back and start with the next panel. Thank you, gentlemen, for your participation.

(Whereupon, the above-entitled matter went off the record at 11:44 a.m. and resumed at 11:57 a.m.)

## **PANEL II INTRODUCTION BY CHAIRMAN ROBIN CLEVELAND**

VICE CHAIRMAN BARTHOLOMEW: Yes. Robin, go ahead.

CHAIRMAN CLEVELAND: All right. I would like to welcome our second panel today which will look at China's current capabilities and challenges and its approach to foreign policy, security and economics.

Our first expert speaking on the panel is Andrew Small, Senior Transatlantic Fellow with the Asia program at the German Marshall Fund of the United States and non-resident Senior Policy Fellow at the European Council on Foreign Relations.

He also holds a visiting fellowship at the Australian National University's National Security College. Mr. Small is the author of the *China-Pakistan Axis: Asia's New Geopolitics*.

We will then hear from Joel Wuthnow, Senior Research Fellow in the Center for the Study of Chinese Military Affairs within the Institute for National Strategic Studies at NDU.

Prior to joining the National Defense University, Dr. Wuthnow was a China Analyst at the Center for Naval Analysis, a post-doc fellow in the China and the World Program at Princeton and a pre-doc fellow at the Brookings Institution. He is the author of *Chinese Diplomacy and the UN Security Council*.

Finally, we'll hear from Dexter Roberts, Nonresident Senior Fellow at the Atlantic Council Asia Security Initiative and a Fellow at the Maureen and Mike Mansfield Center, Adjunct Instructor in the Political Science at the University of Montana.

Mr. Roberts was China Bureau Chief and Asian News Editor of Bloomberg Business Week based in Beijing for more than two decades. He has reported from all of China's provinces and is the author of *The Myth of Chinese Capitalism: The Worker, The Factory, and the Future of the World*.

I would like to remind witnesses to please keep your comments to seven minutes because as we've demonstrated this morning, we ask a lot of questions.

Your testimony was terrific and so if we could start with Mr. Small.

## **OPENING STATEMENT OF ANDREW SMALL, SENIOR TRANSATLANTIC FELLOW WITH THE ASIA PROGRAM AT THE GERMAN MARSHALL FUND OF THE UNITED STATES**

MR. SMALL: Thank you very much, Madame Chair. I'm grateful for the opportunity to testify before the Commission again.

So there was a lot of debate during the early days of the COVID pandemic about whether China would make strategic gains as a result.

My sense is that there was a genuine opportunity for Beijing at least for major damage limitation.

If it had approached these last few months in a similar way to the financial crisis say, I think, there were plenty of countries willing to put geopolitics and blame aside and just quietly work with China to deal with the immediate health and economic crisis. Of course, that's not what happened.

Instead, we saw a highly politicized approach to the provision of medical equipment, intensification of Chinese military assertiveness in its periphery with India, probably the worst-case, serial threats of the economic coercion with Australia, in that instance, probably the most egregious example. And all of this wrapped up in the "Wolf Warrior" diplomatic aggression that I think was shocking to some countries even in its own right. Vice Chair Bartholomew ran through an even longer list at the top of the hearing.

In these circumstances, whatever PPE China managed to supply, it would frankly have been a miracle if it had not taken reputational damage in a wide range of environments and indeed it has.

The dispositive factors have varied.

The Ladakh situation for India, the treatment of African nationals in Guangzhou for Nigeria, Hong Kong and the propaganda and information activities for much of Europe, but the net effect now and as we've seen, is very clear from opinion polls and from talking to policy makers and in a range of different regions.

Broadly speaking we're seeing a far more comprehensive rethink of countries' approach to China than was underway before the pandemic. In some cases, this just accelerates existing trends.

One of the biggest shifts is what I characterize as the move from China as broadsheet issue to China as tabloid issue in terms of the attention levels and scrutiny it faces. China isn't just a policy or a business matter anymore in various environments. It's becoming tensely political.

And as reflected in the range of press coverage we're seeing in various countries, in everything from Xinjiang to faulty medical equipment. And it translates into the growing number of politicians who are taking China more seriously and want to make sure that they're on the right side of an issue where they can see the political tide turning.

If we look at what's gone on in say Germany or the UK in recent months, the decisions on 5G and other areas have been driven as much by Members of Parliament as by governments themselves. And Beijing is much less nimble at navigating this kind of democratic politics than it is in doing coastal deals.

But it's not just a matter of accelerating these existing trends. First, the sheer number of fronts that China has opened up, and that means that countries are far less inclined to see what's happening with China, primarily in bilateral terms anymore.

That's something they just need to fix with Beijing. It's changed the appetite for China coalition building in a pretty fundamental way and all of the new proposals that we're hearing from the D-10 through all sorts of minilateral gatherings that we're seeing as a result of this is really just the first step.

Secondly, it's posed reliability questions for China that were not there on the same scale before. The most obvious place this is showing up is on the supply chain issues where some countries such as Japan already have plans in motion, but also in context such as India's Chinese app ban or the heightened investment screening restrictions that countries have turned up during the crisis.

It's a rethink about the level of economic intertwinement with China that makes sense now as long as China is going to politicize or weaponize its position to the degree that we're now seeing. So the hits that Beijing is taking are not necessarily just short-term fixable ones.

This represents a longer-term rebalancing of China's external environment. The landscape for Chinese technology firms, the efforts to move away from certain forms of economic dependency on China and so on.

If that's the story for a pretty extensive list now of U.S. democratic friends and allies, there's clearly a more complex picture in other parts of the developing world. Particularly as a result of the debt situation.

The Belt and Road is really at now the epicenter of the emphasis based in the developing world which the chairman of CITIC's board of supervisors described as the biggest challenge faced by the BRI since its creation. Even if we take Chinese officials' own statistics, which we might doubt, the BRI has been significantly hit by the pandemic already.

Chinese government claims that 60 percent of the projects have been affected, 20 percent seriously, and clearly there are projects that simply look less viable given the new economic situation that's emerging.

The debt question goes well beyond the fate of specific projects. China did join the G-20 debt suspension initiative, but has since kept its negotiations with countries very bilateral and very opaque. The result of that is that countries are dealing not just with the China-related debt problems themselves, but the fact that other creditors, whether government or private sector, are reluctant to reach new terms until they have clarity on what's been agreed with Beijing and made sure that they're not bailing out Chinese lending institutions.

The effect that this is to leave countries not just in an economically vulnerable position, but in a politically delicate position in their dealings with China too.

We've seen a lot of caution from governments, even amid growing media and civil society criticism of the situation that Chinese BRI lending has left them in. You only need to look at the language from the China-Africa Summit in June to see that in practice.

And Beijing even has the capacity to keep certain countries that are skeptical of the BRI off balance at the moment. I cite in the written testimony, the example of the Maldives, a major case of debt distress, where China offered to suspend payment of a portion of the debts for four years and then left the rest of them subject to further talks, keeping the government there kind of politically on its toes despite its very highly critical view of the BRI projects that its predecessor had taken on.

In general, I think the future of the BRI is quite delicately poised at the moment. China basically has to figure out terms with countries that can't repay, but it can do so either in a way that cools the issue politically which involves a lot of write downs and rollovers or it can do so in a way that protects Beijing's bilateral leverage in various ways, but really does risk serious

backlash if China's seen to be excessively extractive or if it seemed to be a road block to a wider debt relief deal as the economic situation in these countries worsens further.

At the moment, Beijing is kind of trying to straddle these two paths, but we're getting close to a crunch time in the coming months and over the next year. The final category the written testimony looks at is a relatively short "Friends of China" list. And there I would argue that we've seen in certain respects, some moving beyond prior inhibitions on China's part.

Take a couple of examples, China had previously been very cautious in the China-Pakistan economic corridor about investments in Kashmir. It's just moved ahead with a new cluster of projects there in recent months.

Beijing had been cautious about its level of coordination on information activities with Russia. Recently though we've seen not just the Chinese adoption of Russian tactics through the pandemic, but also mutual magnification of messages.

For the U.S. then, I think the implications are three-fold and I'll round off here. I think the U.S. should be ready to deal with a kind of hug your friends closer approach from China in places such as Pakistan and Cambodia that allows economically the development of military facilities or in other areas.

They should prepare to operate in a landscape in the developing world that's only going to grow more competitive with China. As Beijing faces a squeeze in the advanced industrial economies, it matters even more that it preserves its position in emerging markets and holds onto its diplomatic support in Africa, the Middle East and elsewhere.

The BRI debt situation will have mixed implications. On the one hand increasing countries' skepticism about the whole initiative on the other hand, leaving them even more dependent on China and politically cautious in the meantime which makes it all the more urgent to coordinate and provide in countries with viable alternatives to Chinese finance and Chinese markets.

And the final point, most importantly, there are substantially greater opportunities for U.S. cooperation with democratic allies on China next year. I lay out a long list of areas in the written testimony, from subsidies to industrial policy to Taiwan where those prospects have seriously improved.

And this has to be seen not just at a government to government level, but also in closer coordination between Congress and the legislators around the world that are increasingly driving this agenda.

I won't pretend this will be straight forward or that these are perfectly aligned, but there is at least a real willingness to try, and China's behavior in the last few months has given these efforts considerable additional momentum. Thank you.

**PREPARED STATEMENT OF ANDREW SMALL, SENIOR TRANSATLANTIC  
FELLOW WITH THE ASIA PROGRAM AT THE GERMAN MARSHALL FUND OF  
THE UNITED STATES**

**U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

**Hearing on "U.S.-China Relations in 2020:  
Enduring Problems and Emerging Challenges"**

**Wednesday, September 9**

**Testimony by Andrew Small, Senior Transatlantic Fellow,  
the German Marshall Fund of the United States**

The COVID-19 pandemic represents another inflection point for China's geo-strategic position, bearing comparison with the global financial crisis and its aftermath. Beijing's behavior and the international response to it, however, are markedly different from a decade earlier. The post-2008 period saw the take-off in Chinese assertiveness that has continued, in escalating forms, to the present day. But it also entrenched China's global reputation as a source of economic stability when the chips were down. In addition to Beijing's constructive handling of the financial crisis itself and the sovereign debt crises that followed, its domestic stimulus ensured that the Chinese market remained an engine of growth amid downturns elsewhere, while China's willingness to provide financing and investment was a source of relief from the austerity pressures many governments faced. Although China was certainly seen as benefiting from the crisis, it was not seen as exploiting it. The effect was to reinforce the perception that Beijing would advance its revisionist interests slice-by-slice rather than in a destabilizing fashion, particularly when the global system faced major shocks.

The contrast with China's handling of the COVID-19 pandemic is stark. Beijing's belligerent diplomatic, economic and military behavior throughout the crisis has been apparent on a striking number of fronts. Its politicization of the provision of medical supplies has engendered considerable resentment, particularly given that the Chinese government is widely perceived as culpable for the failure to contain the original outbreak. In many cases, Chinese debts are now seen as a major part of countries' economic troubles, particularly given that Beijing's opaque, highly bilateral approach to negotiations has inhibited their ability to gain relief from other lenders.

These developments have served to raise the salience, profile and urgency of China policy in a wide range of countries, a level of additional scrutiny and political focus that has not worked to Beijing's advantage. There is a major reassessment underway in many capitals about all facets of their relationship with China, and the forms of cooperation with other partners that will be required to deal with the challenge. While the short-term impact to Chinese interests has already been damaging on matters ranging from 5G decisions to Chinese app bans, the changing political tide in such a wide array of countries is likely to result in more serious lasting consequences.



The picture is not entirely uniform. In a small number of cases, such as Italy, some polls indicate that public opinion shifted in Beijing's favor as a result of its "mask diplomacy"<sup>1</sup>. China's early economic recovery again makes its market an important source of revenue for export sectors that are otherwise taking a hit<sup>2</sup>. Beijing has already reached a few initial settlements in its Belt and Road Initiative (BRI) negotiations, as well as providing new financing streams in countries such as Pakistan. Developing countries that are economically beholden to China are treading carefully in their handling of Beijing, however unhappy they may be about their debt situation. Moreover, even where some of the most dramatic recent shifts in thinking on China are underway, this is not translating into an appetite for open confrontation.

Yet even with these caveats, 2020 has represented a setback for Chinese diplomacy and China's global interests. It sets the stage for US coalition-building efforts next year at a qualitatively different level than would have been possible before the crisis.

### The battle of narratives

Early in the lifetime of the pandemic, preliminary analysis suggested that China was poised to make diplomatic gains as a result of Beijing's provision of the "global public goods" needed to address it, particularly given the near-absence of a U.S. role in addressing the crisis<sup>3</sup>. Even then, this underplayed the degree to which China was operating on the back foot given its "original sin" in failing to contain the outbreak, and the widespread attribution of this failure to the functioning of the Chinese political system under Xi Jinping's leadership. Contrasts in the international media were also drawn with the successes of China's neighbors, not least including Taiwan, who did vastly more effective jobs with far less disruption to societal and economic life.

As the pandemic spread, therefore, China did not adopt the kind of humble, *mea culpa*, damage-limitation approach of constructive behind-the-scenes support that might have mitigated the global fallout. It rather decided to fuse its provision of medical supplies with aggressive propaganda and disinformation campaigns in defense of China's political system. Supplies of medical equipment were highly publicized, and frequently portrayed as donations rather than purchases. Beijing demanded that countries thank

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<sup>1</sup> The picture is complex, however. For a summary of various polls in Italy, see "Italians eye China with favour, new poll shows", *Formiche*, June 2020: <https://formiche.net/2020/06/italians-eye-china-favour-new-poll-shows/>

<sup>2</sup> See e.g. "VW hails speed of car sales recovery in China", *Financial Times*, Joe Miller, May 6 2020: <https://www.ft.com/content/a9e8b5a4-20c0-4286-8390-57412292221e>

<sup>3</sup> See e.g. "The Coronavirus Could Reshape Global Order", *Foreign Affairs*, Kurt M. Campbell and Rush Doshi, March 18, 2020, <https://www.foreignaffairs.com/articles/china/2020-03-18/coronavirus-could-reshape-global-order>

them, while capitals that took political lines that China disliked were subjected to threats that their access to these essential goods would be curtailed. Chinese officials and media outlets also launched open political attacks on democratic governments and institutions, and spread disinformation about the origins of the virus.

Even friendly countries were subjected to political pressures to ensure that their approach to the pandemic was subordinated to the service of Beijing's narrative, such as demands on Pakistan not to evacuate its nationals and to maintain access for flights from China<sup>4</sup>. The discriminatory treatment of African nationals in Guangzhou drew protests from a number of China's most important partners on the continent<sup>5</sup>. There was also a mixed picture when it came to the quality of Chinese supplies and the receptivity towards Beijing's "assistance", from the repeated cases of faulty Chinese equipment to the pushback in countries such as Nigeria to the arrival of Chinese doctors<sup>6</sup>. Far from seeing China as a provider of global public goods, the debate in many countries turned towards questioning whether the very reliance on China as a supply hub needed to be revisited.

But if Beijing's behavior had been limited to the politicization of the pandemic itself, it might at least have been possible for countries to attribute this to a temporary bout of defensive prickliness from an embattled Chinese Communist Party. It has been China's decision to increase its military, economic and political pressure on a range of fronts, rather than pausing to enable countries to focus on the health crisis and its economic fallout, that has changed the picture more dramatically<sup>7</sup>. In some instances, this has just been the continuation or modest escalation of past Chinese practices, including the sinking of a Vietnamese fishing boat and the tagging of a Malaysian drill ship, airspace violations over Taiwan, military activities around the Senkaku islands, and the naming of geographic features in the South and East China Seas. In other cases, Beijing has

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<sup>4</sup> See e.g. "Many countries are trying to evacuate citizens from China. Pakistan is not.", *Washington Post*, February 8, 2020: [https://www.washingtonpost.com/world/asia\\_pacific/many-countries-are-trying-to-evacuate-citizens-from-china-pakistan-says-theirs-are-better-off-there/2020/02/07/e128c37c-48ea-11ea-8a1f-de1597be6cbc\\_story.html](https://www.washingtonpost.com/world/asia_pacific/many-countries-are-trying-to-evacuate-citizens-from-china-pakistan-says-theirs-are-better-off-there/2020/02/07/e128c37c-48ea-11ea-8a1f-de1597be6cbc_story.html)

<sup>5</sup> "African diplomats protest alleged racism and inhumane treatment of migrants in China", *Globe and Mail*, April 12, 2020: <https://www.theglobeandmail.com/world/article-african-diplomats-protest-alleged-racism-and-inhumane-treatment-of/>

<sup>6</sup> "Coronavirus: Countries reject Chinese-made equipment", *BBC*, March 30 2020: <https://www.bbc.com/news/world-europe-52092395>; "COVID-19: Nigerian doctors oppose Chinese team's visit Spike in coronavirus cases, deaths in Italy coincided with arrival of Chinese team, says Nigerian Medical Association, April 6, 2020, *AA*: <https://www.aa.com.tr/en/africa/covid-19-nigerian-doctors-oppose-chinese-teams-visit/1794073>

<sup>7</sup> For a summary see e.g. "China Is Done Biding Its Time The End of Beijing's Foreign Policy Restraint?" *Foreign Affairs*, Kurt M. Campbell, Mira Rapp-Hooper, July 15, 2020 <https://www.foreignaffairs.com/articles/china/2020-07-15/china-done-biding-its-time>

undertaken steps of a more escalatory nature, including a major mobilization along the disputed border with India, in which one altercation resulted in the deaths of 20 Indian soldiers; the coercive economic measures directed at Australia, following its calls for an enquiry into the origins of the pandemic; and new territorial claims in Bhutan. China's imposition of a national security law on Hong Kong also had considerable resonance beyond its immediate implications in the territory, given its clear undermining of Chinese treaty commitments, the extra-territorial scope of the legislation, and the visible rollback of political freedoms in one of the world's leading cities.

There has also been considerable fallout for the BRI. Previous hearings examined the political pushback against the initiative, and the tapering back of new Chinese financing. Now the BRI is at the epicenter of the developing world's debt struggles. In the past, this would largely have been the purview of the Paris Club and the International Financial Institutions but, given its surge in lending over the last decade, China now occupies a far more central role<sup>8</sup>. Beijing was a relatively reluctant participant in the G20 Debt Service Suspension Initiative (DSSI), and continues to operate at arms-length remove from efforts to reach a more comprehensive settlement. China is the largest official bilateral lender for 49 of the 68 low-income countries included in the World Bank's DSSI data.<sup>9</sup> By dealing with debt renegotiations in a bilateral and opaque fashion it creates clear obstacles to agreements with other creditors, even in cases when Beijing itself has been willing to offer deals. Other lenders, including the private sector financiers whose holdings of developing world debt have increased considerably, are reluctant to reach terms until there is clarity about China's position, and there is considerable aversion to any *de facto* bailout of Chinese lending institutions. There have also been concerns that Beijing will seek to benefit in cases where underlying assets - such as mines - have been included as collateral in loans, such as in Zambia (though it should be noted that speculation of this sort has rarely been substantiated in the past).<sup>10</sup> China claims to have already reached agreements with ten of the twenty least-developed countries, and in certain cases has increased its lending during the crisis, with the China Pakistan Economic Corridor (CPEC) one such notable case<sup>11</sup>.

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<sup>8</sup> "China's overseas lending and the looming developing country debt crisis", *VoxEU*, Sebastian Horn, Carmen Reinhart, Christoph Trebesch, 4 May 2020: <https://voxeu.org/article/china-s-overseas-lending-and-looming-developing-country-debt-crisis>

<sup>9</sup> "Maldives at high risk of debt distress from China: World Bank", *South Asia Monitor*, June 27 2020, <https://southasiamonitor.org/china-watch/maldives-high-risk-debt-distress-china-world-bank>

<sup>10</sup> "As Africa Groans Under Debt, It Casts Wary Eye at China", *Wall Street Journal* Joe Parkinson, James T Areddy and Nicholas Bariyo, April 17, 2020: <https://www.wsj.com/articles/as-africa-groans-under-debt-it-casts-wary-eye-at-china-11587115804>

<sup>11</sup> "China strikes debt deals with poor nations under G20 scheme", *Financial Times*, Camilla Hodgson, August 30, 2020 <https://www.ft.com/content/6900c595-151b-4cfd-90bb-0be9967b7999>

It is probable that Beijing will reach arrangements for debt rollovers with a longer list of countries in the coming period, simply out of necessity given the dire economic situation many of them face. But the manner in which China is making these deals continues to maintain its leverage. The Maldives, for instance, has seen a partial suspension of its debt repayments to China for four years, but a substantial tranche will only be dealt with in further negotiations<sup>12</sup>. Particularly during a period of such vulnerability, countries will feel pressure to be accommodating to China in other areas while the debt issue hangs over them. In some cases this may involve decisions relating to the BRI itself. Even before the pandemic, China was already rebalancing the initiative towards higher priority areas such as digital infrastructure, and some of Beijing's "Health Silk Road" activities have been designed to augment this agenda<sup>13</sup>. Straitened economic conditions are liable to make countries more obliging towards it than they might wish to be.

Yet there is no question that the BRI has taken a hit this year, as Chinese sources acknowledge. The Caixin Belt and Road activity index shows a sharp fall this year. Chinese officials have stated that as much as 60% of its BRI projects have been affected by the pandemic, 20% of them "seriously"<sup>14</sup>. An article by the chairman of CITIC Group's board of supervisors, Zhu Xiaohuang and Zhang Anyuan, the Chief Economist of CSC Financial, describes the debt repayment crisis as "the biggest challenge faced by BRI since its creation."<sup>15</sup> Moreover, Beijing will also have to revisit the viability of a number of projects that were conceived in a very different economic landscape, while the overall situation leaves China open to substantial political criticism in the countries concerned. While we have not yet seen serious collective efforts among indebted countries to coordinate their approaches, let alone deal with China in blocs, the pressure to do so is liable to build as the debt crisis worsens.

## The changing politics of China policy

In one way, China's behavior through the pandemic has only served to accelerate existing trends. Concerns about various forms of Chinese military, economic and

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<sup>12</sup> "China to suspend debt repayment for four years: President Solih", *the Edition*, Mariyam Malsa, June 24, 2020: <https://edition.mv/news/17454>

<sup>13</sup> See e.g. "China's Digital Silk Road after the Coronavirus", CSIS, Jude Blanchette, Jonathan Hillman, April 13, 2020: <https://www.csis.org/analysis/chinas-digital-silk-road-after-coronavirus>

<sup>14</sup> "China says one-fifth of Belt and Road projects 'seriously affected' by pandemic", *Reuters*, June 19, 2020: <https://www.reuters.com/article/us-health-coronavirus-china-silkroad/china-says-one-fifth-of-belt-and-road-projects-seriously-affected-by-pandemic-idUSKBN23Q0I1>

<sup>15</sup> For a good summary of a number of Chinese sources, see: "How will China handle multiple debt repayment crises?" Ma Tianjie, June 21, 2020: <https://pandapawdragonclaw.blog/2020/06/21/how-will-china-handle-multiple-debt-repayment-crises>

diplomatic assertiveness were already prevalent. Public opinion had moved sharply against China in a number of countries. The risks of debt distress and the problematic consequences of China's non-transparent lending practices had been consistently flagged by the IMF and the World Bank, while the political pushback against the BRI in an assortment of regions has been underway for years. But the current context is very different. Going back to the Asian financial crisis, China had earned a reputation as a source of relative stability during times of shock to the international system, which was augmented during the global financial crisis over a decade later. That reputation has now been shredded. Even countries that have not themselves been subjected to coercive Chinese economic and military measures during the pandemic, or been on the long list of actors that China threatened with them, have reacted against Beijing's behavior. It is one thing to issue warnings around a very tightly defined list of "core interests"; now Beijing threatens the same measures against countries that do not want to include Chinese suppliers in their telecoms infrastructure or that demand an enquiry into the origins of a global pandemic. Equally, while curtailing rare earth supplies in the context of a bilateral dispute is problematic, politicizing or even weaponizing your position as a medical supply hub during a health crisis of this magnitude creates more fundamental doubts about China's reliability.

The pandemic has also seen China cross a threshold in terms of the scale and nature of the coverage it receives, its standing in opinion polls, and the political ramifications that follow from this. In Europe, for instance, China has effectively shifted from being just a "broadsheet" issue to becoming a "tabloid" issue too. Daily stories about Hong Kong, Xinjiang, threats from Chinese ambassadors, faulty personal protective equipment, cover-ups in Wuhan, and other subjects are now as much a matter for *Bild* and the *Daily Mail* as they are the *Financial Times* and the *Frankfurter Allgemeine Zeitung*. This was already in motion as a result of the Huawei debates, which raised the profile of China-related questions not only as foreign policy or business issues but also as domestic security, privacy, and values issues.

Polling conducted during the pandemic indicates that China's situation has deteriorated sharply: 48% of Europeans surveyed in a multi-country poll by the European Council on Foreign Relations say their view of China has worsened during the crisis, with only 12% saying it has improved.<sup>16</sup> Some of the highest numbers - 62% in France, for example - are from countries that have been subjected to some of the most egregious "Wolf Warrior" treatment. This changing political mood is imposing a new set of constraints on decisions even for governments that had been inclined to continue with business as usual. The resolution of the 5G debates in Germany and the UK, for instance, has been

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<sup>16</sup> "China, Europe, and COVID-19 Headwinds", European Council on Foreign Relations, Janka Oertel, July 20, 2020: [https://www.ecfr.eu/article/commentary\\_china\\_europe\\_and\\_covid\\_19\\_headwinds](https://www.ecfr.eu/article/commentary_china_europe_and_covid_19_headwinds)

determined less by Downing Street and the Chancellery as by members of parliament, who have prevented the German government from moving ahead with its preferred plan and forced a reversal in the UK government's position. Politicians in a number of European countries no longer see the handling of the relationship with China reflecting the interests and values that it should, particularly given the nature of the regime under Xi Jinping. But a number of them are also simply savvy enough to see the political tide turning on China and want to make sure they are on the right side of an issue that they only see acquiring greater salience in the years ahead. As the EU's High Representative for Foreign Policy and Security Policy states in an article that notes China's move from being "assertive" to being "aggressive", "China has undoubtedly become more powerful, but also somewhat friendless"<sup>17</sup>. In addition to the setbacks China is facing in Europe, the shifting consensus in New Delhi as a result of Beijing's handling of the situation in Ladakh is perhaps the most consequential and damaging development for China's long-term interests. It is clear that China has achieved certain tactical gains at its disputed border with India. But this comes at the expense of what Indian policymakers describe as a complete loss of trust, which will result in a significant shift in the country's policy towards China.

Perhaps the most striking short-term consequences in both Europe and India have been in the digital space. A year ago, Beijing was still relatively confident about consolidating its position in the largest developing market - India - as well as the largest advanced market - Europe - despite the challenges it was facing in the United States, Japan, and Australia. 5G decisions were still largely coming out in an acceptable place, while India was the single major non-Chinese market for many consumer-facing applications as well as a focal point for Chinese tech finance and collaboration. In addition to the growing number of Huawei phase-outs that China is now facing, the Indian government decision to ban a lengthening list of Chinese mobile apps, as well as tightening its approach to inbound investments, is a significant step in the rebalancing of China's prospects in the emerging technology competition. The U.S. squeeze, particularly on semiconductors, is playing a critical role in the process too - and this was the reason cited by the British government for its own Huawei ban - but similar decisions would have been reached even without it.

## Policy responses

Nonetheless, we are still in the early stages of the China rethink that is underway in many capitals. A comprehensive stock-take is only likely to be possible after the results of the US elections in November provide greater clarity as to what kind of strategy and

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<sup>17</sup> "China, the United States and us", EEAS, Josep Borrell, July 31 2020: [https://eeas.europa.eu/headquarters/headquarters-homepage/83644/china-united-states-and-us\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/83644/china-united-states-and-us_en)

partnership in dealing with China can realistically be expected from Washington. But the direction of flow is already clear in several areas. Many countries are already revisiting their approach to certain forms of economic dependency on China, especially their supply chains. The Japanese government announced its own scheme to provide financing to companies to move their production out of China, and has launched an initiative to ensure the resilience of supply chains in the Indo-Pacific with India and Australia<sup>18</sup>. The EU is undertaking its own review of these issues, and has already launched an action plan for critical raw materials, with Chinese-sourced imports one of the major focal points<sup>19</sup>. The UK government, through “Project Defend” is making plans to reduce the country’s reliance on China for vital medical supplies and other strategic imports, as well as identifying other economic vulnerabilities to potentially hostile foreign governments<sup>20</sup>.

The relative balance of openness of many economies to Chinese investments, technology, influence and information activities was shifting before the pandemic but there is now even greater urgency, with many governments concerned to avoid a repeat of the post-financial crisis situation that saw Chinese acquisitions of a number of strategic assets. The EU announced new proposals for instruments to target Chinese subsidies that goes beyond even measures that the United States undertakes, including the use of the EU’s powerful competition policy instrument.<sup>21</sup> There is also a toughening approach to some of the matters of the highest sensitivity for China - Xinjiang, Hong Kong and Taiwan - perhaps best exemplified during Wang Yi’s recent visit to Europe, which saw the second-highest-ranking Czech official visiting Taiwan, formerly friendly figures such as the Italian foreign minister publicly raising concerns about Hong Kong, and both the Xinjiang and Hong Kong issues becoming a repeated focus in press conferences and bilateral meetings. The material consequences have so far been limited, with most governments still focusing on support to Hong Kong citizens rather than sanctions, for instance. But the change in tone and diplomatic approach is laying the

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<sup>18</sup> “Japan helps 87 companies to break from China after pandemic exposed overreliance”, *Washington Post*, Simon Denyer, July 21, 2020: [https://www.washingtonpost.com/world/asia\\_pacific/japan-helps-87-companies-to-exit-china-after-pandemic-exposed-overreliance/2020/07/21/4889abd2-cb2f-11ea-99b0-8426e26d203b\\_story.html](https://www.washingtonpost.com/world/asia_pacific/japan-helps-87-companies-to-exit-china-after-pandemic-exposed-overreliance/2020/07/21/4889abd2-cb2f-11ea-99b0-8426e26d203b_story.html) “Japan, Australia and India to Launch Supply Chain Initiative”, *Bloomberg*, September 1, 2020:

<https://www.bloomberg.com/news/articles/2020-09-01/japan-australia-and-india-to-discuss-supply-chains-alliance>

<sup>19</sup> “EU sounds alarm on critical raw materials shortages”, *Financial Times*, Michael Peel, Henry Sanderson, August 31, 2020: <https://www.ft.com/content/8f153358-810e-42b3-a529-a5a6d0f2077f>

<sup>20</sup> UK PM Johnson orders for plans to end reliance on Chinese imports, *Reuters*, May 22, 2020: <https://www.reuters.com/article/us-health-coronavirus-britain-china/uk-pm-johnson-orders-for-plans-to-end-reliance-on-chinese-imports-the-times-idUSKBN22X2WA>

<sup>21</sup> “White Paper on levelling the playing field as regards foreign subsidies”, June 17, 2020, European Commission: [https://ec.europa.eu/competition/international/overview/foreign\\_subsidies\\_white\\_paper.pdf](https://ec.europa.eu/competition/international/overview/foreign_subsidies_white_paper.pdf)

groundwork for a less squeamish and harder-edged set of policies than would have been contemplated even a few months earlier.

The most important shifts though are not the individual measures pursued but the renewed impetus given to coalition-building efforts among countries to address the China challenge. The sheer number of fronts that Beijing has opened during the crisis has made countries less inclined to treat Chinese behavior as a bilateral matter. The UK has floated proposals for a D-10 grouping, an elevation of existing processes in this format among policy planners, to deal with issues such as industrial policy cooperation and support for 5G alternatives. The EU proposed - and the United States accepted - a new US-EU dialogue on China, which is also expected to address wider strategic economic and security questions as well as traditional foreign policy issues. A previously reluctant Germany has embraced the "Indo-Pacific" concept and is now spearheading, with France, efforts to move this agenda forward at an EU level, which will include an upgraded set of partnerships with Japan, India and Australia. For its part, India has signaled a different level of ambition in its economic, military and diplomatic partnerships with the major democracies, and has already moved ahead with steps such as new coordinated naval activities in the South China Sea and proposals for expanded cooperation on counter-BRI efforts. Many of these still-provisional plans are underpinned by heightened cooperation among legislators, with the establishment of the new Inter-Parliamentary Alliance on China, which pulls together members of parliament from Japan to Germany, the United States to Uganda, a notable development.

In general, the political landscape in many advanced economies, as well as critical powers such as India, is shifting in a problematic direction for China. But in much of the developing world, there are greater constraints induced by the economic situation. While most developed countries have the wherewithal to finance substantial stimulus packages and the resources to help fund everything from new industrial policy schemes to re-shoring initiatives, many developing countries are still dependent on outside creditors to see them through this difficult period, and China remains one of the most important. Despite considerable criticism in Nigeria, Zambia and Kenya over the BRI, as well as the protests of many African ambassadors over the Guangzhou incidents, Xi Jinping's meeting with African leaders in June stuck tightly to the usual script<sup>22</sup>.

There is a similar story in some of the more vulnerable South-East Asian and South Asian economies - indeed, ASEAN as a whole tipped above the EU to become China's

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<sup>22</sup> Joint Statement of the Extraordinary China-Africa Summit On Solidarity Against COVID-19, Ministry of Foreign Affairs of the People's Republic of China, June 17, 2020: [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1789596.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1789596.shtml)



largest trading partner this year - while ties have deepened among some of China's closest friends<sup>23</sup>. Cambodian leader Hun Sen made a point of being the first foreign leader to visit China during the pandemic, and resisted pressure to impose a full or partial ban on Chinese travelers. Laos and Angola appear to have been among the countries set to receive new debt deals, though the details of the agreements remain unclear<sup>24</sup>. Laos has ceded majority control of its electric grid to a Chinese firm amid its own debt struggles<sup>25</sup>. In Pakistan, the BRI flagship country, the two sides have moved to revive CPEC after more than two stalled years, with China providing financing for new hydro-electric dams and a major upgrade to the railway line from Karachi to Peshawar<sup>26</sup>. Russia's economic exposure to China has grown through the pandemic<sup>27</sup>. This pattern is likely to continue. As the political mood among much of the OECD shifts, China is likely to find itself thrown back more and more on the support of its developing world friends and near-allies, and its burgeoning partnership with Russia. It will also try to ensure that its critics in the developing world are at least restrained by their continued need for a good economic relations with Beijing.

Much as the partnerships among the advanced democracies are seeing some prior inhibitions falling away, so too for China and its friends. During the pandemic alone, we have seen an agreement signed with Cambodia for the use of a naval base, a considerable increase in the investments China is now willing to make in Kashmir under CPEC, and a striking degree of cooperation and coordination on information activities with Russia<sup>28</sup>. There are evident limitations in the collective value to China of the cluster

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<sup>23</sup> "Asean replaces EU to be China's largest trading partner", *the Star*, April 15, 2020:

<https://www.thestar.com.my/news/regional/2020/04/15/asean-replaces-eu-to-be-chinas-largest-trading-partner>

<sup>24</sup> World Bank Group President David Malpass: Remarks for G20 Finance Ministers and Central Bank Governors Meeting, July 18, 2020: <https://www.worldbank.org/en/news/statement/2020/07/18/world-bank-group-president-david-malpass-remarks-at-the-g20-finance-ministers-and-central-bank-governors-meeting>

<sup>25</sup> Taking power - Chinese firm to run Laos electric grid amid default warnings, *Reuters*, September 4, 2020: <https://www.reuters.com/article/us-china-laos-exclusive/exclusive-taking-power-chinese-firm-to-run-laos-electric-grid-amid-default-warnings-idUSKBN25V14C>

<sup>26</sup> "Belt and Road Re-Emerges in Pakistan With Flurry of China Deals", *Bloomberg*, Faseeh Mangi, July 15, 2020: <https://www.bloomberg.com/news/articles/2020-07-15/belt-and-road-re-emerges-in-pakistan-with-flurry-of-china-deals>

<sup>27</sup> "Will the Pandemic Increase Russia's Economic Dependence on China?", Alexander Gabuev, Temur Umarov, Carnegie Moscow Center, July 8, 2020: <https://carnegie.ru/2020/07/08/will-pandemic-increase-russia-s-economic-dependence-on-china-pub-81893>

<sup>28</sup> "Deal for Naval Outpost in Cambodia Furthers China's Quest for Military Network", *Wall Street Journal*, Jeremy Page, Gordon Lubold and Rob Taylor, July 22, 2020: <https://www.wsj.com/articles/secret-deal-for-chinese-naval-outpost-in-cambodia-raises-u-s-fears-of-beijings-ambitions-11563732482>;

"Triad of Disinformation: How Russia, Iran, & China Ally in a Messaging War against America", Clint Watts, May 15, 2020 summarizes research in this area by the German Marshall Fund's Alliance for Securing

of countries at the core of this grouping, which - with the exception of Russia in the sphere of military technology - have limited scope to strengthen China's economic, financial or technological position in the near-to-medium term. But they provide considerable means to expand Beijing's security footprint, to marshal diplomatic support for China in international institutions, and a number of other political, intelligence and military benefits in specific regions.

### **Counterbalancing coalitions**

From the perspective of US China policy, the shifting geopolitical context presents considerable opportunities. The scope for heightened coalition building on China has rarely been greater. The language and tone will not necessarily match the direction that the Trump administration has taken - particularly in recent months - and there will continue to be disavowals from many capitals about avoiding "decoupling", "confrontation" and a "new Cold War" while preserving certain areas of cooperation with Beijing. Moreover, differences over matters ranging from tech regulation to the future of the WTO will still present obstacles to efforts to achieve a common front. But there is now growing convergence among a striking array of US partners on many of the fundamental concerns about Chinese non-market activities, its economic and military coercion, its technology practices in areas ranging from surveillance to data use, and its intensifying efforts to erode liberal democratic norms on a global scale. There is also an increasing understanding that this needs to be viewed in systemic terms and addressed with other like-minded countries, rather than as a discrete set of problems to be solved in piecemeal fashion with Beijing.

There will be relatively limited opportunity to advance this agenda until the dust has settled on the US elections in November. But beyond 2020 there will be the chance to build on, join, or launch China-related initiatives across a wide range of areas including: joint measures on Chinese subsidies; supply chain resilience; industrial policy coordination and mutual strengthening of the alternatives to Chinese technologies; connectivity finance; closer alignment on investment screening, export controls and Chinese technology acquisitions; heightened security cooperation between US allies in Asia and Europe; Xinjiang and Hong Kong-related measures; bolstering Taiwan's international position; taking China on in multilateral institutions; and countering Chinese influence and disinformation. This will involve an array of different actors, processes and institutions depending on the issue in play and the relative willingness of countries to take action. While there is discussion about variants of a new democratic club (such as the D-10), these efforts are likely to be conducted across a diffuse

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Democracy: <https://securingdemocracy.gmfus.org/triad-of-disinformation-how-russia-iran-china-ally-in-a-messaging-war-against-america/>

patchwork: the G7, the Five Eyes, the Quad, the US-EU-Japan trilateral, different transatlantic formats (US-EU, NATO), and more ad-hoc "go-ahead" groupings on specific topics. All of this would add to the already well-developed structures of US security cooperation among allies in Asia.

To take advantage of this will require an administration that is genuinely willing to prioritize a coalition-based strategy in dealing with Beijing. The U.S. network of partners and allies remains one of the biggest long-term advantages over China but leveraging that network will require an approach that integrates them into policymaking to a degree that has rarely been the case until now. The current US administration has made progress in coordinating with allies at a working level in some areas - such as investment screening rules - and ultimately scored a number of successes over 5G decisions. But it has been inherently limited. A more serious push would necessitate a considerably expanded level of information sharing in areas of shared interest, particularly in trade and economic matters (where this is far less common than with security partners); co-devising or, at a minimum, consulting with partners on significant policies ahead of time; and de-prioritizing differences and disputes with major allies in order to focus more effectively on higher salience concerns with China. Even prior to the Trump administration, this had not tended to characterize the U.S. approach to China policy, with most of the political energy being channeled into the vast architecture of dialogues and exchanges with Beijing rather than broad-based coordination efforts with democratic allies. China will not abandon its own efforts to prevent counterbalancing coalitions developing, as the unusual recent back-to-back visits to Europe by Wang Yi and Yang Jiechi - heavily focused on persuading Europeans not to join forces with the United States - demonstrate. But as long as Beijing is unwilling to make any serious progress in their areas of concern, and continues its aggressive diplomatic posture, these visits are tending to achieve the opposite effect<sup>29</sup>.

But if prospects for closer alignment among the advanced economies and other major US partners have improved, the context in the developing world is only growing more competitive. Despite the BUILD act, the Blue Dot Network, and related economic aspects of the Free and Open Indo-Pacific strategy, the United States continues to lag behind on the infrastructure and connectivity agenda that so many developing countries prioritize. Neither has Washington occupied a convincing leadership role in the developing world on the immediate issues of debt relief and pandemic-management, including the looming questions around vaccine distribution. Despite their skepticism about the BRI, countries in straitened economic conditions will continue to find themselves reluctantly

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<sup>29</sup> For a summary see: "China is trying to mend fences in Europe. It's not going well." *Washington Post*, Gerry Shih, September 2, 2020: [https://www.washingtonpost.com/world/asia\\_pacific/china-europe-relations-us/2020/09/02/63d963e0-ece1-11ea-bd08-1b10132b458f\\_story.html](https://www.washingtonpost.com/world/asia_pacific/china-europe-relations-us/2020/09/02/63d963e0-ece1-11ea-bd08-1b10132b458f_story.html)

turning to China in the absence of alternatives in these areas, whether it be medical support or debt finance. Even if Beijing is more financially constrained than during the take-off phase of the BRI, and has grown more cautious about project selection, China still comfortably has the means to support new investments and restructure debts, and has a well-demonstrated track record in taking advantage of an adverse economic climate when its money goes further than in normal conditions.<sup>30</sup>

The supply chain resilience agenda, and wider concern on countries' part to wean themselves away from economic dependence on China, does offer the chance to refresh both the offer to the developing world and the associated narrative. Any restructuring of global value chains will involve a modest degree of re-shoring. But in order to support a sufficiently robust network of alternative production hubs and diverse supplies of critical materials, the bulk of the effort by advanced economies will require capacity building, infrastructure financing, and improved trade and investment frameworks in regions ranging from Africa to Southeast Asia. A strengthened package for developing countries that spans development aid, market access, connectivity finance, health, and technology cooperation, pursued in cooperation with Europe, Japan, India, and other Asian allies, would go well beyond the traditional "compete with the BRI" story and do much to address doubts about the seriousness of U.S. commitments in this sphere.

China went into the international phase of the COVID-19 pandemic holding a weakened hand, given that it was always going to accrue much of the blame for the crisis. It has not played that hand well. Beijing can reap some benefits from the ability to squeeze countries that are struggling to cope with the fallout, as well as deepening ties with some of its closest friends. But a more magnanimous approach would have elicited a different response from the many states that wished to set geopolitics and ideological struggle aside and focus on dealing with the health and economic calamities besetting them. There was a real leadership vacuum, and if China had reprised the stabilizing role it played during the Great Recession and Europe's sovereign debt struggles, it could still have stabilized or even enhanced its geo-strategic position. Instead, its belligerent and politicized behavior is going to resonate well beyond the crisis in ways that are likely to prove far more costly than any benefits accrued from territorial advances in Ladakh or "Grazie, Cina!" videos.

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<sup>30</sup> "Booster or Brake? COVID and the Belt and Road Initiative", Rhodium Group, Agatha Kratz, Daniel H. Rosen, and Matthew Mingey April 15, 2020: <https://rhg.com/research/booster-or-brake-covid-and-the-belt-and-road-initiative/>

## **OPENING STATEMENT OF JOEL WUTHNOW, SENIOR RESEARCH FELLOW IN THE CENTER FOR THE STUDY OF CHINESE MILITARY AFFAIRS AT NATIONAL DEFENSE UNIVERSITY**

CHAIRMAN CLEVELAND: Thank you very much. Dr. Wuthnow?

DR. WUTHNOW: Well good afternoon Commissioners and thank you for the opportunity to be here.

2020 was a milestone year for the people's liberation army. For almost 25 years, Chinese leaders have regarded 2020 as a key date for military modernization. 2020 is also the designated end point for the major organizational reforms to the PLA launched under Xi Jinping five years ago.

The general attitude in China is that these goals are being delivered on time and in full. Of course, this is the case since building a military that can fight and win wars is an indelible part of Xi's legacy. Failure is not an option.

To prove the point that PLA rolled out a number of new capabilities in the last year, from advanced missiles like the DF-17 medium range ballistic missile with a hypersonic glide vehicle and the DF-26D anti-ship ballistic missile, the Type 075 amphibious assault ship.

These capabilities prove that Xi is delivering on his promises and suggests for both domestic and foreign audiences that the PLA is able to defend China's core interests. That includes the capability to enforce China's territorial claims, intimidate or even invade Taiwan, and deter or defeat U.S. intervention in a regional conflict.

2020 also saw the continuation of important reforms to the PLA. One of the big changes this year was an overhaul of the PLA's reserve force, which Chinese leaders hope to streamline.

What really stood out in 2020 though was not force development, but force employment. For the last five years, the PLA has been looking inwards trying to get the reforms right. This year the PLA resumed its focus outwards ramping up its operations in a number of ways.

First the PLA and the People's Armed Police increased their presence in and just across from Hong Kong as protests there spread last summer.

Beginning in January, the PLA and China's paramilitary services were on the front lines of a number of regional disputes, becoming even more active, not less so, as the COVID pandemic swept across China and the region.

Coercion was used to intimidate or press territorial claims with Taiwan, Japan, Vietnam, Malaysia, and India.

The PLA also had a number of unsafe encounters with U.S. forces in the South China Sea and the Western Pacific.

Chinese assertiveness is of course not a new thing, but there were two notable aspects of this use of force in 2020. First was a willingness to take on so many adversaries at the same time.

Usually China has taken on its rivals one at a time, but in 2020 we saw a kind of omnidirectional bullying against many states. Second, was the use of lethal force in the dust-up with India in June. That is a threshold that China hasn't crossed since at least 1988.

This episode proved that the PLA might not always be willing to stick to the gray zone or the level of conflict below deadly violence. At home, the PLA was also mobilized to deal with major problems.

Chinese troops were on the front lines of the COVID response in Wuhan. This marked the operational debut of the PLA's new Joint Logistics Support Force. Chinese media pointed

out that the logistics force performed well, especially in its ability to rapidly deliver troops and supplies to Wuhan.

The PLA was also called out to respond to epic floods as they hit Eastern China over the summer. In sum, what we saw in 2020 was various expressions of confidence.

Confidence in the PLA's own modernization and reform progress and confidence in its ability to act quickly and decisively at home and abroad.

But what if anything, is this confidence masking? One problem is that the PLA has been consistently behind its own reform schedule. There seems to be areas such as personnel reforms that haven't taken place, and it's unclear if they ever will.

There continue to be signs of corruption both in the PLA and in the defense industry. A new rule passed this year required outgoing senior officers to undergo financial audits. Not exactly a sign of trust in those senior leaders.

Much of the force, the part that generally is not displayed at patriotic parades is outdated. And the part that is displayed will have high maintenance costs over the coming decades. Those problems require money, but China's defense budget growth is slowing.

And if we look down the road at the PLA's mid-century goal of becoming a world-class military, the main problem is that the PLA is still very much a regional powerhouse. Its ability to conduct major operations far beyond Asia is limited by capabilities, experience and competing missions.

Moving up a level, events in 2020 also showcase a major weakness in China's grand strategy. The main focus of China's strategy in the region is to weaken the U.S. alliance and partnership network through charm offenses and renminbi diplomacy.

Chinese analysts, for instance, see the Belt and Road initiative as a useful counter to the U.S. Free and Open Indo-Pacific Strategy. The PLA also participates in this through friendly exercises, port calls and so on.

However, antagonizing countries in Southeast Asia and especially major rivals like Japan and India, which are pillars of the U.S. strategy, is actually driving those countries closer to the United States and closer to each other.

In fact, I'd argue that 2020 was a lost opportunity for China in the region. Despite its much-publicized mask diplomacy, China failed to score a big diplomatic win versus the United States because of competing pressures in their system to ratchet up tensions with neighbors.

So what does all of this mean for the United States? On one hand, the PLA is increasingly confident and going to challenge our operations in the Indo-Pacific. Some of the new systems like the DF-17 are particularly worrisome.

The reformed PLA will ultimately be more effective in prosecuting high end joint operations which has historically been one of its major weaknesses. On the other hand, the PLA faces various constraints that could hamper higher-end operations.

And China's continuing missteps in regional disputes provide us with opportunities to strengthen our major competitive advantage in the region, which is our alliances and partnerships.

In my written testimony I offered four specific ideas to what Congress and the USCC can seek and do about this. First, is to commission another report on PLA weaknesses.

Our strategy needs to not only address China's strength, but to also define ways to exploit its vulnerabilities and new research on this front would fill an important gap.

Second, is to look at where there might be opportunities to improve U.S. defense relations in the Indo-Pacific notably in light of China's recent assertiveness.

Third, is to encourage the Department of Defense to conduct a "bottom up review" review of our military relations with China. Given increasing tensions with China, this is an area where we need to think critically about what engagements with the PLA can and cannot achieve.

Fourth, is promoting open source research on China. For various reasons, access to key Chinese and PLA materials is becoming more difficult. Specifically, our community of China and PLA researchers would benefit from a resumption of the Open Source Enterprise which provides translations of key Chinese documents. And that, I think, could be accomplished at a very low cost.

Well, thank you once again for the chance to speak on these issues and I look forward to your questions.

**PREPARED STATEMENT OF JOEL WUTHNOW, SENIOR RESEARCH FELLOW IN  
THE CENTER FOR THE STUDY OF CHINESE MILITARY AFFAIRS AT NATIONAL  
DEFENSE UNIVERSITY**



## **Projecting Strength in a Time of Uncertainty: China's Military in 2020**

Joel Wuthnow, Ph.D.  
Senior Research Fellow  
Center for the Study of Chinese Military Affairs  
Institute for National Strategic Studies  
National Defense University

Testimony before the U.S.-China Economic and Security Review Commission

Hearing on "U.S-China in 2020: Enduring Problems and Emerging Challenges"

September 9, 2020

### **Key Points**

- The Chinese Communist Party has long considered 2020 a milestone for the completion of important military modernization and reform goals. Chinese officials and media projected confidence that these goals would be completed despite the impact of COVID-19. Achievements over the past year included new hardware and operational "firsts."
- Chinese media and officials note that there is much 'unfinished business' left for the PLA to accomplish. Major challenges include delayed reforms, outdated weapons and equipment, corruption in the officer corps and defense industry, human capital weaknesses, and the lack of updated operational doctrine. The PLA aspires to continue progress on these and other areas through 2035 and mid-century.
- Chinese military operations in Asia in 2020 continued a careful balancing act of developing friendly relations with neighbors while pressing China's territorial claims. However, notable departures from past practice included use of lethal force against Indian troops and escalating tensions with several rivals at the same time. This indicates an increasing propensity for risk-taking in China's decision calculus, though Beijing ultimately de-escalated tensions with most of its regional rivals.
- The PLA's response to increased U.S. military operations in Asia includes deterrence signaling and steps to weaken U.S. alliances and partnerships. China's coercive actions against a number of regional countries in 2020, however, undercut the latter approach. China committed a strategic blunder in antagonizing Japan and India, two states critical to the success of U.S. strategy.
- PLA disaster relief operations in 2020 showcased a "reformed PLA" and marked the operational debut of the Joint Logistic Support Force and the Air Force's Y-20s. These operations indicated progress in correcting weaknesses in the logistics and other support systems but were far less demanding than what would be required in wartime.

- Congress and the USCC can promote more effective U.S. strategy towards China and the region in several ways: (1) commissioning new research on PLA weaknesses, (2) contributing to a better understanding of recent U.S. ally and partner perceptions of China, (3) mandating a new review of U.S.-China military relations, and (4) promoting increased access to open source materials on China.

**Disclaimer:** The views presented in this testimony are only those of Dr. Wuthnow and not National Defense University, the Department of Defense, or the U.S. government.

## Progress on 2020 Goals and Lingering Weaknesses

*Commission Questions: How do CCP leaders view their prospects for achieving the military modernization goals, including for the PLA reorganizations beginning in 2015, set for 2020? What are the most significant developments in China's military capabilities in 2020?*

The Chinese Communist Party (CCP) leadership has long regarded 2020 as a seminal date for military modernization and reform. Beginning in 1997, successive “three-step” (三步走) development strategies identified 2020 as a key modernization target.<sup>1</sup> The most recent, announced by Xi Jinping in his 19<sup>th</sup> Party Congress Work Report in October 2017, stated that, by 2020, the armed forces should “basically achieve mechanization, make major progress in informationization, and greatly improve its strategic capabilities.”<sup>2</sup> The two remaining steps were to “basically realize the modernization of national defense and the military by 2035” and “fully build a world-class military by mid-century.” In addition, at the Third Plenum of the 18<sup>th</sup> Party Congress in November 2013, the CCP Central Committee agreed to pursue a wide-ranging program of military reorganization and other institutional and policy changes. Two years later, the Central Military Commission (CMC) promulgated a detailed plan by which the reform would be undertaken, with the conclusion scheduled for 2020.<sup>3</sup> Further, both of these programs—military modernization and reform—were integrated into the CMC’s outline of military development for the 13<sup>th</sup> Five Year Plan (covering 2016 through 2020).<sup>4</sup>

Chinese media projected confidence that the military’s 2020 milestones would be reached on schedule. On New Year’s Day 2020, a *Jiefangjun Bao* editorial declared that the “Chinese military will basically achieve mechanization by 2020, with major progress in information construction and a major improvement in strategic capabilities,” and that “a series of reform measures will be launched for the first time” during the year.<sup>5</sup> Similarly, a *Jiefangjun Bao* editorial on August 1, 2020—the PLA’s 93<sup>rd</sup> birthday—stated that the military would not only achieve its current “goals and tasks,” but would also seize recent momentum to “embark on a new journey of basically realizing national defense and army modernization, and then building our army into a world-class army in an all-round way.”<sup>6</sup> Other articles celebrated the

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<sup>1</sup> See appendix.

<sup>2</sup> “Full Text of Xi Jinping’s 19<sup>th</sup> Party Congress Work Report” (习近平十九大报告全文), Xinhua, October 18, 2017, <http://finance.sina.com.cn/china/gncj/2017-10-18/doc-ifymvuyt4098830.shtml>.

<sup>3</sup> For a detailed overview, see Joel Wuthnow and Phillip C. Saunders, *Chinese Military Reform in the Age of Xi Jinping: Drivers, Challenges, and Implications*, China Strategic Perspectives 10, National Defense University, March 2017.

<sup>4</sup> “Central Military Commission Promulgates Outline on Military Construction and Development for the 13<sup>th</sup> Five Year Plan” (中央军委颁发《军队建设发展“十三五”规划纲要》), Xinhua, May 12, 2016, [http://www.xinhuanet.com/mil/2016-05/12/c\\_1118855988.htm](http://www.xinhuanet.com/mil/2016-05/12/c_1118855988.htm).

<sup>5</sup> “Decisive Battle, Decisive Victory, A New Chapter of the Strong Army—Written on New Year’s Day 2020” (决战决胜, 谱强军新篇——写在2020年元旦), *Jiefangjun Bao* (解放军报), January 1, 2020, [http://m.xinhuanet.com/mil/2020-01/01/c\\_1210420584.htm](http://m.xinhuanet.com/mil/2020-01/01/c_1210420584.htm).

<sup>6</sup> JFJB Commentator (本报评论员), “A Strong Country Must Have a Strong Army, and a Strong Army Can Lead to National Security—Earnestly Study and Implement Chairman Xi’s Important Speech During the 22nd Collective Study of the Political Bureau of the Central Committee” (强国必须强军 军强才能国安—认真学习贯彻习主席在中央政治局第二十二次集体学习时的重要讲话), *Jiefangjun Bao* (解放军报), August 1, 2020, pg. 3.

achievements of Xi's reform agenda to date, including one that stated that the reforms' goals to update the command system, alter the military's size and structure, improve policies and institutions, and better align military and civilian activities "[have] been basically achieved."<sup>7</sup>

Providing a more concrete demonstration of progress, the PLA revealed a series of capabilities in late 2019 and 2020. During the October 1, 2019, military parade marking the 70<sup>th</sup> anniversary of the People's Republic, the PLA showcased a number of new systems, including the DF-17 conventional medium-range ballistic missile, fitted with a hypersonic glide vehicle that reportedly can evade theater missile defense systems through unpredictable flight trajectories and speeds up to Mach 10;<sup>8</sup> the DF-41 nuclear-tipped intercontinental ballistic missile, equipped with multiple independently-targetable reentry vehicles; the first public display of the ground force's Z-20 medium-lift utility helicopter, which has been compared to the Black Hawk; the Type-15 light tank, which can be transported and para-dropped across long distances; new anti-ship cruise missile variants (YJ-12B, YJ-18, and CJ-100); and new unmanned systems (WZ-8 and GJ-11 unmanned aerial vehicles and HSU-001 unmanned underwater vehicle).<sup>9</sup> These displays suggested for domestic and foreign viewers that the PLA was achieving steady modernization across all the warfighting domains, improving capabilities to deter U.S. intervention in regional conflicts, and emerging as a world leader in select areas.

Other demonstrations and operational "firsts" soon followed. In December 2019, Xi commissioned the navy's second aircraft carrier, the *Shandong*; this is China's first domestically-produced carrier, with some advancements over its predecessor, the foreign-bought *Liaoning*, including space for additional J-15 fighters.<sup>10</sup> The navy's new Type-075 amphibious assault ship was launched in September 2019 and began sea trials in August 2020, ahead of commissioning

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<sup>7</sup> Li Yun, "Reform is the Key to the Development and Grandness of the PLA," China Military Online, August 1, 2020, [http://english.chinamil.com.cn/view/2020-08/01/content\\_9871841.htm](http://english.chinamil.com.cn/view/2020-08/01/content_9871841.htm). Li is a research scholar in the Institute of Foreign Military Research at the PLA Academy of Military Sciences. See also: "Graphics: China's Military Reforms in Past 5 Years," China Military Online, August 1, 2010, [http://eng.chinamil.com.cn/view/2020-08/01/content\\_9871847.htm](http://eng.chinamil.com.cn/view/2020-08/01/content_9871847.htm).

<sup>8</sup> For background, see Lora Saalman, "China's Calculus on Hypersonic Glide," SIPRI, August 15, 2017, <https://www.sipri.org/commentary/topical-backgrounder/2017/chinas-calculus-hypersonic-glide>; and "Hypersonic Weapons: Background and Issues for Congress, Congressional Research Service, March 17, 2020, 12-15.

<sup>9</sup> For discussion, see e.g. Joseph Trevithick, "Four of the Biggest Revelations from China's Massive 70th Anniversary Military Parade," *The Drive*, October 1, 2019, <https://www.thedrive.com/the-war-zone/30119/four-of-the-biggest-revelations-from-chinas-massive-70th-anniversary-military-parade>; Andrew Tate, "China Displays New Platforms, Weapon Systems in Large Military Parade," *Jane's Defence Weekly*, October 1, 2019; Mike Yeo, "China Unveils Drones, Missiles and Hypersonic Glide Vehicle at Military Parade," *Defense News*, October 1, 2019, <https://www.defensenews.com/global/asia-pacific/2019/10/01/china-unveils-drones-missiles-and-hypersonic-glide-vehicle-at-military-parade/>; and Ian Williams and Masao Dahlgren, "More Than Missiles: China Previews Its New Way of War," *CSIS Brief*, October 16, 2019, <https://www.csis.org/analysis/more-missiles-china-previews-its-new-way-war>.

<sup>10</sup> Andrew Tate, "Chinese Navy Commissions Its Second Aircraft Carrier," *Jane's Defence Weekly*, December 17, 2019, [https://customer.janes.com/Janes/Display/FG\\_2632426-JDW](https://customer.janes.com/Janes/Display/FG_2632426-JDW). The *Shandong* conducted its first sea trials since commissioning in June 2020. Gabriel Dominguez, "PLAN's *Shandong* Aircraft Carrier Conducts First Sea Trials Since Commissioning," *Jane's Defence Weekly*, June 2, 2020, [https://customer.janes.com/Janes/Display/FG\\_3073142-JDW](https://customer.janes.com/Janes/Display/FG_3073142-JDW).

in the next few years.<sup>11</sup> James E. Fannell, a former intelligence director for U.S. Pacific Fleet, assesses that the 35-40,000-ton ship, which can carry up to 30 helicopters, will be a “critical element for the PLA to be able to project boots on the ground to targeted islands throughout the western Pacific and pose a credible threat to military targets globally.”<sup>12</sup> Moreover, the COVID-19 crisis provided an opportunity for the PLA Air Force to employ its new Y-20 strategic cargo plane for the first time domestically and internationally;<sup>13</sup> and put the Joint Logistic Support Force (JLSF), created as part of Xi’s reforms in 2016, into practice (discussed below). The 6.6% defense spending increase approved in May 2020 signaled the Party’s continued commitment to military modernization despite the economic effects of the pandemic.<sup>14</sup>

*Commission Questions: What are the PLA’s most important capability limitations? Please address the quality of PLA personnel, doctrine, and China’s defense industry.*

Developments over the past five years have addressed a number of key PLA weaknesses, including the lack of a joint command structure, ground force dominance, and hardware gaps such as limited strategic air- and sealift.<sup>15</sup> Nevertheless, despite the celebratory aura of recent PLA media reports, there was also a theme that more work needs to be done. The national defense white paper released in July 2019 argued that the PLA “has yet to complete the task of mechanization, and is in urgent need of improving its informationization,” and “still lags far behind the world’s leading militaries,”<sup>16</sup> pointing to the CCP’s 2035 and mid-century development targets. A *Jiefangjun Bao* commentary published halfway through 2020 cautioned service members to avoid complacency: “the more critical the period, the more it is necessary to work hard and take advantage of the momentum. If you relax a little bit, you may lose all your

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<sup>11</sup> Thomas Newdick, “China’s Big New Amphibious Assault Ship Just Went to Sea For the First Time,” *The Drive*, August 5, 2020, <https://www.thedrive.com/the-war-zone/35413/chinas-big-new-amphibious-assault-ship-just-went-to-sea-for-the-first-time>.

<sup>12</sup> James E. Fannell, “Asia Rising: China’s Global Naval Strategy and Expanding Force Structure,” *Naval War College Review* 72:1 (2019), 20-1.

<sup>13</sup> Joseph Trevithick, “China’s Y-20 Airlifters Make Crisis Debut Bringing Medics and Cargo to Virus Plagued Wuhan,” *The Drive*, February 13, 2020, <https://www.thedrive.com/the-war-zone/32200/chinas-y-20-airlifters-make-crisis-debut-bringing-medics-and-cargo-to-virus-plagued-wuhan>; “Regular Press Conference of the Ministry of National Defense on Apr. 30,” China Ministry of National Defense, May 4, 2020, [http://eng.mod.gov.cn/news/2020-05/04/content\\_4864650.htm](http://eng.mod.gov.cn/news/2020-05/04/content_4864650.htm).

<sup>14</sup> Despite the modest increase, defense spending stayed roughly the same percentage of central government spending, signaling consistent party priorities. Mike Yeo, “China Announces \$178.2 Billion Military Budget,” *Defense News*, May 22, 2020, <https://www.defensenews.com/global/asia-pacific/2020/05/22/china-announces-1782-billion-military-budget/>; Bonnie S. Glaser, Matthew P. Funaiole, and Brian Hart, “Breaking Down China’s 2020 Defense Budget,” CSIS China Power Project, May 22, 2020, <https://www.csis.org/analysis/breaking-down-chinas-2020-defense-budget>.

<sup>15</sup> For a detailed assessment of PLA weaknesses prior to the reforms, see Michael S. Chase et al., *China’s Incomplete Military Transformation* (Santa Monica, CA: RAND, 2015).

<sup>16</sup> “Full Text: China’s National Defense in the New Era,” Xinhua, July 24, 2019, [http://www.xinhuanet.com/english/2019-07/24/c\\_138253389.htm](http://www.xinhuanet.com/english/2019-07/24/c_138253389.htm).

previous efforts and lose your success.”<sup>17</sup> Xi stated that “extraordinary measures” were needed to ensure that progress could be sustained during the global pandemic.<sup>18</sup>

These admonitions highlight the PLA’s ‘unfinished business’ as it strives to achieve its 2035 and mid-century goals. Some of the key challenges include the following:

- *Delayed and incomplete reforms.* The CCP often articulates ambiguous goals to avoid being held accountable for failures; this has been the case with force modernization (e.g., there is no clear definition of what it means to “basically achieve mechanization”) and other policies such as the Belt and Road Initiative.<sup>19</sup> Yet the recent reforms are an exception to the rule: in 2015, the CMC published a timeline according to which specific aspects of the reforms would be completed.<sup>20</sup> According to this timeline, the PLA has been consistently behind schedule over the last five years. For instance, the planned adjustment of the leadership of the logistics system was expected in 2015 but not executed until the establishment of the JLSF in September 2016. A 300,000-person downsizing that was to be finished by the end of 2016 was not declared “basically achieved” until March 2018.<sup>21</sup> Reforms to the military educational system, the People’s Armed Police, and the reserves were all to have taken place in 2016, but major changes in those areas did not happen until June 2017,<sup>22</sup> 2017-8,<sup>23</sup> and 2020,<sup>24</sup> respectively. In August 2019, PLA interlocutors acknowledged that the last phase of the reforms,<sup>25</sup> focusing on policies, would likely require three years to complete, meaning that the reforms would not end until 2022—two years behind schedule. No specific reason was given, but this phase was termed a “complex systems reform” that would be hard to quickly achieve. One might even speculate that some changes envisioned by reformers,

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<sup>17</sup> “Strengthen Confidence and Face Difficulties-Resolutely Achieve the 2020 National Defense and Army Building Target Tasks Series Talks” (坚定信心 迎难而上——坚决实现国防和军队建设 2020 年目标任务系列谈), *Jiefangjun Bao* (解放军报), June 10, 2020, pg. 6.

<sup>18</sup> “Xi Focus: Xi Emphasizes Strengthening National Defense, Armed Forces,” Xinhua, May 26, 2020, [http://www.xinhuanet.com/english/2020-05/26/c\\_139089760.htm](http://www.xinhuanet.com/english/2020-05/26/c_139089760.htm).

<sup>19</sup> For a discussion of deliberative ambiguity in the context of the BRI, see Joel Wuthnow, “China’s Belt and Road: One Initiative, Three Strategies,” in Ashley Tellis, Alison Szalwinski, and Michael Wills, eds., *Strategic Asia 2019: China’s Expanding Strategic Ambitions* (Seattle: NBR, 2019), 211-45.

<sup>20</sup> Wuthnow and Saunders, *Chinese Military Reform in the Age of Xi Jinping*, 50.

<sup>21</sup> “Premier Li: China Has Reduced, Army Size by 300,000,” China Military Online, March 5, 2018, [http://eng.chinamil.com.cn/view/2018-03/05/content\\_7959842.htm](http://eng.chinamil.com.cn/view/2018-03/05/content_7959842.htm).

<sup>22</sup> For an overview of changes to China’s military education system, see Kenneth Allen and Mingzhi Chen, *The People’s Liberation Army’s 37 Academic Institutions* (Washington, DC: China Aerospace Studies Institute, 2020).

<sup>23</sup> Joel Wuthnow, *China’s Other Army: The People’s Armed Police in an Era of Reform*, China Strategic Perspectives 14, National Defense University, April 2019.

<sup>24</sup> “China To Optimize Reserve Forces Structure For Future Combat Need: Spokesperson,” Xinhua, July 1, 2020, [http://www.xinhuanet.com/english/2020-07/01/c\\_139181267.htm](http://www.xinhuanet.com/english/2020-07/01/c_139181267.htm).

<sup>25</sup> This has been termed the “third big campaign”; the first two focused on above-the-neck and below-the-neck changes to the PLA’s organizations. David M. Finkelstein, “The Chinese View of Strategic Competition with the United States,” Testimony before the U.S.-China Economic and Security Review Commission, June 24, 2020, 11; “Winning the Tough Battle to Reform and Strengthen the Army: Military Representatives Hotly Discuss the Deepening of National Defense and Military Reform” (打赢改革强军的攻坚战——军队代表委员热议将深化国防和军队改革进行到底), *Jiefangjun Bao* (解放军报), May 18, 2020, pg. 3

such as revising the personnel system or eliminating certain ranks, will be shelved because they are too politically sensitive or difficult to implement.<sup>26</sup>

- *Outdated equipment.* Military parades and selective revelations of new capabilities promote the sense that the PLA inventory is quickly evolving—this view is not wrong, but overlooks the continued presence of old equipment throughout the force. For instance, the air force still operates more than 600 J-7 and J-8 variants, based on 1960s technology, while a large proportion of the navy’s surface fleet consists of coastal patrol vessels of late Cold War vintage.<sup>27</sup> However, nowhere is outdated equipment more prevalent than the ground forces. In the early 2000s, the CMC decided not to prioritize army modernization, but to divide budgetary resources more equitably among the services; this suited China’s evolving military strategy, which focused on high-tech “local wars” that would be led primarily by navy, air force, and conventional missile forces.<sup>28</sup> A consequence was that army equipment became increasingly obsolescent. One example concerns the main battle tank force: as of 2020, 40% of this force dated from the 1960s to the 1980s and less than 4% were produced within the last decade.<sup>29</sup> Incredibly, on the eve of the latest reforms, about half of the PLA’s infantry brigades were deemed “motorized,” a development stage *prior* to “mechanized.”<sup>30</sup> Lagging modernization in these areas implies that the 2019 defense white paper’s declaration that “mechanization” (机械化) had not yet been fully achieved may have been more than a throwaway line.<sup>31</sup>
- *Corruption.* A signature part of Xi’s agenda has been cleaning up corruption in the officer corps and defense industry, a goal pursued in part through a major anti-corruption campaign.<sup>32</sup> Nevertheless, recent revelations indicate that this campaign remains a work in progress. In late 2019, two senior commanders were removed from their positions as

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<sup>26</sup> In December 2016, the Ministry of National Defense announced that a “rank-centered” military officer system would be established, but this has apparently yet to be implemented. For an analysis, see Kenneth Allen, “China Announces Reforms of Military Ranks,” *China Brief*, January 30, 2017, <https://jamestown.org/program/china-announces-reform-military-ranks/>.

<sup>27</sup> International Institute of Strategic Studies, *The Military Balance 2020*.

<sup>28</sup> Phillip C. Saunders and John Chen, “Is the Chinese Army the Real Winner in PLA Reforms,” *Joint Force Quarterly* 83 (2016), 46.

<sup>29</sup> Specifically, in 2020 the ground forces possessed only 200 Type-15 tanks, out of a total main battle tank force of 5850. Some tanks, such as the Type-59s, are based on 1950s technology. International Institute of Strategic Studies, *The Military Balance 2020*, 260.

<sup>30</sup> Dennis J. Blasko, “What Is Known and Unknown About Changes to the PLA’s Ground Combat Units,” *China Brief*, May 11, 2017, <https://jamestown.org/program/known-unknown-changes-plas-ground-combat-units/>. The 2010 defense white paper had urged the ground forces to “accelerate the transformation of motorized units into mechanized units.” *China’s National Defense in 2010* (2010 国防白皮书), State Council Information Office, March 31, 2011, [http://www.gov.cn/zhengce/2011-03/31/content\\_2618567.htm](http://www.gov.cn/zhengce/2011-03/31/content_2618567.htm).

<sup>31</sup> For a discussion of the history of PLA “mechanization,” see Chen Hui, “The Chinese Military Has a Clear Timetable for Mechanization, Which Will be Basically Achieved in Seven Years” (中国军队明确实现机械化时间表 七年后基本实现), *Liaowang* (瞭望), January 28, 2013, [http://military.china.com.cn/2013-01/28/content\\_27813503\\_3.htm](http://military.china.com.cn/2013-01/28/content_27813503_3.htm).

<sup>32</sup> The campaign has also been a tool through which Xi has increased his personal authority within the PLA.

National People's Congress deputies due to "serious violations of discipline."<sup>33</sup> This was followed by reports that Hu Wenming, the former China Shipbuilding Industry Corporation chairman who oversaw the aircraft carrier program, was under investigation; he was only the latest shipbuilding official to be investigated.<sup>34</sup> More importantly, the CMC decided that *all* senior officers would be subjected to financial audits upon leaving military service, and that the rules applied retroactively to retired officials such as former PLA navy chief Wu Shengli.<sup>35</sup> The need to create such a rule, which along with the anti-corruption campaign itself seems to act as a deterrent, betrays a lack of confidence between the party and those entrusted with positions of responsibility within the military.

- *Human capital weaknesses.* Inability to compete effectively in what U.S. military parlance calls the "cognitive domain" has long been a self-assessed PLA weakness.<sup>36</sup> Recent reforms, including improvements to the joint training supervision system, increases in salaries and benefits to improve recruitment and retention of qualified personnel, and upgrades to the professional military education system, have attempted to bridge those gaps.<sup>37</sup> Several initiatives in late 2019 and 2020 indicate that the PLA has been less than satisfied with progress in this area to date. Those include new regulations governing the management of military educational institutes,<sup>38</sup> a "double first" initiative whereby some civilian college graduates would be exempt from military exams during the onboarding process into the PLA,<sup>39</sup> and a training session for heads of Chinese defense universities.<sup>40</sup> Moreover, throughout 2019, *Jiefangjun Bao* once again repeated slogans referring to deficiencies of leadership and judgement in the officer corps such as the "two inabilities" (两个能力不够) and the "five incapables" (五个不会), signifying that Chinese leaders consider this an ongoing problem.<sup>41</sup>

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<sup>33</sup> These were LTG Rao Kaixun, former deputy commander of the Strategic Support Force, and MG Xu Xianghua, former deputy commander of the Western TC Army. "Two Generals Resigned from the National People's Congress Due to Serious Violations of Discipline" (军方打虎再获官宣 两将领因严重违纪去职全国人大代表), *Caixin* (财新), October 27, 2019, <http://china.caixin.com/2019-10-27/101475809.html>.

<sup>34</sup> Teddy Ng, "Former Boss of China Aircraft Carrier Programme in Corruption Probe," *South China Morning Post*, May 13, 2020, <https://www.scmp.com/news/china/military/article/3084131/former-boss-china-aircraft-carrier-programme-corruption-probe>. For an analysis, see Zi Yang, "The Invisible Threat to China's Navy: Corruption," *The Diplomat*, May 19, 2020, <https://thediplomat.com/2020/05/the-invisible-threat-to-chinas-navy-corruption/>.

<sup>35</sup> Guo Rui, "China's Former Navy Chief Wu Shengli to Face Audit," *South China Morning Post*, June 30, 2020, <https://www.scmp.com/news/china/military/article/3091098/chinas-former-navy-chief-wu-shengli-face-audit>.

<sup>36</sup> Chase et al., *China's Incomplete Military Transformation*, 43-60.

<sup>37</sup> Joel Wuthnow and Phillip C. Saunders, "A Modern Major General: Building Joint Commanders in the PLA," in Phillip C. Saunders et al., eds., *Chairman Xi Remakes the PLA: Assessing Chinese Military Reforms* (Washington, DC: NDU Press, 2019), 293-323.

<sup>38</sup> Liu Jianwei and Wu Xu, "China Launched Revised Regulations on Education in Military Academies," *China Military Online*, June 17, 2020, [http://english.chinamil.com.cn/view/2020-06/17/content\\_9836856.htm](http://english.chinamil.com.cn/view/2020-06/17/content_9836856.htm).

<sup>39</sup> "Regular Press Conference of the Ministry of National Defense on July 30," *China Ministry of National Defense*, July 30, 2020, [http://eng.mod.gov.cn/news/2020-08/01/content\\_4869055.htm](http://eng.mod.gov.cn/news/2020-08/01/content_4869055.htm).

<sup>40</sup> "Defense Ministry's Regular Press Conference on Dec. 26," *China Ministry of National Defense*, December 27, 2019, [http://eng.mod.gov.cn/focus/2019-12/27/content\\_4857655.htm](http://eng.mod.gov.cn/focus/2019-12/27/content_4857655.htm).

<sup>41</sup> Dennis J. Blasko, "PLA Weaknesses and Xi's Concerns about PLA Capabilities," Testimony before the U.S.-China Economic and Security Review Commission, February 7, 2019. In 2019, JFJB contained the following



- *Outdated doctrine.* Promulgation of new doctrine is another area where the PLA may have fallen behind its goals. In 2015, the CMC approved a revised military strategy based on the need to prepare for “informationized local wars” (信息化的局部战争),<sup>42</sup> while PLA futurists have explored the idea that the introduction of new technology such as artificial intelligence and quantum computing will fundamentally alter the character of war from informationization to “intelligentization” (智能化), giving China an edge if it can excel in these areas.<sup>43</sup> Nevertheless, it is not clear that the doctrine underpinning PLA campaign planning, training, and force development has kept pace. While there have been updates to the military training guidelines placing greater stress on joint operations and realistic training, there have been no new revisions to the doctrinal regulations for more than a decade.<sup>44</sup> In addition, recent PLA textbooks contain few references to technological breakthroughs, suggesting that rising commanders might not be receiving adequate instruction on how these systems will be employed in future wars.<sup>45</sup> One sign that the PLA was trying to correct this problem was the recent restructuring of the Academy of Military Science, whose mandate includes developing new operational concepts. The reform brought technologists closer together with military theorists, apparently in the hope that the two communities would collaborate to produce more up-to-date doctrine, but tangible results have not yet materialized.<sup>46</sup>

## Use of Force and Responses to U.S. Strategy in the Indo-Pacific

*Commission Question: How has China’s active use of military and paramilitary force in the Indo-Pacific in 2020 compared with that in previous years?*

Since the latter part of the Hu Jintao era, Beijing has carried out a carefully calibrated balancing act in its use of force across the Indo-Pacific. In Chinese parlance, “stability maintenance” (维稳) has to be weighed against “rights enforcement” (维权).<sup>47</sup> On one hand, China has used

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number of references to the human capital problems identified by Blasko: “five incapables”—58; “2 inabilities”—30; “3 whethers”—6.

<sup>42</sup> M. Taylor Fravel, “China’s New Military Strategy: ‘Winning Informationized Local Wars’” *China Brief*, July 2, 2015, <https://jamestown.org/program/chinas-new-military-strategy-winning-informationized-local-wars/>.

<sup>43</sup> Elsa B. Kania, *Battlefield Singularity: Artificial Intelligence, Military Revolution, and China’s Future Military Power* (Washington, DC: CNAS, 2017); Elsa Kania and John Costello, “Quantum Hegemony (Part Two): The Strategic Implications of Quantum Technology,” *China Brief*, December 21, 2016, <https://jamestown.org/program/quantum-leap-part-2-strategic-implications-quantum-technologies/>.

<sup>44</sup> Elsa B. Kania, “When Will the PLA Finally Update Its Doctrine?” *China Brief*, June 6, 2017, <https://thediplomat.com/2017/06/when-will-the-pla-finally-update-its-doctrine/>.

<sup>45</sup> For instance, the 2013 *Science of Military Strategy* has only single references to AI and quantum technology. *Science of Military Strategy* (战略学) (Beijing: Military Sciences Press, 2013).

<sup>46</sup> Discussions with AMS personnel in late 2018 indicated that actual cooperation between theorists and S&T personnel remained quite limited. For a discussion, see Joel Wuthnow, “China’s ‘New’ Academy of Military Science: A Revolution in Theoretical Affairs?” *China Brief*, January 18, 2019, <https://jamestown.org/program/chinas-new-academy-of-military-science-a-revolution-in-theoretical-affairs/>.

<sup>47</sup> For previous discussion, see Phillip C. Saunders, “China’s Role in Asia,” in David Shambaugh and Michael Yahuda, eds., *International Relations of Asia* (New York: Rowman & Littlefield, 2014), 147-172; and M. Taylor

military diplomacy, including high-level visits, exercises, participation in humanitarian assistance/disaster relief operations, port calls, and other activities to strengthen China's diplomatic relations with neighboring countries, weaken U.S. influence in the region, and preserve a stable periphery security environment conducive to China's economic growth.<sup>48</sup> On the other hand, CCP leaders have been more confident in allowing coercive tactics to enforce China's territorial claims, create new "facts on the ground" through military or dual-use infrastructure, and challenge U.S. operations along China's periphery. Chinese operations have generally been conducted in the "gray zone" below lethal violence in order to reduce the risks to China's first set of diplomatic priorities.

In late 2019 and 2020, the PLA struggled to maintain this balance. In the fall of 2019 into the current year, China continued normal military diplomacy and seized opportunities to use the COVID-19 crisis to expand China's "soft power." Bilaterally, the PLA worked on many fronts to deepen China's partnerships. In September 2019, for instance, the PLA sent troops to a major Russian theater exercise for the second time (Center-2019). This signaled a closer Sino-Russian strategic alignment while offering the PLA a chance to hone its skills in areas such as trans-border operations, overseas command and control, and joint logistics.<sup>49</sup> The next month, Beijing signed a new defense agreement with Singapore that included a "Visiting Forces Agreement" for PLA units participating in exercises, a logistics support agreement, and institutionalized dialogues.<sup>50</sup> China also held high-level exchanges with other Southeast Asian military leaders, including the Filipino and Vietnamese defense ministers in October.<sup>51</sup> In December, the PLA continued its outreach to two major rivals, Japan and India: Japan's defense minister visited China for the first time in a decade and the PLA held an annual counter-terrorism exercise with the Indian armed forces.<sup>52</sup>

Multilaterally, the PLA increased its role in dialogues and exercises. In October 2019, China staged the ninth Beijing Xiangshan Forum, hosting a record 1300 participants, 76 official delegations, 23 defense ministers, and six chiefs of defense. China's Defense Minister, Wei

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Fravel, "Xi Jinping's Overlooked Revelation on China's Maritime Disputes," *The Diplomat*, August 15, 2013, <https://thediplomat.com/2013/08/xi-jinpings-overlooked-revelation-on-chinas-maritime-disputes/>.

<sup>48</sup> Kenneth Allen, Phillip C. Saunders, and John Chen, *Chinese Military Diplomacy 2003-2016*, China Strategic Perspectives 11, July 2017.

<sup>49</sup> "Defense Ministry's Regular Press Conference on Sept. 26," China Ministry of National Defense, September 26, 2019, [http://eng.chinamil.com.cn/view/2019-09/27/content\\_9637911.htm](http://eng.chinamil.com.cn/view/2019-09/27/content_9637911.htm).

<sup>50</sup> Aqil Haziq Mahmud, "Singapore, China Sign Defence Agreement to Scale Up Army, Navy Exercises, Establish Regular Dialogue," Channel News Asia, October 20, 2019, <https://www.channelnewsasia.com/news/singapore/singapore-china-sign-ng-eng-hen--defence-agreement-scale-up-army-12018308>.

<sup>51</sup> Both meetings featured CMC Vice Chairman Xu Qiliang and were held on the margins of the Beijing Xiangshan Forum. "Senior Chinese Military Official Meets with Vietnamese Defense Minister," Xinhua, October 22, 2019, [http://www.xinhuanet.com/english/2019-10/22/c\\_138493224.htm](http://www.xinhuanet.com/english/2019-10/22/c_138493224.htm); "Senior Chinese Military Official Meets with Vietnamese Defense Minister," Xinhua, October 22, 2019, [http://eng.chinamil.com.cn/view/2019-10/22/content\\_9658424.htm](http://eng.chinamil.com.cn/view/2019-10/22/content_9658424.htm).

<sup>52</sup> "Japan Defense Chief Visits China For First Time in a Decade," *Nikkei Asian Review*, Decembner 19, 2019, <https://asia.nikkei.com/Politics/International-relations/Japan-defense-chief-visits-China-for-first-time-in-a-decade>; "India-China Military Ties 'Improving' Thanks to Modi-Xi Efforts: PLA," *Economic Times*, December 27, 2019, <https://economictimes.indiatimes.com/news/defence/india-china-military-ties-improving-thanks-to-modi-xi-efforts-pla/articleshow/72989575.cms>.

Fenghe, used the occasion to draw a stark contrast with the United States by claiming that China would never “seek hegemony, expansion, or spheres of influence.”<sup>53</sup> Competing for influence in international military education, China in November 2019 hosted the first Conference on Interaction and Confidence-Building Measures in Asia (CICA) Heads of Defense Universities forum, attracting representatives from 14 countries.<sup>54</sup> At the “minilateral” level, Beijing developed a “China-Russia-plus” exercise model: Beijing and Moscow held naval drills with South Africa in November 2019<sup>55</sup> and Iran the following month.<sup>56</sup> Despite the COVID-19 outbreak, the PLA continued to participate in regional multilateral exercises such as Cobra-Gold (Thailand) and Golden Dragon (Cambodia).<sup>57</sup>

The pandemic provided the PLA an opportunity to strengthen China’s regional and global reputation through “mask diplomacy.” Chinese aid, though small in scale, targeted a number of close diplomatic partners. The first recipients, in March, included Iran, which received a shipment of personal protective equipment, and Cambodia, which hosted a Chinese military medical team.<sup>58</sup> In April, the recipients expanded to include Pakistan (where the PLA’s Y-20 made its international debut delivering military medical aid), Myanmar, Laos, Vietnam, and Lebanon.<sup>59</sup> During the summer, as the pandemic subsided in China, aid and personnel were sent to 15 African countries and seven in Latin America and the Caribbean.<sup>60</sup>

However, Chinese military and paramilitary participation in a spate of incidents at home and abroad gradually overshadowed those more benevolent activities, increasing disputes with several neighbors and threatening China’s “soft power.” The stage was set in the summer and fall of 2019 with intimidating tactics focused on Hong Kong. Beginning in August, Chinese troops conducted a number of drills in Shenzhen that simulated operations against civilian Hong Kong protesters.<sup>61</sup> Following a reported doubling of the number of Chinese troops assigned to the

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<sup>53</sup> Zhang Zhihao, “Defense Minister Emphasizes National Interests in Address,” *China Daily*, October 21, 2019, <https://www.chinadaily.com.cn/a/201910/21/WS5dad5f12a310cf3e35571b58.html>.

<sup>54</sup> “Defense Ministry’s Regular Press Conference on Nov. 28,” China Ministry of National Defense, November 28, 2019, [http://eng.chinamil.com.cn/view/2019-11/29/content\\_9685792.htm](http://eng.chinamil.com.cn/view/2019-11/29/content_9685792.htm).

<sup>55</sup> “China-Russia-South Africa Conduct Live-Fire Fleet Exercise,” China Military Online, November 29, 2019, [http://eng.chinamil.com.cn/view/2019-11/29/content\\_9686187.htm](http://eng.chinamil.com.cn/view/2019-11/29/content_9686187.htm).

<sup>56</sup> Wu Ping and Li Yinchuan, “Destroyer Xining Completes China-Russia-Iran Naval Exercise,” China Military Online, January 2, 2020, [http://eng.chinamil.com.cn/view/2020-01/02/content\\_9708537.htm](http://eng.chinamil.com.cn/view/2020-01/02/content_9708537.htm).

<sup>57</sup> “PLA Participates in Cobra Gold-2020 Military Exercise in Thailand,” China Military Online, February 24, 2020, [http://eng.chinamil.com.cn/view/2020-02/24/content\\_9750887.htm](http://eng.chinamil.com.cn/view/2020-02/24/content_9750887.htm); “Regular Press Conference of the Ministry of National Defense on Mar. 26,” China Ministry of National Defense, March 27, 2020, [http://eng.mod.gov.cn/news/2020-03/27/content\\_4862777.htm](http://eng.mod.gov.cn/news/2020-03/27/content_4862777.htm).

<sup>58</sup> “Regular Press Conference of the Ministry of National Defense on Mar. 26,” China Ministry of National Defense, March 27, 2020, [http://eng.mod.gov.cn/news/2020-03/27/content\\_4862777.htm](http://eng.mod.gov.cn/news/2020-03/27/content_4862777.htm).

<sup>59</sup> “Regular Press Conference of the Ministry of National Defense on Apr. 30,” China Ministry of National Defense, May 4, 2020, [http://eng.mod.gov.cn/news/2020-05/04/content\\_4864650.htm](http://eng.mod.gov.cn/news/2020-05/04/content_4864650.htm).

<sup>60</sup> “Regular Press Conference of the Ministry of National Defense on June 24,” China Ministry of National Defense, June 24, 2020, [http://eng.mod.gov.cn/news/2020-06/24/content\\_4867200.htm](http://eng.mod.gov.cn/news/2020-06/24/content_4867200.htm); “Regular Press Conference of the Ministry of National Defense on July 30,” China Ministry of National Defense, July 30, 2020, [http://eng.mod.gov.cn/news/2020-08/01/content\\_4869055.htm](http://eng.mod.gov.cn/news/2020-08/01/content_4869055.htm).

<sup>61</sup> “In ‘Clear Warning,’ Chinese Paramilitary Forces Exercise Near Hong Kong,” Reuters, August 2019, <https://www.reuters.com/article/us-hongkong-protests-pap/in-clear-warning-chinese-paramilitary-forces-exercise-near-hong-kong-idUSKCN1V50LV>.

Hong Kong Garrison, a group of PLA troops wearing clothing identifying them with elite Special Forces units left their barracks and participated in roadblock-clearing operations.<sup>62</sup> These activities underlined China's ability to quickly intervene on behalf of Hong Kong's police force and foreshadowed the new Hong Kong National Security Law enacted in 2020.

Coercive Chinese actions proliferated across the region even as Beijing was grappling with the effects of COVID-19 (see Figure 1 below). Key developments included:

- *Taiwan.* Following Tsai Ing-wen's January re-election, the PLA conducted a number of operations designed to intimidate the DPP leadership and "pro-independence" forces on the island. On February 9 and 10, PLA air force bombers and fighters crossed the mid-line of the Taiwan Strait, long considered an informal boundary between the two sides. In mid-March, fighters again crossed the mid-line during nighttime training.<sup>63</sup> Coinciding with U.S. Health and Human Service Secretary Alex Azar's visit to Taiwan in August, PLA fighters once again crossed the midline; this was followed by PLA joint exercises on the northern and southern ends of the strait, which a PLA spokesman described as a "necessary move responding to the current security situation."<sup>64</sup> Further "concentrated" drills were announced in late August.<sup>65</sup> These exercises corresponded with the normal PLA training cycle, which often includes more complex exercises in the summer, but the publicity marked an attempt to raise the stakes for Taiwan and Washington.
- *India.* In the late spring, Chinese and Indian troops clashed in a remote section of the Line of Actual Control (LAC) in eastern Ladakh. The immediate trigger can be traced to the April 2020 incursion of some 5,000 Chinese troops beyond the LAC into areas where Chinese military presence had previously been limited, apparently in a show of resisting Indian military construction that had been ongoing since 2019. The height of the tensions occurred on June 15 in the Galwan Valley. Hand-to-hand combat between Chinese and Indian troops, including the use of "stones and clubs, some wrapped with barbed wire," led to the deaths of 20 Indians and an unknown number of Chinese personnel.<sup>66</sup> These constituted the first casualties since the 1962 border war although there have been a

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<sup>62</sup> "PLA Soldiers Sent Onto Streets of Hong Kong For First Time Since Protests Began," *South China Morning Post*, November 16, 2019, <https://www.scmp.com/news/hong-kong/politics/article/3038049/pla-soldiers-sent-streets-hong-kong-first-time-protests>.

<sup>63</sup> John Dotson, "Military Activity and Political Signaling in the Taiwan Strait in Early 2020," *China Brief*, April 1, 2020, <https://jamestown.org/program/military-activity-and-political-signaling-in-the-taiwan-strait-in-early-2020/>.

<sup>64</sup> Yimou Lee and Ben Blanchard, "China Sends Fighter Jets As U.S. Health Chief Visits Taiwan," Reuters, August 9, 2020, <https://www.reuters.com/article/us-taiwan-usa-president/china-sends-fighter-jets-as-us-health-chief-visits-taiwan-idUSKCN25605V>; "PLA's Eastern Theater Command Conducts Exercises in Taiwan Straits," China Military Online, August 13, 2020, [http://eng.chinamil.com.cn/view/2020-08/13/content\\_9881191.htm](http://eng.chinamil.com.cn/view/2020-08/13/content_9881191.htm).

<sup>65</sup> Liu Xuanzun, "PLA Holds Concentrated Military Drills to Deter Taiwan Secessionists, U.S.," *Global Times*, August 23, 2020, <https://www.globaltimes.cn/content/1198593.shtml>.

<sup>66</sup> M. Taylor Fravel, "China's Sovereignty Obsession," *Foreign Affairs*, June 26, 2020, <https://www.foreignaffairs.com/articles/china/2020-06-26/chinas-sovereignty-obsession>.

number of minor clashes in recent years. Anti- China protests spread across India, but the two sides convened a number of talks in an attempt to de-escalate the situation.<sup>67</sup>

- *Japan.* During the COVID-19 crisis, Beijing increased the duration of China Coast Guard patrols near the Senkakus. As of June 2020, Chinese vessels were present in the region for 65 continuous days, which was the longest stretch since the Japanese government purchased some of the islands from a private Japanese owner in September 2012. Chinese government ships attempted to evict Japanese fishing boats but were unsuccessful due to the Japanese coast guard's intervention.<sup>68</sup>
- *South China Sea.* Chinese Coast Guard, maritime militia, and navy vessels were involved in a number of controversial activities in the South China Sea. Beginning in December, Chinese ships engaged in a round of intimidation targeted at drilling operations by Malaysian state-owned firm Petronas as well as Shell, leading Malaysia, as well as the United States, and Australia, to contribute ships to protect those commercial operations.<sup>69</sup> In February, the Philippines claimed that a PLA navy corvette locked its fire control radar on a Filipino anti-submarine corvette, instigating a diplomatic complaint.<sup>70</sup> Separately, in early April, a Chinese government vessel sunk a Vietnamese fishing trawler, leading to a diplomatic protest.<sup>71</sup> These actions coincided with China's announcement of new "administrative districts" covering the Parcel and Spratly archipelagoes, a decision that was quickly denounced by both Hanoi and Manila.<sup>72</sup>

### **Figure 1: Chinese Acts of Coercion, February-August 2020**

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<sup>67</sup> "UP: Anti-China Protests Across Garakhpur-Basti Zone, Chinese President's Effigy Burnt," *India Today*, June 18, 2020, <https://www.indiatoday.in/india/story/anti-china-protest-uttar-pradesh-china-president-xi-jinping-effigy-burnt-chinese-flag-on-fire-boycott-chinese-products-1690127-2020-06-18>.

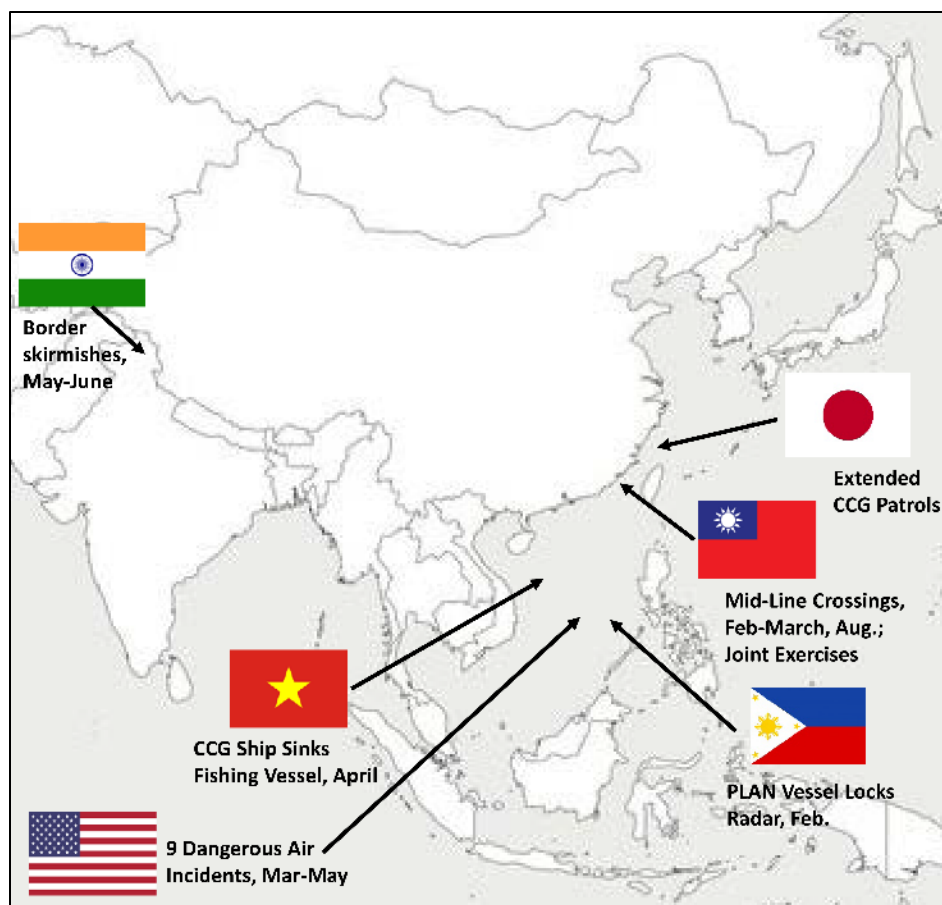
<sup>68</sup> "Chinese Government Vessels Seen Near Disputed Senkakus for 65 Days In a Row," *Japan Times*, June 17, 2020, <https://www.japantimes.co.jp/news/2020/06/17/national/chinese-ships-near-senkakus-65-days/>.

<sup>69</sup> "Malaysia Picks a Three-Way Fight In the South China Sea," CSIS Asia Maritime Transparency Initiative, February 21, 2020, <https://amti.csis.org/malaysia-picks-a-three-way-fight-in-the-south-china-sea/>

<sup>70</sup> Renato Cruz De Castro, "Implications of the Recent Philippines-China Naval Standoff," AMTI Update, May 7, 2020, <https://amti.csis.org/implications-of-the-recent-philippines-china-naval-stand-off/>.

<sup>71</sup> Khahn Vu, "Vietnam Protests Beijing's Sinking of South China Sea Boat," Reuters, April 4, 2020, <https://www.reuters.com/article/us-vietnam-china-southchinasea/vietnam-protests-beijings-sinking-of-south-china-sea-boat-idUSKBN21M072>.

<sup>72</sup> Huong Le Thu, "Fishing While the Water Is Muddy: China's Newly Announced Administrative Districts in the South China Sea," CSIS Asia Maritime Transparency Initiative, May 6, 2020, <https://amti.csis.org/fishing-while-the-water-is-muddy-chinas-newly-announced-administrative-districts-in-the-south-china-sea/>.



U.S. forces in the region were not immune from aggressive Chinese tactics. In February, U.S. Pacific Fleet reported that a P-8A Poseidon patrol aircraft had been targeted with a high-powered laser from a Chinese destroyer west of Guam.<sup>73</sup> This was the latest in a series of “lasing” incidents suffered by U.S. forces over the last few years.<sup>74</sup> In May, a U.S. Department of Defense official revealed that there had been “at least nine” troubling incidents involving U.S. and Chinese forces over the past two months, including “unsafe and unprofessional” encounters with Chinese naval ships in the South China Sea,<sup>75</sup> although unofficial reports claimed that Xi Jinping later ordered the PLA not to “fire the first shot” with U.S. forces.<sup>76</sup>

<sup>73</sup> Courtney Mabeus, “Pacific Fleet: Chinese Destroyer’s Laster Targeted U.S. Plane,” *Navy Times*, February 27, 2020, <https://www.navytimes.com/news/your-navy/2020/02/28/pacific-fleet-chinese-destroyers-laser-targeted-us-plane/>.

<sup>74</sup> Aaron Mehta, “Two U.S. Airmen Injured by Chinese Lasers in Djibouti, DoD Says,” *Defense News*, May 3, 2018, <https://www.defensenews.com/air/2018/05/03/two-us-airmen-injured-by-chinese-lasers-in-djibouti/>; Jesse Johnson, “U.S. Military Pilots in East China Sea Targeted in Laser Attacks,” *Japan Times*, June 22, 2018, <https://www.japantimes.co.jp/news/2018/06/22/asia-pacific/u-s-military-pilots-east-china-sea-targeted-laser-attacks/>.

<sup>75</sup> Ryan Pickrell, “Pentagon Says China’s Military Is Challenging the U.S. With ‘Risky’ Run-Ins in the South China Sea During the Pandemic,” *Business Insider*, May 20, 2020, <https://www.businessinsider.com/us-chinese-militaries-tension-south-china-sea-during-pandemic-2020-5>.

<sup>76</sup> Wendy Wu and Minnie Chan, “South China Sea: Chinese Military Told Not to Fire the First Shot in Stand-off With U.S. Forces,” *South China Morning Post*, August 11, 2020.

Most of these developments were not qualitatively different from previous episodes. For instance, PLA fighters have crossed the mid-line of the Taiwan Straits on occasion, China Coast Guard vessels have sunk foreign vessels operating in the South China Sea, and PLA and “white hull” ships have had dangerous encounters with U.S. navy ships.<sup>77</sup> Nevertheless, there were two differences in 2020. First, in the India standoff, the PLA used deadly violence against an adversary for the first time since the Johnson South Reef skirmish in 1988. The clash demonstrated that Beijing would not necessarily stay within the “gray zone” despite the negative repercussions for China’s diplomatic interests. In the Indian case, this threshold may have been crossed due to the rapidly unfolding situation or as a response to Indian actions. Another explanation is that Chinese leaders may have been confident that they could control the pace and scope of escalation, and thus authorized relatively liberal rules of engagement.<sup>78</sup>

Second was the use of coercive tactics against many antagonists at the same time. In the past, Beijing avoided escalating disputes with multiple opponents in order to focus its limited capabilities and reduce the diplomatic costs. Recent coercive actions, which may be described as a kind of “omni-directional bullying” against opponents at home, in the region, and the United States, created a new precedent. It appears that multiple causes worked in tandem to produce increased Chinese risk-taking: ending an embarrassing domestic situation for Xi (in Hong Kong), external irritants that required CCP leaders to respond (such as Tsai’s re-election, U.S. passage of the TAIPEI Act, or Malaysian drilling in a contested area), a perceived need to warn rival claimants not to exploit China once COVID-19 began to spread in the mainland, and strategic opportunism focused on expanding influence in parts of the region, especially the South China Sea, once smaller Southeast Asian countries were affected.<sup>79</sup>

Chinese leaders appear to have realized that this “omni-directional bullying” was seriously endangering other priorities, including comity with key neighbors, and increasing the risk of a wider conflagration. Except for Taiwan, which continued to be subjected to coercive acts throughout the summer, Beijing worked to mend fences with its other neighbors. This suggests that, despite an apparent increase in its willingness to take diplomatic risks during the pandemic, Beijing continues to try to balance competing imperatives.

*Commission Questions: How has China responded to the recent increase in U.S. military operations in the region? How do China’s military and paramilitary coercive actions challenge*

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<https://www.scmp.com/news/china/diplomacy/article/3096978/south-china-sea-chinese-military-told-not-fire-first-shot>.

<sup>77</sup> Abraham Denmark, Charles Edel, and Siddharth Mohandas, “Same As It Ever Was: China’s Pandemic Opportunism on Its Periphery,” *War on the Rocks*, April 16, 2020, <https://warontherocks.com/2020/04/same-as-it-ever-was-chinas-pandemic-opportunism-on-its-periphery/>.

<sup>78</sup> Neither Chinese nor Indian forces on the LAC carry high-powered weapons under an existing agreement. The notion that China can carefully control the pace and scale of a conflict is consistent with Chinese doctrinal writings. For a discussion, see Alison A. Kaufman and Daniel M. Hartnett, *Managing Conflict: Examining Recent PLA Writings on Escalation Control* (Arlington, VA: CNA, 2016).

<sup>79</sup> See, e.g., Andrew Small and Dhruva Jaishankar, “‘For Our Enemies, We Have Shotguns,’: Explaining China’s New Assertiveness,” *War on the Rocks*, July 20, 2020, <https://warontherocks.com/2020/07/for-our-enemies-we-have-shotguns-explaining-chinas-new-assertiveness/>; Joel Wuthnow, “China’s Inopportune Pandemic Assertiveness,” *PacNet* #33, June 10, 2020, <https://inss.ndu.edu/Media/News/Article/2214536/chinas-inopportune-pandemic-assertiveness/>.

*U.S. influence and alliance networks, and what do these actions reveal about Beijing's perceptions of U.S. strategy in the Indo-Pacific?*

Chinese strategists have carefully analyzed the reallocation of U.S. national resources and attention to the Indo-Pacific through the Obama administration's "rebalance to Asia" and the Trump administration's "Indo-Pacific strategy."<sup>80</sup> Overall, these strategies tend to be viewed as a form of containment; the United States is also frequently accused of fomenting "color revolutions" through support for anti-CCP actors in Hong Kong, Tibet, and Xinjiang. The military dimensions of these strategies are generally perceived as a net negative by complicating China's military operations within the "first island chain" and emboldening territorial rivals. Japan is a case in point. As late as the 1990s, some Chinese scholars thought that the U.S. military alliance with Japan acted as a useful "cork in the bottle" on Tokyo's ambitions. Today, though, most analysts think that the alliance has contributed to a shift from pacifism to "militarization."<sup>81</sup>

Beijing's response to the increased U.S. military presence in Asia has followed two trajectories. First is deterrence and what U.S. scholars would call "cost imposition." This includes shadowing, warning, and harassing U.S. naval and air forces operating near China to signal that Beijing is willing to assume a risk to protect its territorial interests, as occurred on multiple occasions in 2019 and 2020. It also includes developing and demonstrating the means to counter U.S. intervention in regional conflicts, such as conducting bomber flights to the "second island chain,"<sup>82</sup> publicizing tests of the DF-21D and DF-26B anti-ship ballistic missiles,<sup>83</sup> and rolling out new ballistic and cruise missile variants at the October 2019 military parade.<sup>84</sup> At the higher end, the PLA has modernized and diversified its nuclear deterrent by fielding new ICBMs and developing longer-range submarine-launched ballistic missiles.

Recognizing the limits on its military capabilities and the consequences of a wider conflagration with the United States, Beijing has taken some steps to reduce the risks associated with its deterrent strategy. Under the so-called "new type military relationship" with Washington personally championed by Xi, the two sides have regularly discussed risk reduction as a hedge

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<sup>80</sup> This section draws heavily from Joel Wuthnow, "Just Another Paper Tiger? Chinese Perspectives on the U.S. Indo-Pacific Strategy," *INSS Strategic Forum* 305, June 2020. For a study on Chinese views of the rebalance to Asia, see Christopher D. Yung, "A Pivot of Their Own," *Marine Corps University Journal* 8:1 (2017), 39-61.

<sup>81</sup> Adam P. Liff, "China and the U.S. Alliance System," *China Quarterly* 233 (2018), 137-165.

<sup>82</sup> For background, see Derek Grossman et al., *China's Long-Range Bomber Flights: Drivers and Implications* (Santa Monica, CA: RAND, 2018).

<sup>83</sup> Joseph Trevithick, "China's Reported Anti-Ship Ballistic Missile Test in the South China Sea Is a Big Deal," *The Drive*, July 2, 2019, <https://www.thedrive.com/the-war-zone/28810/chinas-reported-anti-ship-ballistic-missile-test-in-the-south-china-sea-is-a-big-deal>; Joseph Trevithick, "China Tests Long-Range Anti-Ship Ballistic Missiles As U.S. Spy Plane Watches It All," *The Drive*, August 26, 2020, <https://www.thedrive.com/the-war-zone/36004/china-tests-long-range-anti-ship-ballistic-missiles-as-u-s-spy-plane-watches-it-all>.

<sup>84</sup> Nevertheless, Xi reportedly urged Chinese forces not to "fire the first shot" against U.S. forces in the South China Sea, hedging the risks of an inadvertent conflict. Wendy Wu and Minnie Chan, "South China Sea: Chinese Military Told Not to Fire First Shot in Stand-off With U.S. Forces," *South China Morning Post*, August 11, 2020, <https://www.scmp.com/news/china/diplomacy/article/3096978/south-china-sea-chinese-military-told-not-fire-first-shot>.



against an escalating conflict.<sup>85</sup> Nevertheless, the fruits of this initiative have been limited as China more confidently pursues deterrence and “cost imposition.” For instance, Chinese ships and aircraft have repeatedly violated the codes for unplanned air and naval encounters that the two sides reached in 2014-5; Beijing canceled the Joint Staff Dialogue Mechanism, which was focused on risk reduction, due to China’s desire to punish the United States for U.S. sanctions on CMC officials;<sup>86</sup> and China has not agreed to subject its Coast Guard and maritime militia ships, which have been at the forefront of a number of dangerous incidents, to rules of behavior.

Second, China has tried to weaken the linkages between the United States and its regional allies and partners. A key insight of Chinese assessments of the “rebalance to Asia” and the Indo-Pacific strategy is that the prime U.S. competitive advantage lies in those relationships. Many countries look to the United States as a security provider rather than China, which has no formal alliances other than with North Korea; they, in turn, provide critical basing access to U.S. forces, purchase U.S. hardware, and participate in high-end exercises, often on subjects related to a potential conflict with China. The dominant prescription found in these analyses is that China should respond by leveraging its key competitive strength, which is economic largesse in terms of favorable trade balances, side-payments to foreign governments, and financing for infrastructure projects. The PLA is a supporting actor in this program. It contributes primarily by generating “soft power” via military exchanges, exercises, port calls, arms sales, humanitarian assistance/disaster relief, and most recently “mask diplomacy.”

Attempts to weaken the U.S. alliance and partnership network, however, have had limited success because of competing incentives in the Chinese system to escalate tensions with neighbors. Use of coercion, as witnessed across the region in early 2020, serves China’s interests in demonstrating commitment to enforcing territorial claims for a nationalistic domestic audience and in strengthening China’s “effective control” over contested regions, but paradoxically strengthens the bonds between the United States and its key allies and partners. Those actions not only strengthen a bipartisan commitment in the United States to maintain a robust military presence as a check on Chinese expansionism, but also increase the regional demand for U.S. military assistance and cooperation. Chinese actions in 2020, for instance, led Philippines president Rodrigo Duterte to suspend a threat to end a Visiting Forces Agreement with the United States.<sup>87</sup>

This aspect of China’s strategy was also hobbled this year because military tensions were allowed to rise with both Japan and India, states that Chinese strategists themselves regard as key to the success of the U.S. Indo-Pacific strategy. The fact that China allowed tensions with both countries to escalate at the same time as Xi was aiming to mend relations with his counterparts in

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<sup>85</sup> Phillip C. Saunders and Julia G. Bowie, “U.S.-China Military Relations: Competition and Cooperation,” *Journal of Strategic Studies* 39:5-6 (2016), 662-684.

<sup>86</sup> The sanctions were due to violations of the U.S. Countering Adversaries through Sanctions Act, specifically PLA purchases of advanced Russian weaponry. “China Postpones Military Dialogues In Protest Against U.S. ‘Sanctions,’” China Military Online, September 25, 2018, [http://english.chinamil.com.cn/view/2018-09/25/content\\_9296957.htm](http://english.chinamil.com.cn/view/2018-09/25/content_9296957.htm).

<sup>87</sup> Jason Gutierrez, “Philippines Backs off Threat to Terminate Military Pact with U.S.,” *New York Times*, June 2, 2020, <https://www.nytimes.com/2020/06/02/world/asia/philippines-military-pact-us-duterte.html>.

those countries suggests an additional factor beyond near-term incentives to escalate: China's strategy was so inept that some of the fault might be attributed to a breakdown in China's interagency process. It is far from clear that Chinese military and Coast Guard operations were coordinated with diplomatic and economic moves to curry favor in those countries. Whatever the reason, developments in 2020 suggested that Beijing was far from implementing its own "theory of victory" to weaken U.S. influence by depriving it of its main regional supporters.

### **Operational Effects of PLA Reorganization during COVID-19**

*Commission Questions: What has the PLA response to COVID-19 and other noncombat operations revealed about the PLA's post-reorganization capabilities? What does the PLA's performance indicate about the success of its recent reorganization in addressing persistent weaknesses?*

The PLA conducted two major domestic operations in 2020. First were the epidemic control operations in Wuhan that began in late January and ended in March.<sup>88</sup> Those operations featured the mobilization and deployment of more than 4,000 military medics and the transfer of hundreds of thousands of units of medical supplies to the beleaguered city. Chinese military and paramilitary personnel built and staffed makeshift hospitals while handling logistics and maintaining social order. Continuing the theme of confidence exhibited throughout 2020, the PLA claimed that *none* of its personnel were infected despite being in close proximity to patients and in the epicenter of the disease.<sup>89</sup> Second, the PLA responded to massive floods affecting eastern China in the spring and summer months.<sup>90</sup> Chinese officials reported that those operations collectively involved 725,000 troops who facilitated the evacuation of 137,000 people and provided critical assistance in strengthening levees.<sup>91</sup>

One revelation from these operations concerns the functions of the PLA's updated logistics system. In Wuhan, the JLSF played a decisive role. Compared to the previous system, in which logistics were largely handled by the military regions, the JLSF is more centralized. A headquarters oversees five Joint Logistic Support Centers, which in turn manage a network of supply depots and mobile logistics brigades (see Figure 2).<sup>92</sup> During the crisis, the JLSF commander and his staff drew on personnel and supplies from across the country and arranged their transportation to Wuhan, without having to secure permission from regional commands. Nevertheless, the flood relief operations indicated that the JLSF would not necessarily be on the

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<sup>88</sup> This section is based in part on Joel Wuthnow, "Responding to Wuhan: Insights into Chinese Joint Logistics and Cross-Theater Mobility," INSS Staff Report, March 25, 2020; and Joel Wuthnow, "Responding to the Epidemic in Wuhan: Insights Into Chinese Military Logistics," *China Brief*, April 13, 2020, <https://jamestown.org/program/responding-to-the-epidemic-in-wuhan-insights-into-chinese-military-logistics/>.

<sup>89</sup> Joel Wuthnow, "China's Military Claims to Be Virus-Free," *Foreign Policy*, March 20, 2020, <https://foreignpolicy.com/2020/03/20/pla-coronavirus-invasion-chinas-military-claims-to-be-virus-free/>.

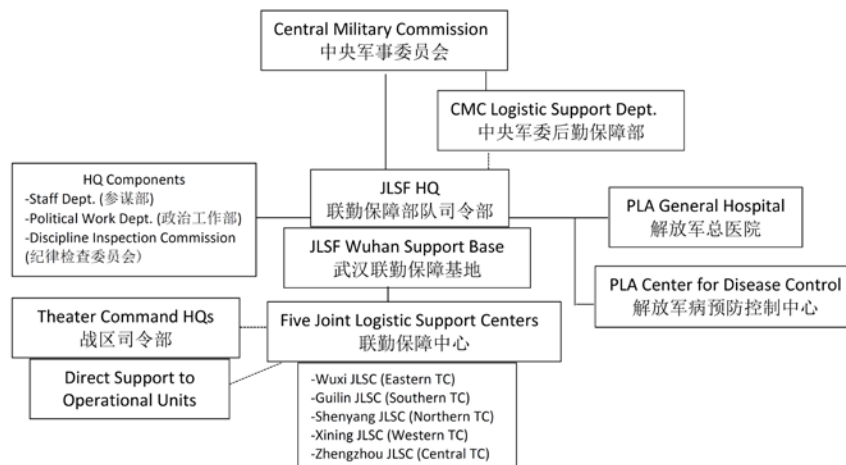
<sup>90</sup> John Dotson, "The PLA Is Mobilized for Flood Relief in Eastern China," *China Brief*, July 29, 2020, <https://jamestown.org/program/the-pla-is-mobilized-for-flood-relief-in-eastern-china/>.

<sup>91</sup> "Regular Press Conference of the Ministry of National Defense on July 30," China Ministry of National Defense, August 1, 2020, [http://eng.mod.gov.cn/news/2020-08/01/content\\_4869055.htm](http://eng.mod.gov.cn/news/2020-08/01/content_4869055.htm).

<sup>92</sup> Kevin McCauley, "Modernization of PLA Logistics: Joint Logistic Support Force," Testimony before the U.S.-China Economic and Security Review Commission, February 18, 2018.

frontlines. In that case, logistics were managed primarily by individual group armies.<sup>93</sup> This suggests that the army is able to independently plan and conduct smaller relief operations across long distances without the need to rely on “joint” enablers.<sup>94</sup>

**Figure 2: Joint Logistic Support Force Structure**



These operations also showcased the fruits of assorted modernization investments in seemingly mundane areas. During operations in Wuhan, PLA media reported that logistics troops used computerized inventories, networks, and bar codes to quickly identify supplies and track deliveries; they also used 5G networks to facilitate tele-medicine.<sup>95</sup> These reports demonstrate that while “informationization” is often discussed in the context of linking high-tech weapons and sensors into an effective “system of systems,” it also has important connotations in the logistics arena.<sup>96</sup> Reports on the flood relief operations noted differences with previous operations, which made greater use of “low-tech” tactics such as using ships or trucks to fill breaches. In 2020, Chinese troops used drones to perform “low-altitude infrared detection” of

<sup>93</sup> “The People’s Liberation Army and the Armed Police Force are divided into Multi-Channel Cross-Provincial Mobile Rescue and Disaster Relief” (解放军和武警部队 兵分多路跨省机动抢险救灾), *Jiefangjun Bao* (解放军报), July 15, 2020, pg. 1. Nevertheless, some of these operations did have “joint” characteristics. For instance, doctors from hospitals subordinate to the JLSF were mobilized. See “Front-Line Flood-Fighting Troops in the Eastern Theater Coordinate Service and Support Work” (东部战区一线抗洪部队 统筹做好服务保障工作), *Jiefangjun Bao* (解放军报), July 18, 2020, pg. 3

<sup>94</sup> It also suggests that the army has benefited from 14 years of trans-theater mobility exercises. For background, see Dennis J. Blasko, “The Biggest Loser in Chinese Military Reforms,” in Saunders et al., eds., *Chairman Xi Remakes the PLA*, 367-9.

<sup>95</sup> See, e.g., “Be a Good ‘Ferryman’ and Build a ‘Fast Track’ for Distribution” (当好物资‘摆渡人’ 构筑配送‘快车道’), *Xinhua*, February 8, 2020, <https://ishare.ifeng.com/c/s/7tts6gWbrQa>; “A Military Representative Office of the Zhengzhou Logistic Support Center Thoroughly Supports the Distribution of Epidemic Control Supplies to Wuhan” (郑州联勤保障中心某军代室全力保障防疫物资运抵武汉), *Jiefangjun Bao* (解放军报), February 5, 2020, [http://www.81.cn/lqbz/2020-02/05/content\\_9733320.htm](http://www.81.cn/lqbz/2020-02/05/content_9733320.htm).

<sup>96</sup> Informatization of the logistics system has been a longstanding goal for the PLA. For background, see Susan M. Puska, “Taming the Hydra: Trends in China’s Military Logistics Since 2000,” in Roy Kamphausen, David Lai, and Andrew Scobell (eds.), *The PLA at Home and Abroad: Assessing the Operational Capabilities of China’s Military* (Carlisle, PA: Army War College, 2010), 592-4.

the levees, “high-viscosity sandy soil” to reinforce dams, and relied on information supplied by local water monitoring systems to make key decisions.<sup>97</sup>

The Wuhan case demonstrated progress in military-civilian fusion in the logistics arena.<sup>98</sup> Recognizing the substantial logistics requirements of sustaining troops far from their barracks, PLA authorities have encouraged greater cooperation with civilian authorities and enterprises over the last decade. The products of that emphasis were on display two respects. First was coordinating with civilian transportation agencies to arrange bus and rail transportation for PLA personnel and to prioritize shipments of supplies on the civilian rail network.<sup>99</sup> Second was provisioning supplies from the local economy. For instance, one Joint Logistic Support Center, facing shortages from its current supplier, used new procurement authorities to solicit bids from other firms in order to maintain adequate stocks of medical gear.<sup>100</sup> The JLSF even procured life insurance for personnel working on the frontlines.<sup>101</sup>

Assessments of proficiency based on these cases should acknowledge improvements in centralization, informationization, and military-civilian fusion. However, observers should also recognize that the two operations were not a realistic test of how the PLA’s logistics and other combat support capabilities would operate during a war: no enemies were seeking to interdict the PLA’s supply lines or logistics networks, there was no requirement for transporting troops or equipment to overseas locations, and the scale of the effort was smaller than what would likely be required in a major conflict. However, these cases did offer the PLA insight into how parts of its reformed organization could function in a real-world contingency. Chinese authorities will undoubtedly try to derive lessons from these cases and make course corrections that could enable the JLSF and ground forces to operate more effectively in combat.

## Policy Recommendations

*Commission Questions: The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?*

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<sup>97</sup> “What are the New Changes in Fighting Floods?” (抗洪一线新变化折射了什么), *Jiefangjun Bao* (解放军报), August 6, 2020, pg. 5.

<sup>98</sup> For background, see Alex Stone and Peter Wood, *China’s Military-Civil Fusion Strategy* (Washington, DC: China Aerospace Studies Institute, 2020).

<sup>99</sup> “The PLA and People’s Armed Police Launch a Sniper Battle with the Novel Coronavirus with High Effectiveness” (解放军和武警部队高效率打响新冠肺炎狙击战), *Zijing Online* (紫荆网), March 3, 2020, <http://4g.zijing.org/?app=article&controller=article&action=show&contentid=808282>.

<sup>100</sup> “A Medical Supply Base of the Xining Joint Logistic Support Center Controls the Quality of Epidemic Supplies” (西宁联勤保障中心某基地药材供应站把好防疫物资供应质量关), *Jiefangjun Bao* (解放军报), March 10, 2020, [http://www.81.cn/lqbz/2020-03/10/content\\_9764264.htm](http://www.81.cn/lqbz/2020-03/10/content_9764264.htm).

<sup>101</sup> “Joint Logistic Support Force Provides Free Life Insurance for Medical Personnel” (联勤保障部队为军队抽组医疗力量免费提供人身保险), *Jiefangjun Bao* (解放军报), February 26, 2020, [http://www.81.cn/lqbz/2020-02/26/content\\_9752645.htm](http://www.81.cn/lqbz/2020-02/26/content_9752645.htm).

Despite the impact of COVID-19, which had at least a minor effect on PLA training and recruitment this year,<sup>102</sup> there was never much doubt that the Party would declare victory in its 2020 agenda and express enthusiasm for the next stage of reform and modernization. The “strong army dream” (强军梦) after all is an indelible part of Xi’s legacy; failure is not an option. Throughout the year, the CCP touted progress in achieving those goals and demonstrated confidence in using the PLA and paramilitary forces to enforce territorial claims, challenge U.S. presence, and conduct domestic disaster relief operations under difficult conditions. Yet below the artifice of strength was evidence of continuing capability gaps, foreign policy dilemmas, and the reality that the reformed PLA, for all its progress, has yet to face the “fog of war.”

A CCP with stronger military and paramilitary instruments of power and a greater willingness to escalate disputes with neighbors and U.S. forces poses clear challenges that U.S. policymakers will have to address. The Department of Defense faces increasing demand to shore up alliances and partnerships in the face of Chinese overtures to those states, improve regional deterrence and joint warfighting capabilities, and find ways to effectively manage engagements with the PLA. Congress and the U.S.-China Economic and Security Review Commission (USCC) can contribute to more effective U.S. strategic decisions with respect to China and the region in the following ways:

- *Commission an updated study on PLA weaknesses.* Public discussions of U.S. military strategy in the Indo-Pacific are replete with observations of Chinese strengths, especially in terms of counter-intervention capabilities. This partly reflects PLA efforts to showcase its military advances to shape regional views of the U.S.-China military balance. An effective strategy would not only seek to minimize the risks posed by those capabilities, but also exploit China’s vulnerabilities; this is most likely to be effective, as the *National Defense Strategy* put it, in areas “where we possess advantages and they lack strength.”<sup>103</sup> This requires an accurate appraisal of PLA weaknesses, some of which China advertises and others of which it has tried to obscure. In 2015, the USCC contributed to that objective by commissioning a study on that topic, which was conducted by the RAND Corporation, but PLA improvements over the past five years have raised doubts about whether some of that report’s conclusions are still valid.<sup>104</sup> Now is the time for the USCC to commission a follow-up report that asks: which weaknesses remain? Which do not? Are there new vulnerabilities associated with increased PLA dependence on networked joint command and control systems and space-based ISR? As with the first report, an updated version should consider not only hardware, but also “software” such as institutions, human capital, doctrine, and the Chinese defense industry. Such a product (which could be written at a classified or unclassified level) would, at a minimal cost to U.S. taxpayers, help strategists consider how to revise U.S. approaches in peacetime, crisis, and wartime.

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<sup>102</sup> “Defense Ministry’s Regular Press Conference on Feb. 28,” China Military Online, March 1, 2020, [http://eng.chinamil.com.cn/view/2020-03/01/content\\_9756363.htm](http://eng.chinamil.com.cn/view/2020-03/01/content_9756363.htm).

<sup>103</sup> Department of Defense, *Summary of the 2018 National Defense Strategy*, 4.

<sup>104</sup> Chase et al., *China’s Incomplete Military Transformation*.

- Promote a better understanding of ally/partner views of China.* As Chinese strategists themselves recognize, the key U.S. competitive strength in the Indo-Pacific is the network of U.S. alliances and partnerships. In an era of increased U.S.-China competition, those states are becoming battlegrounds of influence. Washington has tried to strengthen those relations under the Indo-Pacific strategy, while Beijing continues to weaken them. A key question is whether Chinese coercive acts, such as those that transpired in 2020, have shifted the battleground in a way that provides new opportunities for the Department of Defense and interagency to revitalize relations with key states. Are states like Japan and India more likely to demand closer defense ties with the United States? Will they “decouple” from China in technological or defense areas? How should we assess the political or practical limits on their willingness to cooperate with both states? In what ways do they try to play the great powers against each other? Answers to these questions would help in crafting a more effective U.S. strategy. The USCC can contribute to this task by holding a hearing on “Ally/Partner Perceptions of China” and by conducting staff research on this topic.
- Recommend new NDAA requirements on military exchanges with China.* Both countries continue to hold regular military exchanges and dialogues, but increasing friction is reducing both the quality and quantity of the relationship.<sup>105</sup> These exchanges continue to have value in allowing U.S. officials to convey messages directly to their PLA counterparts, understand Chinese strategic perspectives, and provide a window into PLA modernization and reform efforts, especially on “software” issues such as personnel policies. However, key U.S. concerns include Chinese violations of existing risk reduction agreements, the desire not to reward Chinese “bad behavior” with participation in prestigious events such as RIMPAC, lack of reciprocity, and exploitation of visits to improve PLA modernization in select areas. Reflections on whether U.S. interests can continue to be achieved, and indeed *what those interests are and should be* have not kept up with the deterioration of the bilateral relationship. Congressionally-mandated annual reports on China are required to discuss military relations, but the result is typically stock language on U.S. interests that hasn’t varied much over the last decade and a rote list of engagements in the previous year. Congress can play a role in stimulating new thinking on this topic by mandating a Department of Defense “bottom-up review” of the military relationship in the 2021 National Defense Authorization Act that includes a prioritized assessment of U.S. interests, perceived threats to those interests, risk mitigation approaches, a discussion of concerns about ally/partner military engagement with China, and a summary of the strengths and weaknesses of the defense engagement management system, along with recommendations for improvements. Meanwhile, based on that report

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<sup>105</sup> Joel Wuthnow, “Managing U.S.-China Military Relations in an Era of Strategic Competition,” draft manuscript. For recent published assessments, see Saunders and Bowie, “U.S.-China Military Relations”; Roy D. Kamphausen with Jessica Drun, “Sino-U.S. Military-to-Military Relations,” in Travis Tanner and Wang Dong (eds.), *U.S.-China Relations in Strategic Domains* (Washington, DC: NBR, 2016), 103-118; Scott W. Harold, “Optimizing the U.S.-China Military-to-Military Relationship,” *Asia Policy* 14:3 (2019), 145-168; and Andrew S. Erickson, “U.S.-China Military-to-Military Relations: Policy Considerations in a Changing Environment,” *Asia Policy* 14:3 (2019), 123-144.

and other analysis, Congress should consider updating the language on U.S.-China military relations in the 2000 National Defense Authorization Act with an eye to whether the restrictions listed in Section 1201 should be revised.<sup>106</sup>

- *Promote open source analysis of China.* Effective U.S. strategy towards China requires a diversity of views and analysis on the PLA. Open source research can be especially useful in detailing PLA organizations, training, military education, personnel, doctrine, defense industry, and many other issues that are covered in Chinese military newspapers, journals, books, and “gray literature.” It can also help shape public debate on the threats posed by the Chinese military and be freely shared with all countries, including those that are not traditional U.S. allies and security partners. Given constraints on the Intelligence Community, much of this literature has historically been produced by a community of academics, think tank and Federally-Funded Research and Development Center analysts, government contractors, and independent scholars. Many of these scholars are Chinese-language capable, have lived in China, and/or previously served as defense attachés or Intelligence Community analysts. A key problem is that many of the open sources that these analysts have traditionally relied on are becoming increasingly difficult to access. Some of that is due to Chinese restrictions, but the U.S. government is also at fault. Notably, Open Source Enterprise, which served as a clearing house for a wide range of Chinese and other foreign publications, has been closed. In its 2019 annual report, the USCC recommended that Congress direct the Office of the Director National Intelligence to restore this service, but no action has been taken<sup>107</sup> USCC commissioners and staff should follow up on this item and explore whether new funding, which would likely be a small amount, would be necessary to rebuild and expand Open Source Enterprise in a way that can be responsibly accessed by uncleared personnel, including funding that might be required to maintain separate classified and unclassified versions. Any funding appropriations should be included in 2021 legislation.

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<sup>106</sup> The 2000 NDAA specifies 12 areas where the Secretary of Defense can impose restrictions it “would create a national security risk due to inappropriate exposure...”

<sup>107</sup> U.S.-China Economic and Security Review Commission, *2019 Report to Congress*, 541

### Appendix: CCP “Three-Step” Development Strategies for the Chinese Armed Forces, 1997-2017

	1997 Jiang Zemin CMC Speech <sup>108</sup>	2006 Defense White Paper <sup>109</sup>	2008 Defense White Paper <sup>110</sup>	2012 18 <sup>th</sup> Party Congress Work Report <sup>111</sup>	2017 19 <sup>th</sup> Party Congress Work Report <sup>112</sup>
Step 1	Target: 2010 Over more than ten years, we will strive to realize the requirements of the military strategic guidelines in the new period and lay a solid foundation for the modernization of national defense and the military. Mainly solve the problems of military scale, organization, and policies; reduce the number of military personnel to a moderate size; establish a more scientific system establishment, and form a relatively supporting policy system that is compatible with the development of the socialist market economy; adjust and improve national defense mobilization system; military training must be raised to a new level; we have a batch of advanced main combat weapons and equipment; form a lean and effective basic system of weapons and equipment suitable for combat	Target: 2010 Lay a solid foundation	Target: 2010 Lay a solid foundation	Target: 2020 Building a consolidated national defense and a strong army that is commensurate with my country's international status and commensurate with national security and development interests is a strategic task for my country's modernization drive. We must adhere to the core security needs of the country, coordinate economic construction and national defense construction, and in accordance with the "three-step" strategic concept of national defense and military modernization, step up to complete the dual historical tasks of	Target: 2020 Basically realize mechanization, major progress has been made in information construction, and strategic capabilities have been greatly improved

<sup>108</sup> <http://www.reformdata.org/1997/1207/5729.shtml>

<sup>109</sup> [http://www.mod.gov.cn/affair/2011-01/06/content\\_4249948\\_2.htm](http://www.mod.gov.cn/affair/2011-01/06/content_4249948_2.htm)

<sup>110</sup> [http://eng.mod.gov.cn/publications/2017-04/11/content\\_4778231.htm](http://eng.mod.gov.cn/publications/2017-04/11/content_4778231.htm)

<sup>111</sup> [http://www.xinhuanet.com//18cpcnc/2012-11/17/c\\_113711665.htm](http://www.xinhuanet.com//18cpcnc/2012-11/17/c_113711665.htm)

<sup>112</sup> <http://finance.sina.com.cn/china/gncj/2017-10-18/doc-ifymvuyt4098830.shtml>



	under high-tech conditions, and have the deterrence and actual combat to perform military struggle tasks in the new era.			mechanization and informatization, and strive to basically accomplish mechanization and make significant progress in information construction by 2020.	
Step 2	Target: 2020	Target: 2020	Target: 2020	None	Target: 2035
	With the growth of the country's economic strength and the corresponding increase in military expenditures, speed up the pace of our military's quality construction, appropriately increase the development of high-tech weapons and equipment, improve the weapon equipment system, comprehensively improve the quality of the troops, further optimize the system and make big developments in army and national defense modernization.	Have a big development	Basically accomplish mechanization and make major progress in informationization		Consistent with the national modernization process, comprehensively promote the modernization of military theory, the modernization of military organization, the modernization of military personnel, and the modernization of weapons and equipment, and strive to basically realize the modernization of national defense and the military by 2035
Step 3	Target: Mid-Century	Target: Mid-Century	Target: Mid-Century	None	Target: Mid-Century
	After another 30 years of hard work, by the middle of the 21st century, the modernization of national defense and the military will be realized	Basically realize the strategic goal of building an informationized army and winning an informationized war	By and large reach the goal of modernization of national defense and armed forces		By the middle of this century, the People's Army will be fully built into a world-class army.

**OPENING STATEMENT OF DEXTER ROBERTS, NONRESIDENT SENIOR FELLOW  
AT THE ATLANTIC COUNCIL ASIA SECURITY INITIATIVE, FELLOW AT THE  
UNIVERSITY OF MONTANA'S MAUREEN AND MIKE MANSFIELD CENTER, AND  
AUTHOR OF THE MYTH OF CHINESE CAPITALISM**

CHAIRMAN CLEVELAND: Thank you. Mr. Roberts, would you proceed?

MR. ROBERTS: First of all, thank you Commissioners for the opportunity to provide testimony today.

China's leaders will meet their centennial goals to be accomplished by next year, 2021, or the 100th anniversary of the founding of the Chinese Communist Party to build what they call a moderately prosperous society. That includes eliminating absolute poverty as well as doubling the size of the economy and per capita disposable income from 2010 to 2020.

In response to the pandemic, however, China's policy makers have pushed more credit into the economy and once again encouraged rapid industrial growth.

China recently achieved the highest quarterly GDP of any major country, but it has also abandoned deleveraging efforts and also has slowed progress in moving towards a more consumption-driven economy.

During COVID-19, China's policy makers have supported enterprises through tax breaks and Social Security payment deferrals rather than give money directly to the population in contrast to the U.S. response with stimulus checks.

That has exacerbated inequalities in the economy to where today high-income consumers are doing well reflected in sales for luxury goods, while low income people have suffered from job losses.

Meanwhile, faced with a collapse in global growth, as well as growing tensions with most of its trading partners, China's leaders are doubling down on their long-term goal of rebalancing China away from its reliance on export manufacturing and investment and accelerating the shift to a more domestic consumption driven economy.

China's leaders describe their new growth strategy as a dual-circulation model, a nod to the fact that China will always trade with the world. Their clear emphasis, however, is on an economy that will be much more self-sufficient and can grow based on the spending power of its own people.

Their leaders today look around the world and see a global environment they view as deeply hostile to their future with U.S.-led efforts to slap tariffs on Chinese exports, cripple their national technology champions, and sanction their officials.

This focus on building up a more self-reliant economy does not mean abandoning priorities, like the Belt and Road Initiative. China will continue to try to drive and extend its influence and find new markets in Asia, Africa, and Latin America even as it tries to lessen its reliance on the United States, the European Union and Japan.

While China's leaders have been trying to strengthen consumption going back for years, they have struggled to grow the proportion of the economy that is made up by domestic consumptions which is still stuck at around 40 percent, far lower than the global average.

Low consumption is directly connected to China's rapidly widening income and wealth inequality which leads to precautionary savings, when the people spend less because of uncertainty. The inequality in turn is the result of the lack of progress in reforming two Mao-era policies that still today ensure that some one half of the Chinese people, migrants and their relatives in the country side, are treated as second class citizens.

The first is the household registration or hukou which ties one's social welfare to the place where one was born and that in effect bars China's roughly 300 million migrants from accessing affordable health care and education for their children in the cities where they work.

The second is the dual land policy which prevents rural Chinese from renting or selling their land at market rates. This stands in direct contrast to the cities where there has been an explosion of wealth as urbanites have profited from buying and selling their apartments.

China also faces the real risk that development of its science and technology stalls as export controls, and its own renewed focus on going it alone, limits its access to international talent and technology.

China's goal of developing domestically produced technology has a long history going back to the indigenous innovation policy under the previous administration run by Hu Jintao and today we see it in Made in China 2025.

China's technological progress to date however has relied on the exchange of people and knowledge across its borders. The demographic challenge of a rapidly aging population also is likely to be a constraint.

An older work force is typically less likely to be innovative. China's deeply unequal education system with huge gaps in quality between cities and the countryside will also hinder their move up the technology value chain.

Policymakers could respond to the challenge by accelerating reforms, which would allow more people to enter the middle class and help China transition to a more sustainable economy. They could do this while continuing to engage with the world.

Unfortunately, the signs are not encouraging, with cities making it even more difficult for migrants to settle down and little progress giving people more control over their land in the country side.

Growing inequality could spark push back from society, a prospect that clearly worries the Party. One possible diversionary response would be to lash out in places like the South China Sea and Taiwan, which would risk a direct conflict with the U.S.

To stem the rapid deterioration in the relationship, the U.S. should restart some of the more than 100 government-to-government forums that have been used to manage the relationship between the two countries.

Congress should find ways to strengthen relations with the countries that share concerns about China's mercantilist economic strategy and coercive diplomacy. Working together will be more effective than unilaterally.

The U.S. also must build up its tattered people-to-people exchanges with China which can help counter their leaders' efforts to portray the U.S. as a threat. And while being mindful of the real danger of technology theft, the U.S. should stop singling out Chinese students with visa restrictions and once again make America the global choice for all international students.

Finally, the U.S. must ensure adequate funding for education and for innovation and technology development at home. Only with a competitive economy will the U.S. be able to manage the growing rivalry with China including for global soft power influence. Thank you.

**PREPARED STATEMENT OF DEXTER ROBERTS, NONRESIDENT SENIOR  
FELLOW AT THE ATLANTIC COUNCIL ASIA SECURITY INITIATIVE, FELLOW  
AT THE UNIVERSITY OF MONTANA'S MAUREEN AND MIKE MANSFIELD  
CENTER, AND AUTHOR OF THE MYTH OF CHINESE CAPITALISM**

Hearing date: Sept. 9, 2020

Dexter Roberts

Nonresident Senior Fellow at the Atlantic Council Asia Security Initiative, Fellow at the University of Montana's Maureen and Mike Mansfield Center, and author of *The Myth of Chinese Capitalism: the Worker, the Factory and the Future of the World*

"Testimony before the U.S.-China Economic and Security Review Commission"

Hearing: "*U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges*"

- 1) How do CCP leaders view their prospects for achieving the economic modernization goals they set for 2020? What is the state of the social contract and the CCP's ability to keep providing economic growth approaching the end of 2020?

China's leaders are feeling confident they will meet their centennial goal—to be accomplished by 2021 or the 100<sup>th</sup> anniversary of the founding of the Chinese Communist Party—to build what they call a "moderately prosperous society" or in Chinese *xiaokang shehui*. As part of a "moderately prosperous society" they have pledged to eliminate absolute poverty by the end of this year and double the size of the economy and per capita disposable income from 2010 to 2020, all three of which look reachable. According to China's official figures, some 93 million people have been lifted out of poverty since 2013, more than ten million annually, and only a little over five million remained in absolute poverty at the beginning of this year. China has already met its target of doubling GDP and looks set to narrowly accomplish its goal of doubling per capita disposable income, despite the challenges posed by COVID-19. In the short term however, in order to keep growth from falling too precipitously due to the pandemic, China's policymakers have had to push more credit into the economy, and once again encourage rapid industrial growth. That helped China achieve the highest quarterly growth of any major country in the second quarter, but also at least for now has meant abandoning deleveraging efforts which aimed to reduce the economy's alarmingly high debt levels. It also has slowed progress on moving to a more consumption-driven economy.

- 2) Describe the policies China's leaders have used to respond to economic fallout from the COVID-19 pandemic, as well as the "dual circulation economy." What is the interaction between these policies and mitigation of trade tensions? Where do they fit in with the overall strategic direction of China's economic planners?

During COVID-19, China's policymakers have supported smaller enterprises through tax breaks and social security payment deferrals rather than giving significant sums of money directly to the population, in contrast to the response here in the US with stimulus checks. That has exacerbated inequalities in the economy to where today wealthy consumers are doing well, reflected in strong sales for high-end goods including Louis Vuitton handbags, smart phones and luxury vehicles, while middle-income and lower-income people have suffered from job losses and slower income growth, and mass market sales have stagnated.

Meanwhile in response to the pandemic-induced collapse in global growth, as well as growing tensions with more than half its top twenty trading partners, China's leaders have announced their intention to double down on their long term goal of rebalancing China away from its reliance on export manufacturing and investment and accelerating the shift to a more domestic consumption-driven economy. Earlier this year top leaders even created a slogan for it when they coined "dual circulation" to describe their new growth model. While the new policy refers to dual reliance, a nod to the fact their leaders know China will always trade with the world, the clear emphasis now is on an economy much more self-sufficient that can grow based on the spending power of its own people. China's leaders today look around and sees what they believe is a global environment openly hostile to China's future, with US-led efforts to slap tariffs on its exports, cripple its national tech champions including Huawei, Tencent, and ByteDance, the parent company of TikTok, and sanction its officials in Hong Kong and Xinjiang. Its leaders clearly feel China can no longer rely as much on the world to meet their ambitious development goals. Indeed, over the last year we have heard president Xi Jinping refer with ever more frequency to the need for self-reliance, or *zili gengsheng*, a key goal and phrase of the autarchic Mao-era.

- 3) What are the consequences of the policies described in the previous question for the domestic economy, and what does this outcome say about the strengths and limitations of China's economic management? How do they impact Beijing's ability to act on its geopolitical vision and meet its international obligations, for instance through the Belt and Road Initiative?

This focus on building up a much more self-reliant economy does not mean abandoning national priorities like the Belt and Road Initiative. It will continue as China aims to extend its influence and find new markets in Southeast and Central Asia, Africa, and Latin America even as it tries to lessen its reliance on the U.S., European Union and Japan. China's leaders have talked of the need to strengthen domestic consumption, in part in response to the continuing drop in export competitiveness due to rising wages, going back at least to a key party plenum in 2013. They however have struggled to lift the proportion of the economy made up by domestic spending, which has remained stuck at around only forty percent for years now, and is far lower than the global average of sixty-plus percent. The inability to grow consumption is directly connected to the rapid growth in income and wealth inequality in China today, and the tendency of less well-off Chinese to engage in so-called "pre-cautionary savings" or not spend because they feel uncertain about their future economic prospects. Inequality and the lack of confidence in the future now prevalent in China, in turn have much to do with the lack of progress in reforming and ultimately ending two Mao-era legacy policies that still today ensure some one-half of the Chinese people, migrants and their relatives in the countryside, are treated as second-class citizens.

The first of those policies is the household registration or *hukou* which ties social welfare provisions to the place where one, or one's parents, were born; that in effect bars China's roughly 300 million migrant workers from accessing affordable healthcare and education for their children, in the cities where most of them work. The second is the dual land policy which prevents rural Chinese from renting or selling their land at market rates. This stands in direct contrast to the cities, where there has been an explosion of wealth as urbanites have profited from buying and selling apartments; indeed the dual land policy is probably the key driver of China's rapidly expanding wealth gap, which now has reached levels comparable to those in Russia. And it is the reason that China will struggle to continue to grow its middle class and lift the domestic spending power of its people.

- 4) Is China's science, technology, and innovation ecosystem able to prosper independently if access to international talent and the technology supply chain is constrained, either through external limits such as U.S.-imposed export controls or internal constraints such as limiting foreign investment?

China also faces the real risk that the continued development of its science and technology ecosystem stalls as U.S.-led export controls and its own renewed focus on pursuing a go-it-alone approach to development, limits its access to international talent and technology. The leadership's goals of developing China's own domestically-produced technology has a long history and decoupling must be seen as a two-way street: driven both by countries concerned with excessive reliance on China's supply chain and the Chinese leadership's own longtime desire to break its reliance on global technology. This emphasis on technological self-reliance goes back even earlier than the policy of "indigenous innovation" pursued by the previous administration of Hu Jintao, and continues as a top priority today as evidenced by the national strategy of "Made in China 2025". China's policymakers for years have had specific targets to reduce China's reliance on the imported technology and produce their own technology, in areas ranging from robotics to aerospace.

Despite the rhetoric, China's technological progress to date-like countries around the world-has relied on a robust exchange of people and knowledge from outside its borders; there is no reason to think that openness is no longer necessary. The demographic challenge of a rapidly aging population also is likely to be a constraint; an older workforce is typically less likely to be innovative research has shown. And China's deeply unequal education system, with huge gaps in quality between its showcase cities and the interior of the country where a large proportion of its young people still study, will be a hindrance to its ability to continue to move up the technology value chain.

- 5) What is next for the U.S.-China economic relationship? The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony? Does the United States government have adequate policy tools to address a redefined economic relationship after the events of 2020?

China's policymakers could respond to the economic challenges their country now faces by accelerating reforms of the household registration and dual land policies which would allow more people to enter the middle class and help China transition to a more domestic consumption-driven economy. They could do this while continuing to engage with the world. Unfortunately, the signs so far are not encouraging with little progress on liberalizing *hukou* or giving rural people more control over their land, while localities across the country are making it even more difficult for China's migrants to settle down. The response to the pandemic may make China even more restrictive in controlling where its large lower-income migrant population live long term, to the detriment of economic growth and vitality.

Meanwhile, China under Xi Jinping appears to be adopting an ever stronger "politics in command" ideological approach to manage society, including through invasive technological monitoring of its people, and to manage its economy. Xi has made clear that private entrepreneurs must, as he put it, "love the Party"—meaning they must focus not just on making profits but also ensure their broad corporate goals align with that of the CCP, especially as they become larger and more successful. Political pressure on entrepreneurs and growing inequality could spark pushback from disgruntled citizens, a prospect that already clearly worries the party. One possible response from China's leadership could be to lash out in places like the South China Sea and Taiwan to distract its people from problems at home.

To stem the rapid deterioration in the bilateral relationship and avoid the real possibility of an eventual military conflict with China, the U.S. should work to restart some of the more than 100 government-to-government forums that have been used to manage the day-to-day relationship between the two countries, but that have been discontinued since 2017. It is also critical that the Congress find ways to strengthen relations with countries that share concerns with the U.S. about China's chosen model; working together with others would be far more effective in countering China's mercantilist economic strategy and its coercive style of diplomacy than the current administration's unilateral approach. At the same time the U.S. must work to build up the tattered people-to-people exchanges with China which can help counter that country's leaders' efforts to portray the U.S. as a threat to the Chinese people. And while being mindful of the real danger of technology theft, the U.S. government should stop singling out Chinese students with visa restrictions and work to once again make America the top global choice for all international students going abroad.

Finally, the U.S. must also get its own house in order, including by ensuring adequate funding for education and for innovation and technology development; only then will the U.S. be able to maintain the competitiveness of its economy and be better positioned to manage the growing rivalry with China, including for global soft power influence. That too will allow the U.S. and China to avoid full decoupling and continue to have a mutually beneficial if often contentious relationship, one that both countries' economies and companies depend on, and one that is crucial to confronting global challenges including climate change, nuclear proliferation and pandemics.

## PANEL II QUESTION AND ANSWER

CHAIRMAN CLEVELAND: Thank you very much. We'll proceed in reverse alphabetical order this time so Dr. Wortzel, you have the first round of questions.

COMMISSIONER WORTZEL: Got me. So you can hear me?

CHAIRMAN CLEVELAND: Indeed, we can.

COMMISSIONER WORTZEL: That's great. Thank you. It was really good testimony I have (audio interference) primarily for Dr. Wuthnow, but I think that any of you might want to answer. (audio interference).

CHAIRMAN CLEVELAND: Larry, we're having trouble --

COMMISSIONER WORTZEL: But between --

CHAIRMAN CLEVELAND: -- hearing you.

(Simultaneous speaking.)

VICE CHAIRMAN BARTHOLEMEW: Make sure you speak into the microphone.

COMMISSIONER WORTZEL: -- into the computer?

CHAIRMAN CLEVELAND: There you go.

COMMISSIONER WORTZEL: Between CNKI and all the translation services that are out there now, even if you can't read Chinese, you can just kind of Google a subject.

Almost any article out there is translatable and if you can't read Chinese, that was about the main reason in my view, the CIA kept the open source center. They had for decades hired analysts.

They were good analysts in the day, but you know, the top guys couldn't read a word of Chinese. That is not the case anymore. I go out to these agencies, they have some absolutely superb young, sometimes not so young, Chinese speakers.

Anybody doing it at NSA speaks Chinese. Today mostly DIA is the same so why do we need that? I want to work on China and do it with primary sources, learn the language.

DR. WUTHNOW: Sure. And thanks so much --

CHAIRMAN CLEVELAND: I think that's for Dr. Wuthnow --

DR. WUTHNOW: Yes.

CHAIRMAN CLEVELAND: -- in terms of encouraging more resources invested in open source.

DR. WUTHNOW: Yes. Thank you for the question. My general view is that as an analyst who has been working on this recently, Open Source Enterprise was incredibly useful for doing efficient research because it swept up a lot of different types of materials not only from the PLA, but also from other Chinese sources and grey literature.

It provided a very useful clearinghouse before translated materials often with the original text appended. There are work-arounds to this, but my view is that the work, even a language-capable analyst is slower, less efficient and less productive in the absence of this.

I personally think that the lack of this system is impeding our research and if there's a low-cost way to bring it back, especially for scholars outside of the intelligence community who do a lot of the foundational research on the PLA, then that to me, I think, is a very good thing and a good use of taxpayer money.

That's my view as an analyst who works in both languages.

CHAIRMAN CLEVELAND: Larry, do you have an additional question or shall we move on?

COMMISSIONER WORTZEL: I'll have an additional comment if I may.



CHAIRMAN CLEVELAND: Please.

COMMISSIONER WORTZEL: Joel, I mean, let us be real frank about this. You mentioned the very difficult time it is now to get open sources out of China and I have the same problem.

You know, a lot of things are cut off that we used to get. So the intelligence community now has to resort to intelligent sources and methods to obtain a lot of that grey material or FOUO or classified stuff. And it's now classified because of intelligent sources and methods. So if you're in the system on a classified high-end system, you get access, but if you're not, sorry about that, you know.

CHAIRMAN CLEVELAND: Okay. Thank you. I don't know that we've resolved that. Senator Talent.

COMMISSIONER TALENT: Robin, good. Yes, my mic is on. I thought this was going to be a great panel and I was not disappointed so thanks to the three of you. So I want to focus on the South China Sea and the activities of the PLA there.

I've been concerned for some time that the Chinese, that the PLA has become and that Beijing believes it has become by far the dominant power in its near seas and in particular in the South China Sea. Admiral Donaldson said in his confirmation hearing that they're capable of controlling the South China Sea in all scenarios short of war with the United States, by which I think he meant escalating armed conflict.

So my first question is whether you agree with that assessment and the second question is whether you believe as I'm inclined to believe that their activities in the last year are the fruit of that.

In other words, they care about the South China Sea because they want to control their strategic environment and because they want to control resource extraction. And they've been moving very aggressively to do it. Effectively you cannot extract resources in the South China Sea even in your own EEZ unless Beijing agrees.

I think that's the message that they've been sending. They're acting like a sovereign so I would like to know whether you agree with that assessment. And second, if you do, what as a practical matter in the short term, the United States and its allies can do about it.

I mean is there some combination of force that we can assemble in those seas to be able to deter them from doing what they have done to Malaysia, the Philippines, Vietnam, and I think the list is going to go on and on in the years to come.

And I'll direct that to any of the three of you. I suppose Dr. Wuthnow, given your testimony and your focus of it that you might want to go first.

DR. WUTHNOW: Sure. Happy to. My view, I generally agree with Admiral Davidson's assessments that China has expanded its effective control in the South China Sea. It has done that in many ways, most particularly through the massive land reclamation and militarization of the islands -- islets in the Spratlys and it has done that in a number of different ways including exercises, moving higher-end resources down there on a rotational basis.

You know I think one kind of caveat to that though is that China has the capability to, in a sense, evict other claimants from their outposts in the South China Sea fairly easily, but it hasn't done so yet.

And I think the reason for that is that China still has some type of a balancing act it's trying to do diplomatically with those countries whether it's Vietnam, the Philippines, or so on.

And so there are pressure points I think you can push. If China thinks that its relations with those countries would be absolutely destroyed because of the use of the deadly force, then I

think that, you know, for now China is remaining in the grey zone and so that provides some opportunities. The United States policy, I think has been clear on this for a long time. Are there ways to make it more effective? I think yes.

I think selling some more advanced anti-ship missiles, other high-end systems to some of those countries would be good. Continuing to do high-end joint exercises with some of those countries, including outside powers like Japan and Australia, even India, would be good.

But at the end of the day, China, I think, has already established a foothold and unless we're willing to risk more to push China out of territory it's already occupied, then I think, you know, there our options currently are limited.

COMMISSIONER TALENT: Anyone else? Well, I thank you for that. I agree with you that our options are limited. I mean to me, it suggests that to, for the DOD that we can't just focus on what our posture ought to be in the region ten years from now.

We have to think about what's going to happen in the next ten years if we don't effectively do something. And I hear what you're saying. Maybe you can respond to this.

I got what a minute and a half left or 30 seconds. Okay.

Well, I was going to say, to me their activities in the last year suggest that reputational damage is something that they're now pretty much prepared to discount and so I'm just concerned that we're going to see them effectively acting like the sovereign in those seas if we don't do something. Thank you.

CHAIRMAN CLEVELAND: Would either of the other witnesses like to speak to that issue of reputational damage independent of the South China Seas? Okay. Commissioner Lewis?

COMMISSIONER LEWIS: I'd like to ask a question of Mr. Roberts about the economy of China and what are the challenges inside China given the huge debt they have and what is the chance of a real recession in China causing problems internally and I'd like to ask the other two people, we've known that there have been many purges on the leader's rise to power in China.

Has the purge ever included the military and then on the assertiveness of China's foreign policy, is this strictly the leader's role in doing that or does the military get involved in the foreign policy decisions that we see through assertiveness? So I would like to ask first Mr. Roberts and then the other two people.

DR. ROBERTS: Thank you for the question. I would say, yes, there is real risk of a significant slowdown in the Chinese economy. We've seen, you know, we saw what quite believable numbers in the first quarter with a real contraction in the economy.

This rather remarkable I think it was 3.2 percent GDP growth in a second quarter. Setting aside whether we actually believe that figure is completely accurate, it is clear that the economy did come back to life in the second quarter too in a quite admirable way when you look around the world.

The fact of the matter though, is that growth was really driven by again pushing much more credit into the economy, abandoning as I said earlier in the testimony the goal of reducing what is already an alarmingly heavy debt overhang, over 300 percent of GDP in the economy.

It also was a very large step back in their goal of trying to rebalance to this much more domestic market-driven economy which they see now as crucial, particularly given the state of the world: the fact that they cannot rely on exporting to the world and they cannot rely on open markets around the world for their products.

So this goal of trying to transition to a much more domestic market economy which has been going on for quite some time I should say, is clearly not -- they're not moving in that direction right now.

They longer term are dealing with a pretty precipitous drop in productivity in the economy which means they have to just pile on more debt to get growth. And as I mentioned earlier, it is exacerbating the inequality in the economy, which is a real, has a real potential for causing social instability.

COMMISSIONER LEWIS: Thank you, Dr. Roberts. Has there been a purge of the military in China? As the leader has purged many other areas of potential rivalries in China. And what has been the role of the military in the assertiveness of China's foreign policy? Are they participating with Xi or is it all Xi?

DR. WUTHNOW: Sure. Thank you. Xi Jinping has conducted an extensive anti-corruption campaign in the military that has resulted in military leaders associated with Jiang Zemin from being removed from power. So that in a sense is a purge.

He has put military leaders who are loyal to him who he trusts in all of the major positions of power within the PLA which is notably different from Hu Jintao who wasn't ever able to do that. So Xi's authority in the military I think is quite a bit stronger.

With respect to the second question, I think most analysts, including myself, would say that the PLA's role in the foreign policy decision making is fairly limited. The military has two members on their Politburo and none on the Politburo Standing Committee so they may voice an opinion, but their strongest influence I think is strictly on military affairs, what to build, how to use military force and so on.

So this is not like it was in the 1970s, let us say, when the military had extensive a role in all of these issues. So they've been in a way returned to the barracks, but also returned to their professional status as providers of military advice so on foreign policy I think they play a role, but it's somewhat limited.

COMMISSIONER LEWIS: Thank you. And I would like to ask Mr. Small, is the foreign policy of China, the assertiveness -- is that a reflection of Xi's strength or is it a reflection of his weakness wanting to rally the country behind him so that the potential competitors won't have much of a standing when the country rallies behind him?

MR. SMALL: Sure. So I mean it depends when you date the assertiveness from. I mean certainly it predates Xi Jinping himself. We've moved into a new phase evidently under Xi Jinping in terms of the level of assertiveness and arguably a new phase again beyond that even this year in terms of what we're seeing in terms of both diplomatically and militarily the multiple fronts have opened up.

And I think this has been a difficult case to analyze in terms of what elements of it came from the Party's kind of perceived weakness and vulnerability and sense of threat at the beginning of the year, in particular the kind of prickly defensive reaction that we've seen on all sorts of fronts, and which elements of it were also simply about taking the opportunity to assert its position on multiple fronts.

I'm not sure that this is purely tied to Xi Jinping's internal maneuvering on this front. I think this is a kind of -- this has been taking place on a wider basis than this and I think has elements of defensiveness and assertiveness playing out at the same time.

There is absolutely clearly a sense of vulnerability that's been there during this window of time particularly as a result of the situation the Party faced at the worst early stages of the pandemic, but it has also seen certain opportunities during a period in which other actors are

distracted and in different ways failing in their own responses and has moved to take advantage of that too.

COMMISSIONER LEWIS: Thank you very, very much for your responses. Thank you.

CHAIRMAN CLEVELAND: Thank you. Commissioner Lee.

COMMISSIONER LEE: Thank you very much, Robin. And thanks to the panel for all of your excellent testimonies.

In the last panel we had a little, short conversation about sort of a fundamental contradiction for the Chinese Communist Party which is the desire for domestic stability which really translates to a fear of democracy and dissent, but that in some ways creates a real tension which is that the more you repress, then the more backlash there is and protests.

And it's, I think, an inherently unstable situation. So my question is for Mr. Roberts. Following up in terms of the economy and the very interesting tension that you laid out which is that you have this sort of deep inequalities that are happening between rural and urban areas with respect to health care, with respect to education, with respect to land ownership and that inequality really comes, it seems to me and I'm interested in hearing your view on this, from the lack of democracy and the fear of democracy.

The antipathy towards, you know, having more, you know, rural people and there are a lot of them, don't get to vote out the hukou system for example.

But, do you think that this is a tension that, you know, can be resolved by more strong central government or do you think this will continue to fester in terms of the economic outcomes that are important to a lot of people in China and the Chinese government's key objectives and goals around stability and delivering a strong economy?

MR. ROBERTS: Thank you for the question. Well I think the Party faces a real dilemma because they do know that they can no longer rely on the world, on exports, on heavy investment to the degree that they have in the past.

They do know and they've been saying this for at least a decade that they need to move towards a much more consumption-driven economy. In order to do that though, they do need to deal with these legacy policies, the household registration, the dual-land policy.

Which as I said earlier, keeping these significant, almost half of the population, in sort of this second-class status. It's also an extreme hindrance on continuing to grow the middle class. There's been this expectation that the middle class will magically keep growing larger and larger in China.

Well the reality now is that's not going to happen without real reform of these legacy policies. So they need -- they know that they need to do that in order to basically wean themselves off this reliance on debt and on the exterior, on the rest of the world.

There's some very significant constraints, there's a perception probably at least in part true that the cost of integrating migrants and real people into urban economies, giving them comparable health care and education would be very expensive.

Now there's other researchers in China that actually say that they're -- typically they come to cities, they're very hard working, they could be taxpayers and they might actually end up paying for their own new social welfare costs. So that's one area of resistance.

The other big one actually is urbanites who have shown themselves very unwilling to share their already overcrowded hospitals and schools with migrants and we've actually seen protests in the cities in recent years by urbanites against fairly well-meaning efforts by the central government to try to bring more migrants into the schools while you have urban parents actually protesting and saying, don't let them into the schools, they're already too competitive.

So that's an issue as well. I think ultimately though, the dilemma is between the Party's increasing tendency towards controlling not just politics, but obviously the economy and society as well and actually making these reforms means letting go.

It means allowing significant numbers of the people in China that have not been allowed to permanently settle where they would like to settle, let them now make that decision on their own.

So I do think they're in a very tough spot here and I'm not sure that the Party, given its increasing desire to control all aspects of China, is very well positioned to make what I think are essential reforms.

COMMISSIONER LEE: Thank you very much. That was great. Any additional comments for Dr. Wuthnow or Mr. Small? Okay. Thank you very much.

CHAIRMAN CLEVELAND: Thank you. Commissioner Kamphausen.

COMMISSIONER KAMPHAUSEN: Thank you to the panel. My question is for Dr. Wuthnow. In your testimony, you --

VICE CHAIRMAN BARTHOLOMEW: I think we might have lost our Chair so we should move to Commissioner Kamphausen for a question.

COMMISSIONER KAMPHAUSEN: Can you hear me? This is Roy Kamphausen. Can you hear me?

CHAIRMAN CLEVELAND: I think we've lost the --

VICE CHAIRMAN BARTHOLOMEW: Yes, we can.

COMMISSIONER KAMPHAUSEN: Okay. My question is for Dr. Wuthnow. In your written testimony, you enumerate a series of challenges for the PLA, what you call unfinished business, delayed reforms, old equipment, corruption, human capital deficiencies and dated doctrine.

What is the evidence that this unfinished business is playing any sort of role in PLA assertive or aggressive activity? Indeed, in your testimony, immediately after your recitation of the PLA challenges, you discuss the proliferation of coercive Chinese actions across the region in the last year.

Now lest any listeners think I'm just sharpshooting Dr. Wuthnow, let me say I'm a big fan and admirer of his work and I think for that reason he is precisely the right person to assess what difference it might make that PLA weaknesses are apparent and only haphazardly addressed by the leadership.

Put simply, is there a link between capabilities and coercive actions? If the business were finished, would the PLA be even more aggressive or is PLA aggressiveness related to other factors and what might those be?

This is of course relevant to our work, not least because of your recommendation that Congress commission more study of PLA weaknesses and my question really is to what end? Joel?

DR. WUTHNOW: Okay. Thank you, Commissioner Kamphausen for the question. My view on this is that the weaknesses that I discuss haven't had a strong bearing on the grey zone coercive activities that we've seen, especially over the last year or so.

Those kind of activities do not require a high-end warfighting capability. They require bulk, they require mass, they require maritime militia ships, they require some level of training and proficiency, but not to the level that you would need to fight a major war, for instance, against Taiwan or the United States.

And so we consider such as lack of an updated doctrine, lack of high-end and joint commanders and things like this. These weaknesses, I think, would be more apparent in those higher war fighting scenarios and so if there's any evidence that these weaknesses have shaped Chinese decision makers, perhaps it's in the fact that China hasn't gone to war since 1979, which is not to say that these are the decisive factors, only that these are factors that play into that calculus.

And so I think if China makes progress in these areas, for instance if it rules out another generation of doctrine or if it's able to close, significantly close some of those capability gaps, for instance in strategic sealift and transport and so on, that would make the decision to go to war against Taiwan or another rival more palatable for the civilian leadership. So I think that's how you square the circle.

And the recommendation I think would be focused on those scenarios so in higher war fighting scenarios, what weaknesses, what levers do we have, what vulnerabilities are there that we can target to make the PLA's job much tougher in those scenarios.

COMMISSIONER KAMPHAUSEN: Thank you very much. This suggests that there is still room for us to be able to deter a great power war. Especially if our actions or our developments, our modernization is focused in ways that put at risk those critical weaknesses that they still have and have not addressed to a level that would enable them to be more competent at higher-end warfare.

So I appreciate your answer. I'll have some follow-up questions for the record and ask that you respond, but I'll cede the rest of my time and thank you.

CHAIRMAN CLEVELAND: Thank you. Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Madam Chair. Thank you, Gentlemen for your time. Mr. Roberts, I just want to do a quick follow-up on Commissioner Lee's question to you about some of these restrictive policies that are hindering rural development in China.

In an article you wrote last spring, you actually indicated that some smaller cities in China have in fact opened up for permanent settlement by migrants and given kind of prevailing attitudes that you discussed in your response to Commissioner Lee about how welcoming some of these municipalities are to settlement and to migrants, I was curious as to the motivation of those cities in allowing such settlement and curious about the size and scope, the number of cities that have allowed.

MR. ROBERTS: So there's been talk -- thank you for that question, first of all. The leadership has been talking for quite a long time, certainly since a key Party meeting in 2013, about the need to reform the household registration policy.

What they've typically done is pilot programs with specific municipalities designated from above as those that will be more receptive to migrants settling down longer term. What they don't do is allow the migrants to travel where the jobs may be or where they would like to settle down.

Instead, it's been very selective. Those municipalities are often again selected from above by senior Party members, provincial Party members and often there's an issue there. There might be an economy, the economy might not be doing very well.

They've even talked about in some cases trying to get migrants to come in to municipalities that have a problem with so-called ghost cities where there's been excessive real estate development, lots of vacant apartments and there's somehow this idea that you bring migrants in, they'll help rejuvenate the local economy, they might buy up the excess apartments.

But the question of what kind of jobs they will get and how they will somehow rejuvenate the local economy is usually not made clear. One, just one last thing, typically the more desirable locations, places like Dongguan down in Guangdong which indeed has tried to -- has a policy of, in theory, letting more migrants in, will use a point-based system which is very, very difficult for your average migrant to meet -- things like your education level, whether you've actually purchased an apartment there, whether you've actually paid your Social -- paid into the Social Welfare Fund and paid local taxes for a certain number of years.

Those things are determined in granting the hukou status for these migrants. In many cases, those are out of the reach of most migrants. In many cases, they have not paid into their Social Welfare Funds. Often their factory managers discourage them from doing so.

COMMISSIONER GOODWIN: So, it's instituted from the top down as you indicated so it's not a situation where individual cities are making competitive decisions to try to attract workers or migrants to settle there?

MR. ROBERTS: In some cases, there may be flexibility where a province will ask municipalities to raise their hands and say we would like to welcome more migrants in, we'll try to put a program in place to do that. But typically, those places are not those that -- most important issue, not the places that the migrants want to go to.

If you look at some of the showcase cities of China, Beijing, Shanghai, Shenzhen, many of the provincial capitals, which is where many migrants would like to go, typically they are very unwelcoming.

Cases like Beijing and Shanghai that actually set growth -- population growth targets which necessitate reducing the population and there's been very aggressive efforts to drive the migrants out, kicking them out of apartments, in some cases shutting down the small private schools that their children are forced to attend because they can't get into public school.

COMMISSIONER GOODWIN: Great. Thank you. Dr. Wuthnow, one quick question for you, obviously, a little bit of a limit of time here. In your testimony, both written and your presentation here today, you talked about how China's aggressive and coercive acts have paradoxically strengthened the bonds between the U.S. and our partners and allies in the Indo-Pacific region.

But later on in your recommendations, you pose it more as a question and you ask whether in fact these aggressive actions, like those discussed by Senator Talent in the South China Sea and elsewhere, have created opportunities for the U.S. to bolster these ties and strengthen these bonds. So has it strengthened the bonds, has it created opportunities and if so, how do we capitalize them? In one second?

DR. WUTHNOW: Yes. Thank you. So yes, I do think that it's creating more regional demand for U.S. security assistance and cooperation. I think what my recommendation is is that we need to use a fine-tooth comb and understand exactly what the opportunities are because many of these states have their own constraints.

They all have different types of relations with China and so I think right now we need a better state-by-state, country-by-country assessment of exactly what they need, what we're willing and able to provide and what is possible in this new environment.

So yes, stronger bonds, but yes more research is also needed to understand what that translates into in terms of our own policy.

COMMISSIONER GOODWIN: Great. Thank you.

CHAIRMAN CLEVELAND: Commissioner Fiedler.

COMMISSIONER FIEDLER: I have a quick question for Joel Wuthnow. Did I hear you correctly in your opening statement that you said that China had the ability to take Taiwan right now?

DR WUTHNOW: Not exactly. I think my point was that the capabilities that they are unveiling in recent years, especially 2020, signal that they are taking the job of planning for a Taiwan invasion very seriously and are using those capabilities to signal that they have the resources necessary to at least impose serious costs on Taiwan in terms of missile strikes.

I'm not certain that they actually think they have the ability to conduct an amphibious invasion which is much, much more challenging especially with the U.S. assisting Taiwan so no, I don't think they're confident that they could go and win a war quickly on Taiwan, but I do think they're since making a lot of progress in getting there.

COMMISSIONER FIEDLER: Thank you. Lately I've been looking at -- well, let me take one step back. Everybody talks about trade, yet the trade agreements actually contain significant investment agreement matters, whether it be U.S. investment in the financial industry for instance in China.

So I've been looking at the activities of U.S. and other countries' investment banks in China. Fairly significant in certain sectors, biotech, pharmaceuticals, all those things that we are overly dependent on in China, so is anybody prepared to talk about the role of investment banking and how it affects the Chinese economy now? Any of you? Dexter, you used to work for the Wall Street Journal, so.

MR. ROBERTS: Yes. Bloomberg Business Week. Yes. Well interestingly, even as we hear heated rhetoric between the two sides, there's been a flurry of a lot of big often American investment banks doing deals in China right now. Some of it's driven by China's move to or some of China's corporate moves to list in Shanghai or in Hong Kong, including because of fears that they will no longer be welcome on U.S. exchanges so there's a lot of activity there.

China's also been pushing various kinds of investment opening, I should say, very belatedly since much of this was promised back in 2001 with China's entry to the World Trade Organization. But we are seeing a lot of activity there. I guess I would just make that observation.

I think you are raising an important issue, the fact that despite the tensions we're seeing lots of activity there. More broadly speaking, China is at the same time trying to woo more foreign investment even as they push through this dual circulation model to be more self-reliant.

They are trying to bring in more foreign investment. They know that that would be very helpful for them. They also see it -- there's a political advantage in having, for obvious reasons, having American companies with very large investments and market reliance on --

COMMISSIONER FIEDLER: Let me -- as a policy matter, we have sanctioned companies and said to our companies, you can't do business with these sanctioned companies in Xinjiang, but we haven't said you can't invest there.

MR. ROBERTS: I think the big issue related to Xinjiang that's about to confront a lot of big retail and textile and clothing companies is the possibility of a ban on using Xinjiang cotton. Xinjiang cotton is a significant portion of global cotton and that would be potentially very, very disruptive for a lot of supply chains for American retailers and brands.

COMMISSIONER FIEDLER: Xinjiang cotton is largely produced by the Production and Construction Corps, the quasi-military organization that also runs the laogai, the prison system in --

MR. ROBERTS: That's exactly right.



COMMISSIONER FIEDLER: -- that's a very real possibility, but getting back to the point, we don't inhibit any investments in Xinjiang.

MR. ROBERTS: Well we've also got breaking news right now that -- well, very recent news about how Disney through the new blockbuster Mulan did a lot of filming in Xinjiang and also thanks several different public security bureaus in Xinjiang that are involved in managing these, the Uighur and other populations that have been incarcerated so there's some very big issues there without doubt, without a doubt.

COMMISSIONER FIEDLER: Thank you. My time's up.

CHAIRMAN CLEVELAND: Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you. Mr. Roberts, when you were speaking initially, sorry -- is that a little better? When you were speaking initially, you talked about the disconnect that creates this second-class citizenry for the migrants and the urbans and the fact that during the pandemic there was this great misstep by the Party in that they supported tax breaks, but didn't worry about unemployment for those folks and it created a problem internally.

And you also mentioned and I think every speaker we've had has mentioned that the number one concern that the Party has is making sure that those folks who are 50 percent of their population are still supporting the Party.

You also mentioned that one of the things you would recommend is that the United States focus on their rivals and begin investing and within your comments, you mentioned that they're reducing their export and manufacturing efforts while they increase what I would call Buy China First.

My question to you is, given all of that, do you believe that there's a weakness, that there's an opportunity that the Party, even though they're flexing their muscles and doing all of these things with the military, do they even understand that half of their people are dissatisfied?

And if so, is there something that we can do to quickly -- I'm relating to what Commissioner Kamphausen brought up, to quickly move in a direction where we force them through leverage to pay more attention to those folks and that will make them a little less confident militarily? How would you go about that?

MR. ROBERTS: Thank you for your question. So I think in terms of, you know, they're dealing with different constituencies there. They are concerned about the other half who have suffered much more including through the pandemic in terms of job losses and lower or even shrinking income growth.

At the same time there -- another important constituency, and this has always been true even going back to the Mao era, is the urbanites. And that's why they have gone with this system which privileges people in the cities over those in the countryside.

Some of the early research, I think it was out of San Diego, on the support for the regime during the pandemic showed that urbanites were, after an initial fall in support and concerns about the mishandling of China at the beginning, then actually we saw a surge in support again by urbanites.

Most typically, most survey work does not include the very large rural population which is a problem in understanding or getting the full picture. So I do think as I said in my testimony that one of the ways that the U.S. can give something of a -- have an influence there is to actually try to repair some of these tattered people-to-people exchanges.

Right now, the Chinese government is finding it very easy to paint the U.S. as an opponent that is determined on bringing down not just the Party, but the Chinese people. And you see that in the Chinese media. You see they make much of the fact that the U.S. has, where

it has cut relations whether it's ending the Peace Corps program there, ending Fulbright programs in the country.

Those sorts of things are fodder I think for the Party to show, sort of paint the U.S. as an opponent. So I do think that it is important -- very difficult to have an influence, to your question, on the very large other half of China. But one thing we should do is perhaps not cut off those people-to-people exchanges so rapidly as we've seen recently.

COMMISSIONER BOROCHOFF: Thank you very much. You just created two more questions and I'll be sending those to you later. Thanks.

CHAIRMAN CLEVELAND: Commissioner Borgeas.

COMMISSIONER BERGEAS: Thank you, Robin. My question is going to have more of an Australia focus so I'll pose it if I may to Mr. Small. Apparently, you have a visiting fellowship at the Australian National University's National Security College and I am holding this beautiful blue mug -- Thea, do you still have yours by chance?

So last year, before COVID, we as a Commission traveled over to Australia and we were over at the National Security College. Part of that trip, I asked a question of folks, where do the Australians see India's position in the foreseeable future?

At the time the response from the Aussie academics was that India was not necessarily interested in pursuing an alignment. That they were okay with a cooperative arrangement, but not an alignment.

So, in your opinion, where do you see India moving now because we've heard that there's a, there are budding discussions between Australia, Japan, and India on some sort of agreement. I don't know exactly in what fashion, but in your opinion, where do you see India moving especially after the skirmish in the northern territories?

MR. SMALL: So unfortunately, the actual visiting I have not been able to exercise fully for reasons of certain physical constraints, but I'll answer as best I can on the India side.

I'm sure Tanvi will have some more thoughts on this later. I think there has been a move on India's part as a result of what's played out on the border that is something more fundamental than we've seen in the past.

If you talk to senior Indian policy makers at the moment, they do talk about a kind of fundamental break in trust, no going back to the old ways of approaching China and inevitably a lot of the implications of this do move in the direction, not so much just on the bilateral relationship with China and the steps that we've seen them willing to take on the technology space and 5G and things like that immediately, but whether there are inhibitions that they've previously felt in their partnerships with other countries that might have to move as a result of what's happened.

I don't think that the review on all of this on the Indian side will be sort of fully completed until the end of the year with the sort of timeframe that I heard from people on this and it does need to be embedded in something that is a wider strategy on India's part.

You have seen some early moves including in the South China Sea, you've seen the moves to consolidate this new partnership on supply chains for instance between India, Australia and Japan.

Most other diplomatic engagements that you hear with India where you hear readouts on what India's doing at the moment, there are different fronts and possibilities being opened up.

Connectivity partnerships that are being put on the table, counter-BRI activities. I think there are going to be different forms of concerns about being seen to be kind of too aligned with certain other democratic partners, with the United States, with Japan, with Australia.

There have always been questions on India's part particularly going into the last elections about -- I mean there's a kind of to and fro on both sides on who is the more reluctant party in the quad and things like that. I think we're going to see India more forward leaning on a whole range of different areas than we have in the past.

I think the map of that we'll get towards the end of the year and into the new year, but I think it will mean a sort of shift away from some of the inhibitions in precisely the kind of alignment questions that you're talking about than we've seen before.

COMMISSIONER BERGEAS: Thank you, Robin.

CHAIRMAN CLEVELAND: Andreas, do you have another question? I think we --

COMMISSIONER BERGEAS: Nothing further. Thank you.

CHAIRMAN CLEVELAND: All right. Sorry. Carolyn, Commissioner Bartholomew.

VICE CHAIRMAN BARTHOLOMEW: Yes. Thank you very much and thank you to our witnesses for interesting testimony. I have a few questions.

Dr. Wuthnow, I might not get to you until the end in which case I have some questions for the record, but Mr. Roberts, when -- now when we talk about -- that China is encouraging greater domestic consumption, you know, that was all supposed to be part of the liberalization of the economy, the reforms that sort of the West was seeking right after China joined the WTO.

And yet I get the sense -- and, you know, correct me if I'm wrong here, please -- but I get the sense that economists and policy people outside China are now concerned about this move to domestic consumption inside China. Is that the case? In which case it's quite a shift of opinion.

MR. ROBERTS: I think -- thank you for that question. Yes, I think that this is a very long-term goal for China. They already have seen their export economy priced out as labor costs have gone up going back more than a decade, so they've been talking about this on the Chinese side for quite a while.

I think they're potentially, you know, there's an opportunity for global and multinationals, if China were able to actually integrate more of its population into the middle class, you would see new levels of consumerism which could be very positive for big companies around the world doing business and trying to sell to markets in China.

What we've seen so far to a degree is almost a level of saturation in coastal markets as most people that want to get a smart phone have bought their smart phone or want to buy a more expensive vehicle have bought that vehicle.

We're going to see a much, much slower growth in the consumer economy in China unless they actually pursue those reforms. So I guess I would just say, yes, this is a long-time priority.

On the one hand, it's about domestic focus, but that doesn't mean that there aren't real opportunities for some of the biggest, you know, big companies around the world including some of our biggest companies.

VICE CHAIRMAN BARTHOLOMEW: So I'll simply say there, Mr. Roberts, that we have been hearing the possibility of the Chinese market creating opportunities for big American companies for a long time, going back to the 1990s.

And I suppose one of the issues now is in the ensuing time, the Chinese government has made it, has been able to protect big sectors of its own economies in a way that there are now competitors inside China that didn't exist before.

That's just an observation. I'm just going to move on though, for both you and Mr. Small, as I mentioned in the first panel, my question is I'm interested and concerned about access to

information, right, both access to information by people inside China and access to information about what's going on inside China to the rest of the world.

And so, Mr. Small, how much of the concerns that you mentioned, right, problems with BRI, problems with, you know, how China is being perceived.

How much of those concerns are actually being seen by people inside China? And then for both of you, because Mr. Roberts, you talked about China meeting its centennial goals and I just wonder how will anyone know if they haven't met those goals?

CHAIRMAN CLEVELAND: Mr. Small.

MR. SMALL: Sure. Thank you, Commissioner, for the question. So I split that into two parts. I mean I think on the BRI related elements, there clearly is information flowing to the people that need to know about it inside China on the issues that they've been facing.

I think they're relatively clear eyed in the system on China's side about the problems the BRI has been facing and it has actually tended to be one of the areas, going back to the earlier panel where there was the what could be talked about strategically and what could be talked about tactically.

There has been scope to talk about the BRI at least at a tactical level in terms of how it needs to be rebalanced, problems and issues particularly on the economic side of the line. So I think in terms of information flow in on the Belt and Road, I've tended to find this has been true in country as well, talking to Chinese officials, a relatively clear sense of the real difficulties that they've been facing politically and economically on this count.

I think on the wider question in terms of the kind of perceptions of China and how, and also how this feeds out to the wider population, I think that's then a completely different question.

I think there's clearly a huge amount of the kind of problematic elements of what China's been doing in the last period of time that have been as much about constructing a set of images and stories that are then being sold back domestically despite being almost entirely fictitious in terms of the sort of reception that China is getting for its mosques and all of these sorts of things.

There's been a kind of, there's been waves of its external diplomatic activities that have been a series of photo and video shoots to be able to be sold back to domestic audiences for a lot of the pandemic-related diplomacy.

And so I think on that sense, and we see this in the limited information that we have in, you know, the difficulties one has with polling are very obvious in China. But all of the indications are the perception is China is perceived extremely well internationally despite the obvious gaps in what one sees in any of the polling that's been coming out before and the worsening polling that we've been seeing recently.

So I think there's a much bigger dissonance on that question and with the wider population than whether the Chinese systems itself is able to have a read and an overview and a sense of a lot of the issues that they've been running into, specifically on the BRI.

VICE CHAIRMAN BARTHOLOMEW: All right. Do we have a moment for Mr. Roberts on the sort of (audio interference) so how will people kind of know that? I mean, I'm presuming that Beijing will say that it's met all of those goals so I'm just curious how to do an assessment of the goals and how people both inside and outside China will see in terms of meeting those goals.

MR. ROBERTS: Yes. Well, as a long time former financial and business journalist in China, there's no doubt that we have to take -- I'm very aware that we have to take numbers there with a certain degree of skepticism. I do think it looks like they are going to meet these goals as

they've defined them. They're going to, they say, end absolute poverty which is a quite low standard. They don't say there aren't going to be any more poor people in China. They're talking about per capita disposable income, so per capita.

They're not looking at the large and very, large and fast-growing income and wealth gap which we see in China today. And then, so I do think, you know, the question might be of a less -- I think the very relevant question is at what cost are they achieving these goals?

They've shown their ability ever since the global financial crisis to pump large quantities of money into the economy in order to develop, in order to pump -- drive growth, but at what cost?

You know, a debt level that is over 300 percent of GDP which is typically seen as dangerous to economic stability in many parts of the world. A growing income gap now and wealth gap that puts it on par with Russia.

And it's growing as fast as it grows in Russia. So I think they will meet those goals. They can simply abandon their deleveraging goals and pump more money into the economy, but the question is, larger term what are the weaknesses in the economy going forward.

VICE CHAIRMAN BARTHOLOMEW: Great. All right. Thank you. Dr. Wuthnow, as I said, I'll have a question for the record for you.

CHAIRMAN CLEVELAND: Thank you. I will wrap up. And I have questions for each of you, but I'm not sure that we've got the time for that. So, I think I would like to start with Dr. Wuthnow.

We had a previous witness who -- we focused today on China's capabilities when it comes to South China Sea and Taiwan. We had a witness at the last hearing who talked about, any initiative by Beijing would be based on a calculation about U.S. intent.

And I'm wondering if you could provide an assessment of Beijing's perspective -- the CCP's perspective on what the United States is likely to do. I think you mentioned we would come to the assistance of Taiwan was a factor.

And I'm particularly interested in your assessment of Assistant Secretary Stilwell's recent public discussion of the six assurances. How does that factor into the CCP's assessment of our intent as a factor that would influence their potential action?

DR. WUTHNOW: Yes, thank you. It's a very good question. My view is that Chinese leaders, whether it's in the PLA or the CCP Politburo, Politburo Standing Committee, there's very little doubt that in a war over Taiwan, the United States would intervene.

The majority of their capability, their development, their training is focused on the likelihood that U.S. forces would intervene on behalf of Taiwan and so they have been trying to develop systems that would deter us by denial by making it impossible for us to effectively intervene. And many of those systems have been on display for a reason in recent military parades and other exercises and demonstrations.

When we get into other scenarios, I think the calculus on Beijing's side is more complicated. States that don't have any clear mutual defense assurance for the United States, I think it's unclear to Beijing that the U.S. would intervene, and in some circumstances such as like a small conflict over an offshore island in the South China Sea, would the U.S. intervene or not.

And so, Beijing, I think, might be more confident and optimistic that it could get away with something with respect to those rivals. But again, with respect to the major conflict they're preparing for, Taiwan, I don't think they would allow themselves the luxury to think that the U.S. would just simply choose not to intervene.

CHAIRMAN CLEVELAND: Thank you. Mr. Small, you talk about the shift in European opinion from China being assertive to being aggressive and that there are a series of decisions that have been made that reflect a major rethink in terms of, particularly in Europe, their perspective on China.

What makes you think these changes -- the Huawei decision is potentially a good example -- what makes you think these decisions are permanent?

MR. SMALL: I think the decisions will actually go further than we have seen so far. I mean, Huawei and the 5G decision is, in various countries has been a kind of particular crux issue.

But I think the sense on the dynamics in Europe at the moment -- I mean, we've seen the way opinion has moved at the public level, among politicians. We've seen the kind of significant, the tide turning in important ways in key countries as well, and Germany of course being one of the most important cases in this regard, where the issue has really been kind of picked up across the political spectrum. A lot of the opposition to the original German government decision on 5G, the pushback was coming back from Chancellor Merkel's own party.

And I think what you now have is, particularly when Chancellor Merkel steps down in the last year, you will have a kind of passing away of the old generation, the last of the old generation that had maintained that framework but still tried to keep certain versions of a partnership alive with China.

And a certain kind of cooperation that needed to be protected even in the teeth of a lot of evidence that said that this old model was really broken. And she, of course, still has had sufficient weight to hold that together both in Germany and in Europe and, you know, we have the German EU presidency at the moment where those two factors have come together.

China could, of course, in the next few months offer some, you know, do the deal on the investment agreement that the Europeans want, could make some great concessions on climate. I don't think anyone's really expecting this.

I think people are expecting that once the U.S. elections have passed and there's some clearer understanding of what kind of partnership with the U.S. will be possible, what the overall landscape looks like, there's going to be moves further and harder in a direction that goes beyond what we've seen so far.

Those things are already being deliberated on a Franco-German basis in Brussels and elsewhere and I don't see any countervailing tendencies on this and I don't see China doing anything significant in the next period of time that's likely to tilt that back.

So I expect the moves will go considerably further, particularly when some of the final inhibitions that have led to this have kind of faded away politically and you see assuming power in Europe the -- something that reflects the essential balance of opinion in publics and in the political class in Europe at the moment.

CHAIRMAN CLEVELAND: Thank you. And one quick question for Mr. Roberts. We have -- I really appreciate your commentary this morning on income inequality and education and other migrant urban challenges.

We've had witnesses say that, earlier this morning and in previous hearings, that notwithstanding those disparities, that the average citizen in China still assesses their circumstances as better today than their parents' generation and more importantly, better than they ever expected.

Could you square the circle of -- or circle the square, I'm not sure the right metaphor -- of this, what seems to be a contradiction between there are these huge, risky disparities and yet people do see themselves as better off.

MR. ROBERTS: That's a very good question. I would just start by again pointing out that much of the surveys are done with the settled population in the cities. It's very hard to survey migrant workers who make up some 300 million people in China.

And some of the work that has looked at migrants in particular and compared them to urbanites and also people in the countryside, finds that they express levels of satisfaction, happiness about their present lot and optimism about their future far lower than both the urbanites, the people in the cities, which is no surprise.

But actually are -- they happen to be less optimistic than the people in the countryside who often usually have lower incomes and aren't doing as well as the migrants so there is, I think, that issue.

First of all, the fact that surveying is faced with certain constraints, necessary constraints that means that we're not getting the full picture. The other issue to keep in mind is we've seen, you know a couple decades now of tremendous very impressive growth in China which indeed has lifted living standards for most people.

It has widened the income gap and the wealth gap as I said earlier. My -- looking to the best of my ability into the future, I don't think that we can expect anything like that in terms of growth going forward, particularly if they don't carry out these reforms that I mentioned.

If we do see a significant downturn in the economy and I think there's the real likelihood of that, I would expect that the surveys that show optimism towards the future are going to actually -- we're going to see a very different opinion coming from the Chinese people going forward.

So I think that, yes, I think that we're going to see a shift. I think we're already seeing a shift if we look more closely at the sort of consumer and optimism levels within the Chinese population.

CHAIRMAN CLEVELAND: Very helpful. Thanks to all of the members of the panel. I think that we have a great deal to think about and I appreciate your contribution to our annual reporting cycle. We'll take a brief recess and be back at 2:05. Is that right? Yes, 2:05. Thank you.

(Whereupon, the above-entitled matter went off the record at 1:27 p.m. and resumed at 2:07 p.m.)

### **PANEL III INTRODUCTION BY VICE CHAIRMAN CAROLYN BARTHOLOMEW**

VICE CHAIRMAN BARTHOLOMEW: All right. Welcome back to our 7th and final hearing of this reporting cycle. The third panel today will look at changes in China's approach to Taiwan and the South China Sea, certainly places that seem to be heating up.

Our first witness is Roger Cliff, an independent analyst who has spent decades researching the Indo-Pacific. Dr. Cliff will discuss China's approach to Taiwan in a politically momentous year. Dr. Cliff has worked for the Center for Naval Analysis, the Atlantic Council, Project 2049 Institute, RAND Corporation, and the Office of the Secretary of Defense.

Dr. Cliff, thank you for joining us again for this hearing. Welcome back.

We will also hear from Bill Hayton, a new witness for us. He's an Associate Fellow with the Asia-Pacific Program at Chatham House and he focuses there on China's activities in the South China Sea. Dr. Hayton is a full-time journalist with BBC News in London and author of the book *The South China Sea, the Struggle for Power in Asia*. He received his Ph.D. -- I have it written here as Cambridge University but I think it's the University of Cambridge now. Isn't it? - where he researched the origin and development of the South China Sea disputes.

Dr. Hayton, thank you for testifying today.

I would like to remind both of you to please keep your comments to seven minutes. Then if you've watched any of the previous panels, you'll know that we have lots of questions.

Please, Dr. Cliff, let's start with you.



## **OPENING STATEMENT OF ROGER CLIFF, INDEPENDENT ANALYST**

DR. CLIFF: Thank you very much, Commissioner, for this opportunity to speak to the Commission and anyone else who is watching or listening. I'm glad to have this opportunity because, as you yourself said, this has been a momentous year and relations between mainland China and Taiwan and, therefore, relations between the United States and China.

In particular, there are two major events that have occurred over the past year that I believe has significantly increased the risk of war in the Taiwan Strait. The first of these was Tsai Ing-wen re-election as president of Taiwan in January of this year.

Now, as it well known since the late 1970's, Beijing has been pressuring Taiwan to unify with mainland China under what Beijing calls the "One Country, Two Systems" formula. According to this proposal, Taiwan would be allowed to maintain the social freedoms and political autonomy so long as it acknowledges that Beijing is the sole central government of China and that Taipei is merely a local government.

Now, up until 2000 Taiwan was ruled by the Kuomintang or KMT Party which advocates for the eventual unification of Taiwan and mainland China. In 2000, however, Taiwan's presidency was for the first time won by a candidate from the opposition Democratic Progressive Party, or DPP, which advocates for Taiwan's independence from the mainland. But the KMT regime controlled Taiwan's legislature and in 2008 won back the presidency.

So from Beijing's point of view the period from 2000 to 2008 could be viewed as an anomaly that was eventually rectified. But in 2016 the DPP won not only control of Taiwan's presidency again, but also for the first time the legislature as well.

Now that the DPP has retained control of the presidency and the legislature through another election cycle, it's pretty difficult to still argue that this is just an anomaly and that things will eventually return to normal from Beijing's point of view. Now it should be clear to Beijing, in fact, that its efforts to convince Taiwan unify with the mainland under the One Country, Two Systems proposal are, in fact, failing.

The second major event that occurred this year was Beijing's imposition of a new national security law in Hong Kong. When Britain agreed to return its former colony to China back in 1997, Beijing promised that it would apply the One Country, Two Systems approach to Hong Kong as well and that Hong Kong would be allowed to maintain its economic and social freedoms and its legal autonomy for at least 50 years after the hand-over.

The new national security law, however, has violated that promise after just 23 years. The law, which was imposed in apparent violation of Beijing's own stipulations about how new laws should be made for Hong Kong, identifies four vaguely defined crimes -- secession, subversion, terrorism, and collusion -- that are consistent certainly with mainland China's legal system but not Hong Kong's legal system which is based on British law. They also negate the freedoms of expression that were guaranteed under the terms of the Sino-British agreement.

As a result, it is clear to anyone in Taiwan that Beijing's promises of autonomy under the One Country, Two Systems formula cannot be trusted. So if there was ever any chance of the people of Taiwan would have been willing to accept such an arrangement, that chance is now gone.

It's unclear to me whether this realization has sunk in yet in Beijing but when it does, China leaders will be left with a choice. They can pretend like nothing has changed and continue to pursue their current strategy towards Taiwan, but they may also feel compelled to take more forceful action.

Exactly what that action would be is hard to say. It could come in the form of things like cyberattacks, economic sanctions, or increased efforts to economically isolate Taipei, but it could also come in the form of an actual use of force.

In my assessment China does not currently have the capability to invade and conquer Taiwan, assuming the U.S. comes to Taiwan's defense, and lesser uses of force such as a blockage or bombardment of the island would also be a highly risky operation for Beijing.

Chinese President Xi Jinping has said that the Taiwan question is one that cannot be handed down from one generation to the next, however. If he fails to make progress in this area, his argument that he should remain China's paramount leader after a second full term as Secretary General of the Communist Party of China ends in 2022 will be weakened.

As one of my mentors once said, war is never likely but it nonetheless happens from time to time. Therefore, I believe the next year will be a particularly dangerous period in the U.S.-China relationship. The United States needs to keep a close eye on developments in the Taiwan Strait and be ready to respond if necessary.

That is the end of my prepared remarks.

**PREPARED STATEMENT OF ROGER CLIFF, INDEPENDENT ANALYST**

**Wednesday, September 9, 2020**

**Roger Cliff**

**Testimony before the U.S.-China Economic and Security Review Commission**

**Hearing on U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges**

**Panel III: Emerging Issues in East Asia**

Two major events have occurred over the past year that call into question the viability of Beijing's long-standing strategy toward Taiwan. It is not clear whether China's leaders have recognized the significance of these events yet, but the United States needs to be prepared for the consequences if they do.

Since the late 1970s, Beijing's strategy toward Taiwan has been to seek to convince it to accept political unification under what it has come to call the "One Country, Two Systems" formula. According to this proposal, Taiwan would be allowed to keep its form of government, economic and social system, and even its own armed forces, provided that it accepted that Beijing was the sole central government of all of China and that Taipei was merely a local government within China.

At the same time, Beijing has asserted that, because Taiwan is part of China, China has the right to use force to bring about unification if Taiwan attempts to formalize its independence or if it continues to refuse to enter into unification negotiations for an excessively long time. In the meantime China seeks to prevent other countries from having formal diplomatic relations with Taiwan and to prevent Taiwan from participating in any international organizations that would imply that Taiwan was an independent, sovereign country. Beijing refers to this strategy as the "Peaceful Unification" policy, despite the explicit threat of force it includes, because the goal is to get Taiwan to accept unification with the mainland without actual bloodshed.

When the One Country, Two Systems solution was first proposed, both mainland China and Taiwan were one-party dictatorships and Taiwan's ruling Kuomintang (KMT) party, like Beijing, insisted that both Taiwan and mainland China were part of a single Chinese nation and that it was the sole legitimate government of all of China. Thus, China's leadership hoped that Taiwan's unification could be brought about through direct negotiation between the leaders of the two parties.

In the years that followed, however, Taiwan democratized and Taipei renounced its claim to be the legitimate ruler of mainland China. In 2000 the people of Taiwan for the first time elected a president from the Democratic Progressive Party (DPP), which advocates for Taiwan's independence. The KMT continued to hold a majority of seats in Taiwan's legislature, however, and in 2008 the KMT retook control of the presidency. In 2016, however, the DPP won both the presidency and, for the first time, a majority of seats in Taiwan's legislature.

This development was probably alarming to China's leaders, but could be explained as being the result of a specific set of circumstances. In local elections in December 2018, moreover, the KMT won control of a majority of chief executive and council seats in Taiwan's municipalities and counties, suggesting that it was poised to retake control of Taiwan's presidency and national legislature in the January 2020 national elections. As it turned out, however, the DPP candidate, Tsai Ing-wen, won an even higher percentage of the vote than she had in 2016, and the DPP maintained control of Taiwan's legislature, albeit by a somewhat smaller margin than in 2016. The proportion of Taiwan's population that identifies as Taiwanese, not Chinese, is now a majority and steadily increasing, and it is unclear if a party that advocates Taiwan's eventual unification with the mainland will ever return to power in Taiwan.

The true views of China's top leaders are not clear, but it would be difficult to argue that China's Taiwan strategy for the past 40-plus years is succeeding. Taipei continues to refuse to enter into unification negotiations with the mainland, and pro-independence sentiment on the island has been growing progressively stronger. It seems implausible that Taiwan will ever accept unification with the mainland under the One Country, Two Systems formula.

Although the One Country, Two Systems proposal was originally developed for Taiwan, the first place to which it was actually applied was the former British colony of Hong Kong. Britain had acquired control over the majority of Hong Kong's territory in 1898 under a 99-year lease. In the 1980s, as the expiration of that lease began to approach, Britain entered into negotiations with China over the future of Hong Kong. Ultimately London agreed to return all of Hong Kong (including land that had originally been ceded to Britain "in perpetuity"), in exchange for a promise from Beijing that Hong Kong would be allowed to retain its capitalist way of life, British legal system, and social freedoms for at least 50 years after the official handover on July 1, 1997. The specifics of this agreement different from what was being offered to Taiwan, but the same descriptor, One Country, Two Systems, was applied to this arrangement.

For the first 23 years after 1997, Beijing more or less kept its promise. Hints of serious trouble, however, came about six years ago. After reaching its agreement with Britain in 1984 regarding how it would manage Hong Kong after the handover, in 1990 Beijing had issued a legal document, called the Hong Kong Basic Law, detailing how Hong Kong would be governed after the handover. This document stated that Hong's Chief Executive, would initially be "elected" by an Election Committee appointed by Beijing, but that "the ultimate aim" was the selection of Hong Kong's Chief Executive by universal suffrage.<sup>1</sup> Although the Basic Law did not specify a timeline for when that would occur, in 2007 Beijing announced that the Chief Executive could be elected by universal suffrage in 2017. In August 2014, however, Beijing proposed that this would be accomplished by having a 1200-member Nominating Committee, whose members

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<sup>1</sup> Article 45, The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, [https://www.basiclaw.gov.hk/en/basiclawtext/chapter\\_4.html](https://www.basiclaw.gov.hk/en/basiclawtext/chapter_4.html).

would also be picked by Beijing, select two or three candidates who would then be voted on by the citizens of Hong Kong.

This was not what people had assumed Beijing meant when it had said that Hong Kong's Chief Executive would be chosen through "universal suffrage." The result was nearly three months of protests in Hong Kong. Instead of making concessions, however, Beijing ultimately announced that it would continue to select Hong Kong's Chief Executive as it had since 1997: by having the Election Committee approve a candidate chosen by Beijing.

The second hint of trouble occurred in 2015, when five members of the staff of a Hong Kong bookstore, known for selling sensationalistic books about the private lives of China's leadership, were detained in mainland China. At least one of them was apparently abducted by Chinese security forces while in Hong Kong and surreptitiously taken across the border to mainland China. This was a violation of Hong Kong's legal autonomy, as guaranteed in the Sino-British agreement, and demonstrated that the mainland authorities were no longer strictly abiding by the One Country, Two Systems promise.

If there were any doubts about whether Beijing still felt bound by its promises regarding Hong Kong, however, they were laid to rest earlier this year. Article 23 of the Basic Law states that "The Hong Kong Special Administrative Region shall enact laws *on its own* to prohibit any act of treason, secession, sedition, subversion against the Central People's Government."<sup>2</sup> Due to popular opposition, the government of Hong Kong had never passed such a law. In May of this year Beijing announced that, if the government of Hong Kong did not pass such a law, it would do so itself. Less than a month later, Beijing issued a draft law and 12 days later the final version was enacted, coming into force on the same day, June 30. The full text of this law was not even published until it had already come into force.

Aside from the rushed and secretive process by which this law was passed and the fact that doing so appears to violate China's own Basic Law for Hong Kong, the vaguely-worded nature of the descriptions of the four crimes specified by the law – secession, subversion, terrorism, and collusion – is similar to that of mainland China's legal system and not consistent with Hong Kong's legal system, which is based on British law. Nonetheless, the government of Hong Kong has already begun arresting and prosecuting Hong Kong residents under the new law.

It should be clear to any observer in Taiwan that China's promises of autonomy for Taiwan under the same One Country, Two Systems rubric would be equally subject to change at the whim of the leadership in Beijing. As long as China is ruled by the Communist Party of China, therefore, no more than a small percentage of people in Taiwan are likely to believe Beijing's promises that Taiwan would be allowed to maintain its way of life after agreeing to unification

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<sup>2</sup> "Chapter II: Relationship between the Central Authorities and the Hong Kong Special Administrative Region," The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, [https://www.basiclaw.gov.hk/en/basiclawtext/chapter\\_2.html](https://www.basiclaw.gov.hk/en/basiclawtext/chapter_2.html).

with the mainland. In other words, if there was ever any chance that Taiwan would accept the One Country, Two Systems proposal, the new national security law in Hong Kong has killed it.

It is unclear whether China's leadership recognizes this reality. Media reports have suggested that China's leaders believe that, once the people of Taiwan see that Hong Kong continues to thrive economically despite the new national security law, any qualms they may have about becoming a Special Administration Region of China will dissipate. If these reports are accurate, they suggest that China's leadership is oblivious to three things. First is the extent to which people in Taiwan care not just about material prosperity but also the freedoms and rule of law that they enjoy. The second is the extent to which freedom and the rule of law are in fact critical to Hong Kong's prosperity. Without them, Hong Kong has no economic advantage over the vast Chinese hinterland it borders. Third, and most important, is the fact that, for many people in Taiwan, the unification question has nothing to do with the material quality of life they would enjoy after joining with the mainland and everything to do with ethnic, cultural, and national identity.

It is perhaps not surprising that China's leadership would be oblivious to these things. After all, they are the beneficiaries of a political system predicated on the assumption that freedom and the rule of law are subordinate to the interests of the Communist Party, and their claim that Taiwan is part of China requires that they deny that Taiwan could possibly have a distinct cultural and national identity. For these reasons, they may not recognize the significance of Taiwan's elections and their revocation of Hong Kong's freedoms. If that is the case, then it is possible that Beijing will continue to pursue its strategy of attempting to persuade Taiwan to accept unification under the One Country, Two Systems formula through a combination of diplomatic pressure and a vague threat to use force if Taiwan refuses to enter into unification negotiations for an unspecified period of time.

If China's leadership recognize that their Peaceful Unification strategy has failed, however, then they will be left with a choice. One option will be to simply pretend that it has not failed and continue to go through the motions of pursuing it. There is no evidence that China's general public, who not by accident suffer from many of the same blind spots as China's leadership, have yet recognized the failure of Beijing's Taiwan policy. At present, therefore, there appears to be little popular pressure for a different approach toward Taiwan, and this situation could persist for some time. It is even possible that people in China could eventually stop caring about the issue at all.

It is also possible, however, that eventually people in China will realize that Taiwan will never willingly accept unification with the mainland under the current proposal, and begin putting pressure on China's leadership to implement a different approach.

If the Chinese leadership were to implement a different strategy toward Taiwan, one possibility would be a more flexible approach to unification. Much effort has been spent, so far unsuccessfully, attempting to identify viable formulas. To be acceptable to Taiwan, however, a

unification arrangement would probably, at a minimum, require that mainland China and Taiwan be treated as equals in what would be a reversible and largely symbolic union. Such an arrangement, therefore, would require that Beijing modify its long-standing position that it is the central government and that Taipei is a local government.

Although current Chinese leader Xi Jinping probably has the power and stature to alter a policy put in place by founding leaders of the People's Republic such as Deng Xiaoping, Beijing's ham-fisted response to the protests in Hong Kong over the past six years suggests that he is unwilling to accept any limitations on the central government's power, even when doing so would appear to be in Beijing's interests. Xi has said that the Taiwan question cannot be passed on from one generation to the next, but after eight years in power he has not offered up an alternative approach. This suggests that, as long as Xi remains in power, Beijing will either continue to pursue the Peaceful Unification strategy, or else it will adopt some sort of nonpeaceful unification strategy.

The phrase "as long as Xi remains in power" in the preceding paragraph brings up an important issue. Xi's two immediate predecessors both stepped down after their second full term as head of the Communist Party of China. (The three leaders before them were all removed from office prematurely.) Xi, however, has signaled that he does not intend to step down when his second term ends in the fall of 2022. Undoubtedly there are other senior officials in the Communist Party who would like to have an opportunity to be the paramount leader. To overturn the norm of serving no more than two full terms as Secretary-General, therefore, Xi will need to be able to argue that the quality of his leadership has been fundamentally superior to that of his predecessors. It will be difficult to make that argument, however, if Beijing's policy for achieving unification with Taiwan, one of the most important goals of every Chinese government for the past 40 years, is seen as being a failure. Thus, it is possible that Xi could feel compelled to make a dramatic move on the Taiwan issue at some point in the next two years, to ensure that he is not vulnerable to criticism in this area. Since he has shown no inclination to be conciliatory, this would likely come in the form of some kind of forceful action against Taiwan.

There is a wide range of possible actions China could take in this regard. At the lower end of the spectrum would be things like economic sanctions and cyber-attacks. There could also be missile tests, as were conducted in 1995 and 1996, or other forms of military provocation, such as sending combat aircraft up to or through Taiwan's territorial airspace, or sending warships through Taiwan's territorial waters.

There could also be actual acts of war. Possibilities include seizure of small Taiwanese-held islands (such as the Kinmen Islands, Wuqiu Islands, or Matsu Islands), an air and missile bombardment of Taiwan's main island, a blockade, or a full-scale invasion.

Since the beginning of this year Chinese naval vessels and military aircraft have increased the frequency of their activity around Taiwan, including at least two occasions in which Chinese



military aircraft deliberately crossed the centerline of the Taiwan Strait.<sup>3</sup> More recently, Beijing has announced a series of military exercises along its coast.<sup>4</sup> The goal of these activities is not clear. Most likely they are intended to deter the Tsai administration from responding to her reelection or events in Hong Kong by taking steps to formalize Taiwan's independence from the mainland. It is also possible, however, that they represent preparations for a use of force against Taiwan.

To conduct a full-scale invasion of Taiwan, the People's Liberation Army (PLA) would need to first seize control of the air and seas around Taiwan. The PLA's naval and air forces are roughly comparable to Taiwan's in terms of their level of capability, but significantly outnumber Taiwan's. Thus, it seems likely that they would eventually overwhelm Taiwan's forces with sheer numbers, even if Taiwan's forces outfought the PLA's in individual engagements.

Taiwan has been steadily modernizing its forces over the past two decades but the size and growth rate of its economy mean that it cannot possibly keep up with the growth in mainland China's capabilities. Major equipment items acquired over the past 10 years include 30 AH-64E *Apache Longbow* helicopters, 30 *Kwang Hua VI* missile boats, and three Patriot PAC-3 batteries. Over the next few years Taiwan's military plans to acquire 100 M-1A2 tanks, eight diesel-electric submarines, and 66 F-16C/D fighters. Nonetheless, it is doubtful that Taiwan could hold out on its own against a mainland Chinese blockade, air and missile bombardment, or full-scale invasion. For Taiwan to survive against these types of attack, the United States would need to come to Taiwan's defense.

If the United States came to Taiwan's defense, it is questionable whether the PLA could prevail. Although the PLA would have the advantage of shorter lines of communication and many more bases from which to operate, U.S. forces remain qualitatively superior to China's. Actually invading Taiwan, moreover, would require the PLA to transport ground forces across more than 90 miles of water in the face of U.S. and Taiwanese attempts to sink or shoot down the ships and aircraft carrying them. According to my estimates, the PLA currently has enough amphibious ships to carry about one division at a time to Taiwan, where Taiwan would have the equivalent of about four combined arms divisions waiting for them. PLA troops could also be brought in by helicopter or fixed wing aircraft, but these would primarily be light infantry forces and all of these operations would be highly hazardous if the PLA had not achieved absolute control of the air and sea around Taiwan. Although it would be unwise to categorically assert

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<sup>3</sup> These were reportedly the first such instances since 1999. See J. Michael Cole, "Increased PLA Activity Near Taiwan: How to Respond?" *Global Taiwan Brief*, Vol. 5, No. 8, April 22, 2020, [http://globaltaiwan.org/2020/04/vol-5-issue-8/?utm\\_source=Global+Taiwan+Updates&utm\\_campaign=56a3172206-EMAIL\\_CAMPAIGN\\_2020\\_04\\_28\\_01\\_55&utm\\_medium=email&utm\\_term=0\\_d5a87749a5-56a3172206-439054761&mc\\_cid=56a3172206&mc\\_eid=c57e30f267#JMichaelCole04222020](http://globaltaiwan.org/2020/04/vol-5-issue-8/?utm_source=Global+Taiwan+Updates&utm_campaign=56a3172206-EMAIL_CAMPAIGN_2020_04_28_01_55&utm_medium=email&utm_term=0_d5a87749a5-56a3172206-439054761&mc_cid=56a3172206&mc_eid=c57e30f267#JMichaelCole04222020).

<sup>4</sup> Ben Blanchard, Yew Lun Tian, "Polishing the gun': China, U.S. tensions raise Taiwan conflict fears," Reuters, August 26, 2020, <https://www.reuters.com/article/us-taiwan-china-security-analysis/polishing-the-gun-china-u-s-tensions-raise-taiwan-conflict-fears-idUSKBN25MOVE>.

that the PLA could not successfully invade Taiwan today, it would certainly be a high risk endeavor for China.

The PLA's capabilities are certainly improving, however. Each year it has more medium- and intermediate-range ballistic missiles capable of attacking U.S. air bases in Japan, Guam, and elsewhere in the region, more antiship ballistic missiles capable of attacking U.S. aircraft carriers over two thousand miles from China's shores, more modern fighter aircraft and long-range bombers, and more modern submarines and destroyers equipped with long-range supersonic antiship cruise missiles. Preventing China from being able to control the air and seas around Taiwan is becoming increasingly challenging.

Even if Beijing were confident that it could prevail in a military conflict over Taiwan, however, it would not necessarily attempt to do so. Such a step would be enormously costly economically and diplomatically for China. While the diplomatic costs have probably not changed over time, however, the potential economic costs are gradually falling. As China's economy has grown and modernized, it has become less dependent on external trade, investment, and technology. Ten or fifteen years ago a war over Taiwan and resulting loss of economic relations with the United States and Japan would have devastated China's economy. Today it would still be costly, but China would be able to survive. I have not seen evidence to suggest that a specific concern about loss of access to Taiwan's semiconductor industry for mainland Chinese firms ever played a significant role in deterring Beijing from using military force against Taiwan, so I have no reason to believe that constrained access to Taiwan's semiconductor industry as a result of U.S. export controls is likely to change China's strategic approach to Taiwan. In general, however, the less interdependent China is with the rest of the world, the less restrained Chinese leaders are likely to feel in their international behavior.

As a result of the circumstances described above, the next two years are likely to be a particularly risky period for U.S.-China relations. I am sure that the U.S. intelligence community and Defense Department are keeping a close eye on developments in China, including any indications that China may be preparing for some type of use of force against Taiwan. To support them in that endeavor and to exercise Congress's oversight responsibilities, I suggest that the Commission recommend to Congress that it request the IC and DoD to, if they do not already, provide Congress with regular updates on military activities in China, particularly any indications that China may be preparing for a use of force against Taiwan. Since it is possible that China could disguise such preparations and launch an attack without prior warning, I also suggest that the Commission recommend to Congress that it require the Department of Defense, if it does not already, to provide Congress with an annual assessment of its capability to defeat a Chinese use of force against Taiwan and to identify any capability shortfalls it is currently experiencing or anticipates in the next five years. For its part Congress needs to ensure that it is providing the funds needed to address those shortfalls and that it is prioritizing the resourcing of capabilities needed to ensure continuing U.S. military dominance over China. China is one of the two most challenging potential adversaries the United States faces today.

We no longer have the luxury of spending defense dollars simply to preserve jobs or force structure. To deter Beijing from using force against Taiwan or other countries toward which the United States has security commitments, and to ensure that the United States can prevail if deterrence fails, will require the United States and its allies to continually improve their defense capabilities until such a time as China's political system and external orientation evolve in a more moderate direction.

## **OPENING STATEMENT OF BILL HAYTON, ASSOCIATE FELLOW FOR THE ASIA-PACIFIC PROGRAM AT CHATHAM HOUSE**

VICE CHAIRMAN BARTHOLOMEW: Thank you.

Dr. Hayton, your turn.

DR. HAYTON: Thank you, co-chairs and Commissioners for the invitation to testify before the Commission. It's a great honor to be able to make a small contribution to your vital work.

My testimony concerns the situation in the South China Sea but I believe it's vital to recognize that the Sea does not exist in isolation. It sits at the heart of a region and today I want to talk about that regional context.

An American presence in the South China Sea will be impossible to sustain without the active support of the Southeast Asian claimant states and the United States shouldn't agree to simply assume that its naval presence in the South China Sea will be sufficient to generate regional goodwill.

I should say at the outset that the recent policy announcement on the South China Sea by Secretary Pompeo has been generally welcomed by officials in the ASEAN claimant states because it aligns Washington squarely behind multilateralism and international law.

A statement by the Commander of the U.S. 7th Fleet, Vice Admiral Bill Merz that, "The U.S. supports the efforts of our allies and partners in the lawful pursuit of their economic interests" in the South China Sea is also a welcome step forward in the American position.

The question remains, however, whether this is enough.

In preparing this testimony and my written evidence, I canvassed the opinions of friends and contacts working in foreign ministries and think tanks in the Philippines, Malaysia, and Vietnam. In the old parlance they represent respectively allies, partners, and friends of the United States. They are the people in their countries most concerned about the situation in the South China Sea and they are depressed.

They are not depressed because China is making advances. They expect that. They are depressed because they fear the United States is giving up. They compare what they call China's comprehensive engagement in Southeast Asia with America's increasing withdrawal.

These are people who share American values, who value their country's strategic ties to the United States, who believe in a free and open Indo-Pacific, and who appreciate their contact with American diplomats. But they are weary of being berated by American politicians, of their summits being snubbed and only being contacted when Washington wants something, and then being told that they have to make a choice between China and the United States.

I say again, these people want the United States to remain engaged in the region because they believe the American presence is vital to maintaining their country's autonomy in the face of a rising China. But they worry that Washington's commitment is draining away, and that just makes it more difficult for them to argue a pro-American case in their own capitals.

Southeast Asian diplomats have many concerns about China. Privately they complain about Beijing's overbearing attitude, it's bullying in the South China Sea, its huge and growing trade surpluses, and its incessant demands to control the narrative.

They will not make these criticisms openly, however, but they feel them strongly nonetheless. They want a Washington that understands that, and does not demand public condemnations of China's behavior as the price of diplomatic engagement.

If the United States wants to remain relevant in the South China sea, then it needs to change its attitude to these Southeast Asian officials. We are watching the U.S. fail in Southeast Asia because it appears to have forgotten how to engage. Engagement means more than just showing up with a gunboat, or even an aircraft carrier, every few weeks or months and expecting everyone to love you.

Southeast Asian diplomats and experts fear that an American engagement focused on security alone is unsustainable. Engagement needs to be comprehensive. Both sides need to be seen to gain in trade, investment, and other forms of exchange. Otherwise, the political will to support it will ebb away.

All government departments need to be involved. Agriculture, commerce, and education just as much as Defense and State. They need to be enabled to find effective and visible ways of generating links between Southeast Asia and the United States. As one respondent of mine wrote, "A comprehensive and multi-pronged strategy -- doing many things at once -- communicates America's seriousness and commitment."

Recently governments in the region have been focused on combatting the COVID-19 pandemic. China has been offering aid and appearing to listen to requests for further help. Westerners may sneer at these efforts by government to allow the virus to spread in the first place, but they are still welcomed in Southeast Asia and contrasted with an apparent lack of concern from Washington.

What impresses the region is consistency, staying the course through good times and bad. For the past four years Japan has tried to fill the void taking on many of the roles once performed by the United States. However, with the resignation of Abe Shinzo, it's not clear whether this will continue. If it does not, will the United States step back in?

There will always be anxiety in Southeast Asia that one day an American president would simply decide that the South China Sea is simply not worth the trouble and seek an accommodation with China. No amount of American protestation about its enduring interests will entirely convince them. A generation ago the United States declared its iron resolve in another Southeast Asian context but it left anyway.

Southeast Asians know that Americans find their brand of consensus diplomacy infuriatingly slow but that's just the way the game has to be played. Washington may regard ASEAN as the talking shop but the region wants it to be taken seriously. The United States must engage with ASEAN.

Yet, for the past four years the Trump Administration has failed to appoint an ambassador to the organization. Similarly, a country without an ambassador in Singapore for four years is simply not trying hard enough.

The United States has been fortunate to find itself with a regional adversary as inept as the People's Republic of China. In theory, China has a strong hand to play.

It can boast great success in economic growth and poverty reduction, as well as a history of opposing western imperialism, but it has chosen to prioritize territorial claims, claims that I can best describe as fraudulent, and behave with utter arrogance towards its neighbors. Over the past decade China has been America's best recruiting sergeant but one day Beijing may realize its mistakes and change its game.

So yes, China does behave badly in the South China Sea. It bullies, it coerces, and it antagonizes, but there is no willingness in Southeast Asia to leap into a grand anti-China alliance. Southeast Asian governments view their relationships with Beijing in the round, taking

what is good and resisting what is bad. It's a game played for the long term and if Washington is to have a chance, it must play the game the same way. Thank you.

**PREPARED STATEMENT OF BILL HAYTON, ASSOCIATE FELLOW FOR THE  
ASIA-PACIFIC PROGRAM AT CHATHAM HOUSE**

# 'The South China Sea in 2020'

## Statement before the U.S.-China Economic and Security Review Commission hearing on "U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges" Wednesday 9 September 2020

*Bill Hayton, Associate Fellow, Asia-Pacific Programme, Chatham House, London  
and author of 'The South China Sea: the struggle for power in Asia' (Yale, 2014)*

### **1. What have Beijing's military and paramilitary activities in the South China Sea this year revealed about its objectives and hard power capabilities in the region?**

China's activities, both this year and over the longer term, indicate three main objectives in the South China Sea:

- To protect Communist Party of China (CPC) rule through the creation of 'strategic depth' around China's coastline, particularly through the construction of island bases in the Spratlys, and also the development of a submarine 'bastion' between the Chinese mainland and the Spratly Islands within which to deploy the country's strategic nuclear deterrent.
- To 'reclaim' (in its own view) 'lost' territories: Taiwan, the various rocks and reefs of the Spratly Islands and Scarborough Shoal.
- To extract resources (oil, gas, hydrates, fish, etc) from areas beyond its legitimate Exclusive Economic Zone (EEZ) entitlements through a strategy of coercive 'joint development'.

In addition to these 'whole state' objectives, various Chinese state agencies, notably the military, coastal provinces and state-owned enterprises, pursue their own objectives under the 'umbrella' of national interests. Promoting a 'patriotic' agenda in the South China Sea can be a means of gaining extra funding, political promotion or simply kudos for the agency or individual concerned – regardless of whether it actually advances the national interest. Successful Chinese bureaucratic actors are adept at instrumentalising state objectives for their own purposes and any single action is likely to involve elements of all four sets of objectives.

#### *Strategic depth and submarine bastion*

During 2020, China has stepped up its 'sea denial' strategic messaging towards the United States through the testing of anti-ship ballistic missiles (ASBMs) and associated public diplomacy. The first publicly-known tests of an ASBM in the SCS were conducted on 1 July 2019. The second set was conducted on 26 August 2020. These tests followed a high-profile US naval exercise, the first time two aircraft carrier groups had operated together in the SCS since 2014.<sup>1</sup>

The hawkish English-language news outlet 'Global Times' made sure that these missile tests and China's increasing capabilities received international attention by publishing articles with headlines such as 'Hopefully, 'carrier killer' missiles would never be used in the South

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<sup>1</sup> <https://news.usni.org/2020/07/06/u-s-china-navies-hold-dueling-exercises-in-the-south-china-sea>



China Sea' (28 Aug 2020)<sup>2</sup> and 'China has wide selection of anti-aircraft carrier weapons at South China Sea' (4 July 2020)<sup>3</sup>. The timing of the tests and the headlines suggest a concerted campaign to deter the United States from regarding the area within the U-shaped line as 'safe'. They also have the effect of alarming the region and thereby inducing criticism of the United States in some quarters.

In the same vein, Chinese media publicised joint anti-submarine drills which took place in March<sup>4</sup> and exercises led by the aircraft carrier *Liaoning* in April.<sup>5</sup> Chinese shadowing of transiting US warships in the SCS is now completely routine. It is clear that the Chinese navy has sufficient vessels in the right places to be able to maintain constant surveillance over the disputed islands and the spaces in between. China's second aircraft carrier, the *Shandong*, is currently undergoing sea trials and can be expected to operate in the SCS in the future. An increased Chinese carrier presence in the SCS will enable more frequent challenging of overflights by planes from the US and Southeast Asian countries.

In April the US State Department noted that China had "landed special military aircraft on Fiery Cross Reef". This would not be the first time that military transport aircraft had landed in the Spratlys. (One was used to evacuate injured construction workers in April 2016.) However, it does mark another step towards the normalisation of such visits by military aircraft.

It appears that China is rapidly developing the capabilities to exclude other navies from the South China Sea and that this will enable it to protect a manoeuvring space for its ballistic missile submarines within a 'bastion' defence.

#### *'Reclaiming' 'lost' territories*

China's efforts to build up its sea denial capabilities can also be seen as part of a long-term strategy in support of a future invasion of Taiwan. Artificial island bases in the southern part of the SCS combined with ASBM threats to US carrier groups would complicate American operations in support of Taiwan in the event of conflict.

China also maintains the long-term ambition to occupy every land feature within its 'U-shaped line' claim in the South China Sea. In April 2020 the State Council announced two new district councils in the South China Sea, as subsidiaries of the 'prefecture level city' of *Sansha*, established in 2012 to administer the SCS. One district is *Nansha* – 'South Sands' – to manage the Spratlys. The other is *Xisha* – 'West Sands' to manage the Paracel Islands and also *Zhongsha* – 'Central Sands' – the Macclesfield Bank and Scarborough Shoal.<sup>6</sup> Given that China does not occupy the Scarborough Shoal and that the Macclesfield Bank is entirely underwater, this move can be read as a statement of intent to both occupy Scarborough Shoal and build on the Macclesfield Bank.

China may try to extend its territorial claims to underwater features. In April 2020, the Chinese government announced names for 55 underwater features, all of them on Vietnam's continental shelf. It also continues to regard James Shoal, off the coast of Borneo, as the

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<sup>2</sup> <https://www.globaltimes.cn/content/1199208.shtml>

<sup>3</sup> <https://www.globaltimes.cn/content/1193485.shtml>

<sup>4</sup> <https://www.scmp.com/news/china/military/article/3076273/chinese-naval-planes-conduct-anti-submarine-drills-south-china>

<sup>5</sup> <https://news.cgtn.com/news/2020-04-13/Chinese-navy-conducts-regular-training-in-South-China-Sea-PEUvg6bvbi/index.html>

<sup>6</sup> <https://amti.csis.org/sansha-and-the-expansion-of-chinas-south-china-sea-administration/>

southernmost point of Chinese territory even though that feature is actually 22 metres below sea level.

### *Resource extraction*

During 2020 China has successfully coerced both Vietnam and the Philippines into abandoning or suspending their plans to develop offshore natural gas reserves and attempted to do the same to Malaysia. It has also engaged in 'punitive' oil survey work in the Exclusive Economic Zones (EEZs) of Vietnam and Malaysia: using seismic research vessels escorted by flotillas of coastguard and maritime militia vessels.

In March, the Chinese Ministry of Natural Resources announced a successful experiment had taken place between 17 February and 18 March to extract methyl gas hydrates from the sea floor of northern part of the South China Sea.<sup>7</sup> The process is currently far from commercial development but it provides another incentive for Chinese interests to want to control the sea's natural resources.

From 1 May until 16 August, China once again imposed its unilateral annual fishing ban in the area north of 12° North, ie north of the Spratly Islands.<sup>8</sup> While the geographical scope of the ban is rejected by the other claimant states there were no reports of confrontations during the period of the ban. However, a China Coast Guard (CCG) vessel rammed and sank a Vietnamese fishing boat with eight people on board near the Paracels on 2 April, triggering a protest. In an interesting development, the Philippine government issued a statement of solidarity.<sup>9</sup> A Philippine fishing boat was sunk by a Chinese vessel in June 2019.

In January 2020, an organised flotilla of at least 50 Chinese fishing boats sailed to the southern extremities of China's 'U-shaped-line' and operated within the EEZs of Malaysia and Indonesia under the protection of CCG vessels.<sup>10</sup> In response Indonesia deployed warships and summoned the Chinese ambassador in protest.

## **2. Do these activities reflect recent shifts in Beijing's policy or capabilities, or are they extensions of existing policy?**

Beijing's overall objectives in the SCS have remained consistent since at least the 1970s. Over the past decade, however, the pursuit of these objectives has become much more aggressive. This is for three main reasons:

- Increased capabilities and resources – The 18<sup>th</sup> CPC Congress in November 2012 mandated the leadership to transform China into a 'strong maritime power'. As a result, state agencies were allocated the funds and political support to construct and maintain artificial islands and naval bases far from home. The navy, coastguard and maritime militia forces were expanded. These two developments have enabled Chinese forces to deploy in strength in contested parts of the SCS.
- Greater central direction of state agencies – The appointment of Xi Jinping as CPC General-Secretary was followed by the imposition of stronger central control over hitherto rival maritime agencies. A decision to merge some of them was announced in

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<sup>7</sup> <https://www.scmp.com/news/china/society/article/3077156/china-extracts-861400-cubic-metres-natural-gas-flammable-ice>

<sup>8</sup> [http://www.xinhuanet.com/english/2020-05/01/c\\_139024157.htm](http://www.xinhuanet.com/english/2020-05/01/c_139024157.htm)

<sup>9</sup> <https://www.gmanetwork.com/news/news/nation/733212/philippines-calls-out-china-on-ramming-of-vietnamese-vessel/story/>

<sup>10</sup> <https://www.reuters.com/article/us-indonesia-china-southchinesea-waters/indonesian-military-says-chinese-vessels-left-disputed-waters-idUSKBN1Z8146>

March 2013 and since 2014, the China Coast Guard has been seen to act with greater assertiveness.

- Increased willingness to incur reputational costs – China appears increasingly unconcerned about international criticism. Actions such as sinking foreign fishing boats, threatening neighbouring governments over offshore energy developments and testing long-range missiles in the South China Sea have all generated ill feeling in the region yet China appears unconcerned. Where once the fear of public criticism seemed to restrain Beijing, this appears to be less and less true.

I do not believe that the recent increase in Chinese activity in the SCS has been a response to the COVID-19 pandemic. While the fight against the virus has distracted many states from focusing on foreign policy issues, I would argue that China's actions in the SCS are simply the continuation of the country's previous trajectory.

### **3. How does Beijing evaluate the success of these activities? Please address how China has used military and paramilitary coercion in your response.**

China's policy in the South China Sea is akin to a ratchet. It moves forward, sometimes takes a break but never moves backwards. Its pattern of behaviour, evident since the 1950s, has displayed a clear territorial agenda. It seeks ultimately to occupy every single land feature within the U-shaped line. Since the 1990s, when it added 'historical rights' to its legal strategy it has extended its agenda to include maritime resources outside its EEZ claim.

The Chinese leadership must be feeling relatively pleased with the outcome of its activities in 2020. Its strategic growth has continued, its ability to project force has strengthened and it has successfully coerced Vietnam and the Philippines into abandoning or suspending their oil and gas developments within the 'U-shaped line'. Malaysia, however, has continued with its offshore drilling.

Beijing has lost much goodwill in the region but incurred few substantive costs. Its neighbours still seek to trade with China and receive its aid and investment. Chinese actions have triggered an increasing US naval presence in the South China Sea, but Beijing's response has been to double down: make its military posture even more assertive and its public diplomacy more hawkish.

China's overall approach is one of 'active defence' in which its adversary is subjected to various forms of harassment with the objective of inducing some kind of hostile response, at which point the Chinese side may 'retaliate' with force while claiming to be responding to the other side's provocation. Different forms of the same strategy are used against China's two different sets of adversaries in the SCS. Neighbours are pressured with predominantly 'civilian' coastguard and militia while 'near peer adversaries' such as the United States and Japan are pressured with military forces.

### **4. What economic and political means has China used to coerce Southeast Asian neighbours in the South China Sea?**

It is important to recognise that China's methods of influencing its Southeast Asian neighbours involve a range of tactics beyond simply 'coercion'. Over the past few years, China has been able to fill a void left by the diplomatic and economic withdrawal of the United States. Some Southeast Asian analysts describe Beijing's approach as 'comprehensive' – in contrast to Washington's apparent single-minded focus on security. In the words of one regional commentator, "The US can sometimes appear like a one-trick donkey." Southeast Asian

colleagues sometimes characterise the Trump White House as lacking a systematic agenda beyond trying to undo the work of previous US administrations.

Some Southeast Asian contacts describe China as being a 'better neighbour' during the past four years, and particularly during the COVID-109 pandemic. It has remained engaged across all channels in a way that the US has not. While officials in Washington have spent time blaming 'the China virus', Chinese diplomats have pressed on with the work of building relationships: stepping up aid, diplomacy and communication with Southeast Asian governments. In fact, there are plenty of Southeast Asian officials who would describe China's presence in the region as 'positive'. In the Philippines, for example, officials say they have been impressed by Chinese diplomats willingness to listen and consider Philippine opinions during the pandemic. This contrasts with what another Philippine analyst described as their "wariness about unilateral American decisions on important matters. [The US offers] no trial balloons, no deep consultations, yet expects us to accept its leadership on the issue."

China's tactics in the SCS have become increasingly coercive over the past decade, however Southeast Asian claimants are prepared to see this as a problem that can be 'ring fenced' and managed. They are all apprehensive about China's behaviour, but they balance those concerns against other, positive, aspects of their relationship. The United States should not assume that confrontation at sea will necessarily make governments in Bandar Seri Begawan, Hanoi, Jakarta, Kuala Lumpur or Manila to hostile towards Beijing.

There is no doubt that, during the past year, China has engaged in coercion against energy companies and Southeast Asian governments. China Coast Guard vessels have harassed offshore hydrocarbon development and protected unauthorised commercial surveys in other countries' EEZs. From December 2019 until May 2020, the CCG ships *Haijiang 5202*, *5203*, *5305*, *5403* circled and obstructed the activity of the West Capella drilling rig off the coast of Sabah.<sup>11</sup> In response the US deployed, at different times, the USS Gabrielle Giffords, USS Montgomery and USNS Cesar Chavez and the USS America to observe developments. The Royal Australian Navy frigate HMAS Parramatta was also present for a time.<sup>12</sup> In a highly significant statement, the Commander of U.S. 7th Fleet, Vice Adm. Bill Merz stated "The U.S. supports the efforts of our allies and partners in the lawful pursuit of their economic interests."<sup>13</sup> This appears to be an attempt to get behind the needs of the Southeast Asian claimants and therefore a major evolution of the US position.

From mid-April until mid-May, the Chinese research ship *Haiyang Dizhi 8*, accompanied by several coast guard and maritime militia vessels, encroached into Malaysia's exclusive economic zone (EEZ) and carried out unauthorised seismic surveys. This involved sailing up and down an area of sea in a 'lawnmower' pattern for several weeks. This was a very similar episode to one in 2019 when the same survey ship had conducted surveys in a similar manner in Vietnam's EEZ. Both incidents seem to have been attempts to punish Malaysia and Vietnam for going ahead with offshore development in areas inside China's self-declared 'U-shaped line' claim. The Malaysian standoff ended after the *West Capella* left the area after completing its work on May 12, followed by *Haiyang Dizhi 8*, which left three days later.

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<sup>11</sup> <https://amti.csis.org/malaysia-picks-a-three-way-fight-in-the-south-china-sea/>

<sup>12</sup> <https://thediplomat.com/2020/06/chinas-tightening-grasp-in-the-south-china-sea-a-first-hand-look/>; <https://www.c7f.navy.mil/Media/News/Display/Article/2184969/us-navy-maintains-persistent-presence-near-west-capella/> <https://news.usni.org/2020/05/13/maritime-standoff-between-china-and-malaysia-winding-down>

<sup>13</sup> <https://www.c7f.navy.mil/Media/News/Display/Article/2184969/us-navy-maintains-persistent-presence-near-west-capella/>

China's actions are already having negative effects on those countries' security. Fishing communities are losing income and governments are losing tax revenue. Vietnam has been unable to develop energy resources to meet the needs of its growing economy and the Philippines faces the loss of over 20% of its electricity generating capacity within a few years. Its Malampaya gas field is running out. It could be replaced by gas from the Reed Bank, but China is preventing that development, despite the 2016 Tribunal ruling.

### **5. How have these tactics changed in recent years?**

From 2006, until 2017, China's main method of coercion was to apply pressure directly upon international oil companies. Exxon, BP, Conoco, Pogo and Pearl Energy were all threatened with consequences for their operations in China if they persisted with developments off Vietnam. Most complied with the Chinese demands.

Tactics changed in 2017 because the Spanish company Repsol refused to back down. The Vice-Chair of China's Central Military Commission, Fan Changlong, visited Madrid in June 2017.<sup>14</sup> Sources reported that during this visit, General Fan warned Repsol against pursuing the development. However, Repsol had minimal interests in China and made clear that it intended to continue with its work. General Fan then flew to Hanoi where he had meetings with the Vietnamese leadership.<sup>15</sup> Almost immediately afterwards, the Vietnamese government ordered Repsol to stop its activities. My understanding is that Beijing made a specific threat to attack Vietnam's 'DK1' isolated stilt platforms that sit in shallow waters on the Vanguard Bank and nearby features.

In March 2018, just as Repsol prepared to drill again, China assembled a flotilla of 40 naval vessels, including its *Liaoning* aircraft carrier, near Hainan Island.<sup>16</sup> Shortly afterwards the Vietnamese government again cancelled Repsol's development work. Subsequent to both these cancellations Repsol has exited its interests in the disputed areas of the SCS. The Vietnamese government was obliged to pay over a billion dollars (US) to Repsol and its partners in compensation.

In 2020, the Vietnamese state-owned energy company PetroVietnam cancelled a planned development with its Russian partner Rosneft. This was for a drill that was to take place on a field that had been already operating for 18 years. The details have not been made public but Rosneft cancelled its contract with the drilling contractor, Noble.<sup>17</sup> Oil industry observers assume that this was again due to political pressure on the Vietnamese government.

It is worth noting in this context that in May 2017, President Rodrigo Duterte of the Philippines stated publicly that President Xi Jinping had threatened his country with war if it tried to develop gas reserves located under the Reed Bank in the SCS.<sup>18</sup>

### **6. How have other countries' changing economic interests in the region altered Beijing's ability to use economic coercion?**

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<sup>14</sup> [http://www.xinhuanet.com/english/2017-06/14/c\\_136365772.htm](http://www.xinhuanet.com/english/2017-06/14/c_136365772.htm)

<sup>15</sup> <https://thediplomat.com/2017/06/is-a-new-china-vietnam-maritime-crisis-brewing-in-the-south-china-sea/>

<sup>16</sup> <https://www.reuters.com/article/us-china-defence/exclusive-satellite-images-reveal-show-of-force-by-chinese-navy-in-south-china-sea-idUSKBN1H3135>

<sup>17</sup> <https://www.rfa.org/english/news/vietnam/oil-china-07132020173206.html>

<sup>18</sup> <https://www.reuters.com/article/us-southchinasea-philippines-china/duterte-says-chinas-xi-threatened-war-if-philippines-drills-for-oil-idUSKCN18F1DJ>

China has only rarely used overt economic coercion in the context of the SCS disputes. As outlined above, between 2006 and 2017 it pressured energy companies that were operating off Vietnam with considerable success.

The other example is the restrictions on banana imports from the Philippines imposed during the 2012 Scarborough Shoal crisis. The process had actually begun in March, before the standoff began, because of alleged contamination by pests. However, new quarantine measures were imposed on 4 May while the crisis was underway following alleged further discoveries of pests in other shipments. By May 12, 1,500 containers were being held in Chinese ports.<sup>19</sup> According to the Pilipino Banana Growers and Exporters Association, total exports of bananas to China by their members fell from just over 300,000 tonnes in 2011 (a record year) to around 150,000 tonnes for the following three years.<sup>20</sup> Exports only recovered following the election of President Duterte and his reorientation of Philippine foreign policy in 2016.

The form of economic sanctions most likely to be used by China is a tourism ban. This was a feature of its dispute with South Korea over the THAAD system in 2017/18 and was also used against Taiwan in 2019. However, it has not been used in the context of the South China Sea disputes. Given the current suspension of tourism because of the COVID-19 pandemic the use of such a tactic is highly unlikely.

In Southeast Asia, China's economic power is more likely to be wielded in the form of carrot than stick. Governments are keen to receive the benefits of trade and investment. In the words of one Southeast Asian analyst, "ASEAN leaders may be concerned about the regional imbalance of military power, but they are also fearful about economic performance at home." China also needs to trade and invest in order to maintain domestic growth. Since it enjoys huge trade surpluses with almost every ASEAN state it could be argued that China is also vulnerable to retaliation for any sanctions it might impose. In 2019, ASEAN became China's second-largest trade partner (overtaking the US).<sup>21</sup>

## **7. How has the new U.S. position on the South China Sea changed the regional dynamic?**

Southeast Asian analysts and policy advisors regard Secretary of State Michael Pompeo's statement of 13 July 2020 as both 'new', in that it was an explicit demonstration of commitment to the region, and 'not new' in that they had assumed that the contents of Secretary Pompeo's statement were already implicit in US policy. One official noted that, "ASEAN is itself starting to realize the importance of finding a collective voice. ... The evolution of positions is clear and unmistakable."

Some believe that US support for the principles of UNCLOS will give extra confidence to negotiators from ASEAN states in their dealings with China, particularly during their talks on a 'Code of Conduct in the South China Sea' (COC). However, these talks have already dragged on for more than twenty years and there is little sign that China is willing to make the concessions necessary to satisfy ASEAN governments' concerns.

The main concern of Southeast Asian governments is over the long-term durability of the United States' position in Southeast Asia. At the moment they are waiting to see the outcome of the US presidential election. They expect that a Biden victory will lead to more full-fledged

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<sup>19</sup> Michael Green, Kathleen Hicks, Zack Cooper, John Schaus, and Jake Douglas, *Countering coercion, Case 3: Scarborough Shoal Standoff*, CSIS 2017

<sup>20</sup> Pilipino Banana Growers & Exporters Association, Inc; 'Philippine Banana Exports to China: Dealing with Sanitary and Phytosanitary Concerns', presentation during the Roundtable Discussion on Philippine-China Trade and Investment Relations in Astoria Plaza, Pasig City on 11 June 2015

<sup>21</sup> <http://english.customs.gov.cn/Statics/f63ad14e-b1ac-453f-941b-429be1724e80.html>

'pivot' to Asia whereas a Trump victory will leave them more exposed while the US engages in a unilateral fight with China. In the words of one regional official "If the US demonstrates strong continuity, there will be no doubt that many countries... will become more confident about taking the Pompeo statement at face value."

### **8. How have ASEAN countries responded to the U.S. position?**

To date, there has been no collective ASEAN response to Secretary Pompeo's announcement. However, Vietnam is chair of ASEAN this year, and the collective statements it has drafted on the SCS have been more robust than in previous years, emphasising in particular the importance of UNCLOS in guiding how should states behave.<sup>22</sup> ASEAN's next foreign minister's meeting (AMM) is expected to take place in September but it would be surprising if the ministers agreed a direct response to the US announcement.

Most ASEAN governments have simply noted the statement rather than overtly supporting or disagreeing with it. No ASEAN state is currently willing to take a leading position over the SCS. Until 2016, the Philippines was willing to make vocal criticism and other governments, notably Vietnam, provided quiet support. However, that changed in July 2016 after the election of Rodrigo Duterte and his 'pivot' away from the United States.

The new US statement provides an opportunity for a new beginning. It aligns well with the positions of ASEAN members and has been generally viewed as a welcome return to the normal process of diplomacy. US diplomats toured the region in advance of the statement, giving foreign ministries advance warning of its contents and allowing them to prepare responses.

#### *Brunei*

On 20 July, the Brunei Ministry of Foreign Affairs issued a rare statement declaring that the country "maintains its two-step approach in addressing the South China Sea". The first 'step' is bilateral discussions of specific issues between "the countries directly concerned". This is also the way forward preferred by Beijing. However, Brunei's insistence "that such negotiations on the South China Sea should be resolved in accordance with the 1982 United Nations Convention on the Law of the Sea (UNCLOS), and the rules and principles of international law" would not be to Beijing's liking. Brunei's second 'step' is that "all countries concerned need to promote a calm, peaceful and conducive environment, building confidence and enhancing mutual trust". Its statement stressed the importance of "the early conclusion of an effective and substantive Code of Conduct".<sup>23</sup>

#### *Indonesia*

Indonesia has not responded to the statement. A very brief statement from the US State Department, issued after a telephone conversation between Secretary Pompeo and the Indonesian foreign minister Retno Marsudi noted only that they spoke about, "the two countries' shared goal of respect for international law in the South China Sea." However, Ms Marsudi, in her comment on Twitter about the conversation, made no mention of the South China Sea.<sup>24</sup>

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<sup>22</sup> <https://abcnews.go.com/International/wireStory/asean-takes-position-chinas-vast-historical-sea-claims-71489629>

<sup>23</sup> <http://www.mfa.gov.bn/Lists/Press%20Room/news.aspx?id=841>

<sup>24</sup> [https://twitter.com/Menlu\\_RI/status/1290455276919951362](https://twitter.com/Menlu_RI/status/1290455276919951362)

### *Malaysia*

On 16 July, the Malaysian government issued a particularly bland statement in response to both Secretary Pompeo's announcement and the Chinese government's response to that. It noted that "Malaysia maintains its position that all parties must work together to ensure peace, security and stability in the South China Sea." It also highlighted the importance of UNCLOS in peacefully resolving the disputes.<sup>25</sup> Malaysia did, however, make a surprisingly dramatic submission to the UN Commission on the Limits of the Continental Shelf on 31 July protesting against China's claims in the South China Sea.<sup>26</sup> It asserted that, "the Government of Malaysia considers that the People's Republic of China's claim to the maritime features in the South China Sea has no basis under international law." Taken at face value, this could be taken as Malaysia rejecting Chinese sovereignty claims over every feature in the SCS, however Malaysian insiders advise that it was only aimed at features in the Spratly Islands.

### *Philippines*

The Philippines government issued a statement the day before Secretary Pompeo's – marking the fourth anniversary of the Arbitral Tribunal ruling.<sup>27</sup> It was the first time that the Duterte administration publicly called on China to comply with the ruling. It asserted that "Compliance in good faith with the award would be consistent with the obligations of the Philippines and China under international law, including UNCLOS to which both parties are signatories. ... The award is non-negotiable."

### *Vietnam*

Vietnam welcomed Secretary Pompeo's statement, although without explicitly saying so. On 15 July its Foreign Ministry spokesperson said, "Viet Nam welcomes other countries' positions on the East Sea issue that are in accordance with international law and shares the view [set out in the Statement of the 36th ASEAN Summit, held in June 2020 that] the UNCLOS sets out the legal framework within which all activities in the oceans and seas must be carried out."<sup>28</sup>

## **9. How do ASEAN partners each see the United States' military and diplomatic presence in the region with regard to their respective interests?**

Most Southeast Asian governments regard the United States' military presence in the SCS as a stabilising factor in the region. Without the US, no country has sufficient confidence to resist China. However, they have three major concerns:

- they remain sceptical of the US's long-term commitment to Southeast Asia
- they are concerned by the US's unwillingness to engage with ASEAN's established multilateral frameworks

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<sup>25</sup> <https://www.nst.com.my/news/nation/2020/07/609154/hishammuddin-south-china-sea-issue-requires-peaceful-resolution>

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[https://www.un.org/Depts/los/clcs\\_new/submissions\\_files/mys\\_12\\_12\\_2019/2020\\_07\\_29\\_MYS\\_NV\\_UN\\_002\\_OLA-2020-00373.pdf](https://www.un.org/Depts/los/clcs_new/submissions_files/mys_12_12_2019/2020_07_29_MYS_NV_UN_002_OLA-2020-00373.pdf)

<sup>27</sup> <https://dfa.gov.ph/dfa-news/statements-and-advisoriesupdate/27140-statement-of-secretary-of-foreign-affairs-teodoro-l-locsin-jr-on-the-4th-anniversary-of-the-issuance-of-the-award-in-the-south-china-sea-arbitration>

<sup>28</sup> <http://news.chinhphu.vn/Home/Viet-Nams-response-to-US-Secretary-of-States-position-on-East-Sea/20207/40779.vgp>



- they are absolutely adamant that they do not want to be forced to choose between the US and China

In the words of different analysts in the region,

“the countries of Southeast Asia, see little choice but to prepare for the possibility that American strategy in Asia becomes unsustainable, thus exposing them an almost unfettered China.”

“ASEAN states are certainly wary of US abandonment, but at the moment they want more US presence not less because of the security that only Washington can bring.”

“Although not speaking out publicly, most ASEAN countries see the US as a source of counterweight to China, to constrain China's adventurism.”

ASEAN leaders are worried about the hardening of attitudes between the US and China and the growing confrontation between them. Increased US military activities in the region are not welcomed by those governments with lower concerns about China (Cambodia, Laos, Myanmar and Thailand). However, all governments want to see the situation de-escalated. Unlike the United States they don't see China as an “existential threat, systemic adversary, ideological rival, or revisionist hegemon”, to quote a Malaysian analyst.<sup>29</sup> They recognise that China's behaviour needs to be countered but do not wish to see it ‘cornered’.

Southeast Asian analysts and officials want the United States to remain an effective player in the region. In order to do that, the US has to convince leaders and the general public alike that its presence there is sustainable. At the moment it seems that the US is spending billions on security for little economic return. The only way to convince Southeast Asians that the American presence is permanent is to treat the region as China does – with comprehensive engagement based on investment, trade and exchange. In the words of one official, “whenever ASEAN diplomats talk about China and its foreign policy, they always speak about the long game, and China's consistency”. They want the United States to do the same – as they believe it used to do before 9/11.

### **10. In what way do U.S. and ASEAN positions complicate China's operations in the South China Sea?**

China has the military capacity to overrun almost all the island features in the South China Sea in a day or two. The fact that it has not done so tells us that it feels restrained by something. The US presence in the region is part of the explanation but a greater part is reputational: China fears the consequences of appearing too aggressive towards the region.

That does not prevent it from appearing to be aggressive towards the United States. A key plank of China's public diplomacy strategy towards Southeast Asia is to paint the US as a threat to regional peace, take actions that increase the risk of confrontation and thereby encourage calls for restraint from Southeast Asia.

It is notable that despite decades of pressure from China, none of the ASEAN states have backed down on the core principles of UNCLOS. They insist they have the exclusive right to control the development of resources within their own EEZs. So far none of them have conceded to China's demands for ‘joint development’. This should be acknowledged as a vital contribution to the maintenance of UNCLOS as a key plank of the rules-based order.

Malaysia has responded to China's pressure with legal submissions to the UN Commission on the Limits of the Continental Shelf. Vietnam hints that it could initiate legal action against China in the same way that the Philippines took China to an International Arbitral

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<sup>29</sup> <http://www.scspi.org/en/dtfx/1591153812>

Tribunal in 2013. However, the close relations between the communist parties of Vietnam and China make this unlikely.

The Philippines has upgraded the facilities on Thitu/Pagasa, the largest of the islands it controls in the Spratlys. On 9 June 2020, Defence Secretary formally opened a new beaching ramp, which will allow supplies to be directly unloaded from ships for the first time since the island was occupied in the early 1970s. The works had taken two years longer than scheduled.<sup>30</sup>

### **11. How are Chinese state-owned enterprises participating in Beijing’s expanding presence in the South China Sea?**

The best work on this topic has been carried out by the Singapore-based researcher Xue Gong.<sup>31</sup> She notes that centrally-managed SOEs “often use national interests as pretexts to maximize their own economic interests.” She identified three different strategies adopted by Chinese Central-SOEs in the SCS:

- Those that serve as political tools to undertake strategic tasks for the state but also reap commercial benefits. A prime example would be the construction company CCCC.
- Those large enough to influence state policy and even pursue their own initiatives under the umbrella of national policy in order to secure economic and political benefits. A prime example would be the oil company CNOOC.
- Those that don’t shape the political agenda but respond when their commercial interests align with central government policy incentives. Prime examples include the South China Sea tourism industry.

Gong concludes, “China will continue to support CSOE activities in the South China Sea. And so long as their business interests converge with the country’s national interests, CSOEs will maintain their support for China’s assertive policy in the South China Sea.”

### **12. What are your recommendations for Congressional action related to the topic of your testimony?**

To engage properly with Southeast Asia, the US needs to think beyond traditional diplomacy and shows of military force. In the words on one Philippine colleague, “Consistency is highly valued here and without the presence of ambassadors at the ASEAN mission and some Embassies, it is difficult to see how the US can consistently send its message. The US must aim for a holistic response.” This was echoed by a Malaysian contact, “Other departments – Agriculture, Commerce, Education, etc. – need to be encouraged to find effective and visible ways of generating links between Southeast Asia and the United States. What needs to be underscored and made a reality is for Southeast Asian countries to be convinced that China is not the only game in town.” Another asked, “How will the US follow-through in order to make it appear a regional leader. There is one school of thought that thinks this is already too late and a lot of Southeast Asian countries are enmeshed too deeply with China for better or for worse.” And a veteran think-tank analyst observed that, “America needs to be prepared to pursue its strategies without being cheered along the way.”

Contacts among the Southeast Asian policy community have made the following suggestions for legislative action:

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<sup>30</sup> <https://rappler.com/nation/national-news/more-plans-upgrade-pagasa-island-lorenzana-unveils-beaching-ramp>

<sup>31</sup> Xue Gong, ‘The Role of Chinese Corporate Players in China’s South China Sea Policy’, *Contemporary Southeast Asia* 40, No. 2 (2018), pp. 301–26

- The Senate should ratify the United Nations Convention on the Law of the Sea as a matter of priority. The United States' loses credibility when it lectures other states about their responsibilities under UNCLOS when it has not ratified the convention itself.
- Congress should prioritize confirming ambassadors to ASEAN countries who are either career diplomats or individuals who can provide the needed reassurance to US partners and allies.
- Congress should allocate more funds to maritime security initiatives, particularly:
  - Multilateral maritime law training bringing together Southeast Asian countries with ongoing disputes between them e.g. Malaysia-Vietnam or Malaysia-Indonesia-Philippines
  - Maritime domain awareness
  - Maritime enforcement activities
  - Coordination between maritime agencies
  - Other practical cooperation activities undertaken by ASEAN, CSCAP and Expert Working Groups
- Congress must compete with China on people-to-people exchanges. There is, for example, no substitute for the Fulbright program in bringing future economic, political, and security leaders, to the U.S. to acquire an American education.
- Congress should allocate more funds to water issues in the Mekong.
- The development of regional expertise is critical, particularly since so few countries have adequate policy-making infrastructure. Therefore, Congress should support capacity-building in SCS policy-making, academic exchanges and think-tank engagements
- Congress should play important role in solidifying the US's position in the SCS by making clearly what it regards as lawful and what not.
- Congress could re-table the bill drafted by Sen. Marco Rubio, providing a mandate to the US government to respond to China's current and future actions. Imposing travel bans on individuals and entities for historic actions is a tough measure, but not meaningful enough. Deterrence works on future actions, not in the past."

One final suggestion. Ultimately, the only way to de-escalate the situation in the SCS is to persuade all sides to compromise on their rival territorial claims. The Southeast Asian claimants have broadly accepted this principle, at least on a *de facto* basis. Chinese decision-makers, on the other hand, refuse to do so because of a mistaken confidence in the superiority of their own claims. There are documents in the Republic of China archives (in Taiwan) that clearly demonstrate the weakness of Chinese claims in the South China Sea. Congress could contribute towards the de-escalation of tensions in the SCS by funding efforts to educate the Chinese public about these documents and thereby reduce opposition to the principle of compromise.

END

### PANEL III QUESTION AND ANSWER

VICE CHAIRMAN BARTHOLOMEW: Thank you very much for interesting testimony by both of you. We'll start on questions with Chairman Cleveland.

CHAIRMAN CLEVELAND: Mr. Cliff, I'm interested in your comments on the impact that Hong Kong has had on Taiwan's understanding of its relationship with the mainland. And you say that if there was any idea of One Country, Two Systems' future, that Hong Kong has killed that in Taiwan. But you also say it's unclear whether China's leadership recognizes that reality.

I would like to put a difficult question to you that we have been debating over the last hour amongst ourselves here of what do you think would compel the PLA or the CCP, more importantly, to take more forceful action when it came to asserting what they view as their prerogatives with regard to Taiwan.

DR. CLIFF: That's a great question. I have sort of two answers to that. One has to do with popular opinion in China. Now, China is by no means a democracy but the leadership is subject to popular opinion.

In particular, since they can hardly claim to be leading China towards socialism anymore, much of their legitimacy nowadays is based on nationalist claims about restoring China to its former stature of the world. Unification with Taiwan is a key element of that. The mission of restoring China to its proper place in the world will not be complete as long as Taiwan remains politically separate from the mainland.

I would say there are two ways in which pressure on the leadership in Beijing could possibly affect their decision. One is if there started to be criticism online in blogs and so on about -- and it would probably be indirect and subtle but criticisms of the leadership's failure to make progress towards the goal of unification.

The second issue I alluded to in my spoken remarks which is Xi Jinping is coming up on the end of his second full term as Secretary General of the Communist Party of China. Now, there are no term limits in the CPC constitution. However, his two predecessors both stepped down voluntarily at the end of their second full term as Secretary General. Xi, on the other hand, has signaled that he intends to stay on beyond that second term, at least as the leader of China.

Now, there's different ways he could try to pull that off but it would certainly be based on -- it would have to be legitimized by a claim that he was somehow different from those two previous leaders and that it was best for China that he remain on. Well, that's a tough argument to make given the importance of unification with Taiwan to the legitimacy of the CPC if you haven't made any progress in that dimension.

That's why I focused on the last two years as being a particularly fraught period because his leadership term will end in 2022 and he could be under pressure from other people who think it's time for them to be in charge of things and make some progress in that regard.

VICE CHAIRMAN BARTHOLOMEW: Robin, did you have any follow-up questions?

CHAIRMAN CLEVELAND: I did. My mic wouldn't go on. Sorry.

What would the regional consequence or response be to a more affirmative shift in U.S. policy to say more clearly that we support the sovereignty or a decision about sovereignty by Taipei?

DR. CLIFF: Well, I think it would vary by country and I will defer to Bill's expertise with regard to Southeast Asia. I will note that there are several other countries in the region with which the United States has secured commitments including Japan, South Korea, the Philippines,

and Thailand, but it's the first two in particular I think I'll be watching closely. In Japan they have an historical and cultural affinity for Taiwan to begin with.

I think for those two countries in particular they will actually be pertinent. Japan in particular because it has its own territorial disputes with China to see a more firm stance by the U.S. with regard to Taiwan.

I think a lot of the countries in Southeast Asia would probably not necessarily want to be caught between the United States and China. As Bill said, they certainly don't want to have to choose between the two. They don't want to see conflict.

Again, I'll defer to this judgment but I think for a lot of countries in the region, the question would be does the lessening of the ambiguity of the stance towards Taiwan does that actually increase or decrease the prospects for conflict in the Taiwan Strait. If it decreases prospects, then I think most countries will support it.

There is certainly an argument to be made that further clarity on this point actually at this point would decrease the chance of a miscalculation or misinterpretation in Beijing about just how firm the U.S. commitment is.

VICE CHAIRMAN BARTHOLOMEW: Dr. Hayton, would you like to add anything from the Southeast Asian perspective?

DR. HAYTON: Only that I think, you know, Southeast Asian states would look at this and see absolutely no upside in recognizing independent Taiwan. What would they be offered in exchange? They know they are going to get it in the neck from Beijing.

What would Taiwan, the U.S., Japan or other countries be able to offer them that would provide some compensation. I can't see anything. If it came to it, I think the silence out of Southeast Asia would be absolutely deafening.

VICE CHAIRMAN BARTHOLOMEW: All right. Thank you.

Commissioner Borgeas, your turn.

COMMISSIONER BERGEAS: Thank you. I'm going to throw out a question that I had asked the Admiral who served on this Commission for a good long while. Is there any -- is there any potential in your opinion, or is it far too late, for America to make any legal attempt to internationalize these islets? When I say internationalize them, kind of looking upon them like the poles meaning that no country has sovereignty over them because so many have competing, contiguous interests. In his opinion, back in the day, is that it seems unlikely that if the Philippines was not going to enforce their court action against the Chinese, even if others had the ability to have strong legal standing, that they would not simply be resolved by Chinese in other fashions. So, if I could restate the question, in your opinion is there any path forward toward politically and legally -- (interference).

DR. HAYTON: Thank you. I would draw a distinction here between the disputes about the islands, islets, and the disputes about the spaces in between the islands. What I mean by that is there are territorial disputes about who owns the islands, and then there are maritime disputes about what you can do in the seas in between, who can fish and go for oil and that kind of thing.

The problem with trying to internationalize them, as you suggest, basically is putting them into some kind of United Nations mandate or something is, of course, people or states actually occupy many of these islands and continue to maintain claims on the ones that they don't occupy.

I think it would be much simpler really for all the states concerned simply to recognize the holdings that the other one -- the other states already have. They all recognize the de facto

situation as being the least worst outcome. I think you can say that some of the Southeast Asian states might be close to that position, although they still maintain disputes.

The problem, of course, is that China sees the full return of all the islands within the U-shaped line as part of its territorial mission and we can see, therefore, that it sees Taiwan in the same view.

For the Chinese state it's view, which I think is wrong, is about restoring some kind of territorial justice which in their view existed in the past. I would say it never existed. But how do you persuade all these states to compromise?

In theory China says it's willing to negotiate with the other different countries but it never actually said what it's willing to negotiate about. If it's willing to negotiate a compromise on territorial grounds, then you have the basis for a solution.

VICE CHAIRMAN BARTHOLOMEW: All right. Thank you.

Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Thank you.

Dr. Hayton, you spoke at length about the need for an ambassador for ASEAN. I'm curious as to what they've done to make a request in that area. Have they made that public because you're saying that you're hearing that they are very, very disappointed and it's a very big deal.

And, secondly, if you agree, and you obviously do, what would you recommend be done in America to make it clear to people why it's necessary? Could you expound a little on why that's necessary?

DR. HAYTON: Okay. The previous administration, the Obama Administration, was the first U.S. administration to appoint an ambassador to ASEAN. They were based at the American Embassy in Jakarta, but they were exclusively appointed to ASEAN, to the organization of the 10 ASEAN states.

Nina Hachigian was the last ambassador. She resigned or stepped down in early 2017, and since then there's been no formal ambassador appointed. There have been interim figures and sort of chargés and things but no ambassador. It's a symbolic move. I'm not saying that suddenly having an ambassador would open the doors to Southeast Asia, but whenever Southeast Asian want a cheap knock at the United States, there are two things they say: one is it hasn't ratified UNCLOS, the UN Commission on the Law of the Sea, and the other is it hasn't appointed an ambassador to ASEAN. It's a demonstration of commitment.

It's also -- ASEAN is very good at doing people-to-people diplomacy, all the kind of soft stuff about education and culture and all these kind of things which aren't hard security tasks. They aren't necessarily economically beneficial, but they show respect and intent and commitment. I think that's what people are looking for.

COMMISSIONER BOROCHOFF: Dr. Cliff, what do you think about that?

DR. CLIFF: Well, I certainly agree that the ambassador of ASEAN is important symbolically much more than substantively. It's a new position that was only created under the Obama Administration. I would simply add to what Bill was saying.

The U.S. has a huge -- I did a study for the National Bureau of Asian Research which Commissioner Kamphausen is the president of on U.S. Policy towards the Indo-Pacific. We have a huge array of programs throughout the world to promote things like education, culture, and so on. A tiny portion of that funding goes actually to Indo-Pacific countries. This really matters. Soft power matters.

This is -- these programs are an excellent way of building that soft power. Having an ambassador, having people attend the meetings, that's important. But just as important is the substantive work that we can do and have existing programs to pursue in the region.

COMMISSIONER BOROCHOFF: Thank you. I guess that goes back to what someone just said a long time ago that 90 percent of politics is just showing up. Thank you.

VICE CHAIRMAN BARTHOLOMEW: All right. Thank you.  
Commissioner Fiedler.

COMMISSIONER FIEDLER: I would like to go back for a second to the secession question being a problem over the next two years. Do you really think that an argument is going to be what matters as opposed to the power that he has?

DR. CLIFF: So it's both obviously. It's probably not something we will ever be able to observe but Xi Jinping has been in place long enough that he's stocked the Politburo and Central Committee primarily with his own supporters.

But the Politburo Standing Committee has seven members right now. It was best explained to me one time when I was in graduate school and the question was how many different factions are there on the Politburo Standing Committee, and the answer is as many as there are members:

everyone here is at the end of the day out for themselves. Although many of them may have found that the way to rise through the ranks is by being loyal to Xi Jinping, that doesn't mean if the opportunity arises to push him aside they won't seize it.

I would say the odds of there being some sort of coup or change of secession plans are low, but the combination of the COVID virus and the accompanying economic slowdown, problems in Hong Kong, lack of progress on the Taiwan front, all of these create little cracks of vulnerability that could be exploited by a rival for power in the CPC.

COMMISSIONER FIEDLER: Let me change to the South China Sea for a second. If we're talking about the aggression, on multiple levels on different fronts by the Chinese military, how much, Mr. Hayton, do you perceive this as probing the United States and testing its reaction?

DR. HAYTON: There's an element of that but I think China's motives are actually fairly simple in the South China Sea. Number one, it's about territory. It's about the idea that all of these little islets, you know, rightly belong to them and they are going to get them by hook or by crook, you know, over the long term.

Then I think there's this question which I don't know for sure but everybody who looks at this from a strategic perspective, it's about securing the South China Sea as a bastion for ballistic missile submarines, and therefore wanting to keep the U.S. out so it will develop the capacity to keep the U.S. out in a time of crisis so they can hide their nuclear deterrent in the deep part of the South China Sea.

So, therefore, things like stopping Vietnam from developing oil and gas, and the Philippines, or trying to do the same thing with Malaysia, or threatening the Philippines when it tries to rebuild the runway on Thitu or Pag-asa Island, those things are, from my reading, they are territorial moves. They are trying to dissuade the other claimant states from improving their position in the South China Sea or exploiting the resources treating it as their own.

COMMISSIONER FIEDLER: In a real conflict how quickly could an adversary of China neutralize all these islands and islets in the South China Sea?

DR. HAYTON: Well, there was an interesting article on this. Greg Poling of CSIS wrote a piece and I think there was something else in War on the Rocks on the website there. I

think they basically both made the case that, yes, it's true the United States could neutralize, destroy, these bases but some of them are huge.

I mean, the three with the runways on them, those runways are 3 kilometers long. Some of them are the size of Central Washington D.C. If you wanted to take out the whole of the U.S. government, how many cruise missiles would it take? Just think about the same kind of thing. How many cruise missiles would it take to destroy a base that's 3 kilometers long?

Even if it could be done, you're talking about the entire compliment of missiles from a naval battle group, for example. Then it would need to be resupplied. It would delay the return of U.S. warships long enough, for example, that a conflict over Taiwan might be moot by that point.

I think that's the kind of thinking that the Chinese have on these islands. They are not thinking they are going to be impregnable but they would delay, hold up the U.S. Navy sufficiently that other things could be achieved.

COMMISSIONER FIEDLER: Thank you.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Kamphausen.

COMMISSIONER KAMPHAUSEN: Thank you. My question is for Dr. Cliff.

Roger, I'm trying to reconstruct your logic. I think you said -- and I'm not being argumentative. It is, in fact, the case that the Commission is really debating these issues. I think what you said is there are several factors, several developments in the year 2020 that have made the possibility of conflict greater. Several that you cite; re-election of President Tsai, the retention of the DPP majority in the LY.

By the way, those were both true in 2016. But then some discussion about the implications of the national security law in Taiwan. I think what you're saying is if the leadership of the CCP at the top levels recognize the degree to which their position has been undermined by these developments they ought to be more concerned.

They ought to reach the conclusion that time is no longer on their side to use that old bromide. Is that a fair characterization of your argument? Then I have a follow-up question.

DR. CLIFF: Yeah, I would say there's two levels to the answer. Let me just quickly talk about the 2016 election. The KMT fielded a particularly poor candidate for president in the 2016 elections and they lost. Now, they also lost control of the legislature for the first time.

I think if you were in a deep state of denial, you could nonetheless try to explain that away as an anomaly. In fact, as you know, in later elections in late 2018 in Taiwan -- they were local elections -- but the KMT won a majority of positions as county magistrates and mayors in the local legislatures in Taiwan.

So I think there was reason to hope if you were a Chinese analyst that was an anomaly, 2016 was an anomaly. I really think at this point it's got to be hard to convince yourself that things are moving the way you want them to on the unification front. Taiwan is clearly moving towards independence.

So the question is do they believe that -- oh, right. So what does the leadership do about it? So, first of all, as I said, it's possible that they don't recognize the problem and there is some anecdotal media reporting saying that, oh well, once they see how well we handle Hong Kong under the National Security Law, people in Taiwan will see that the only way to prosper is through unification with the mainland.

So, first of all, this sounds -- you know, the extent to which the people of Taiwan value things like freedom and democracy. Second of all, it kind of ignores the fact that for many



people in Taiwan this was never about the material quality of life but about questions of national and cultural identity.

As I said, it's possible that the leadership simply doesn't recognize that their so-called peaceful unification strategy is a dead letter at this point. Even if they do recognize it, I do think the critical question is whether or not the blogosphere in China, if you will, recognizes, that is people who care about foreign policy issues in China, do they recognize this reality and are they putting pressure on the Chinese leadership?

If they don't, I think the Chinese leadership has the option, as I said, of kind of pretending like nothing has changed and going about their business as they have before. It would really take accommodation of both of those levels, the leadership level and the popular level, recognizing that there really is never going to be a unification of Taiwan under the One Country, Two Systems formula.

There has not been a single dramatic event so this is the classic boiling the frog that kind of symbolizes that fact. It's possible that they can get through this, but it's also possible that they won't.

COMMISSIONER KAMPHAUSEN: Thank you. I'll follow up with a question for the record.

VICE CHAIRMAN BARTHOLOMEW: Great.  
Commissioner Lee.

COMMISSIONER LEE: Thank you, Carolyn. I think I have a quick question and it's maybe building off of the last one for Dr. Cliff. It's back to sort of the interplay between events in Taiwan and events in Hong Kong. You take it more from the point of view of China when there might be the risk of war because of what's going on.

But if you look at it from the other side from Taiwan's point of view, how do you think it balanced out? You can sort of see both arguments that on the one hand this is a demonstration of all that can go wrong and the failure of the Two Countries, One System promise that China has made and is betraying with Hong Kong.

On the other hand, you can also see the demonstration of force and maybe even if we measure the degree of international outrage or support that's happened around the events in Hong Kong. How do you think folks in Taiwan are reading these tea leaves, on net, with respect to Hong Kong?

DR. CLIFF: First, no one in Taiwan wants war. Certainly not war with mainland China. I shouldn't say no one. Hardly anyone because it would be the people of Taiwan who would suffer the most from that.

Although both in terms of the electoral outcomes that I have been talking about, as well as polling over the years, we have seen a consistent shift in how people identify in Taiwan in terms of nationality.

If you go back 20 years, the majority of people identified as being both Taiwanese and Chinese and that has shifted with small minorities identifying as either Taiwanese only or Chinese only. We've seen over the years that shift towards more and more people identifying as Taiwanese only and fewer and fewer identifying as Chinese only.

I think that trend is clear, but when you ask people what they want, the vast majority of them say maintain the status quo. They don't want -- when I said the DPP advocates for Taiwan's independence, the official position of the DPP is that Taiwan is independent, that there is no need for a formal declaration of independence because it is, and has been since 1949.

I don't think anyone in Taiwan is pushing for a formal declaration of independence or anything that would signify that, but rather it's -- so in that sense although people in Taiwan certainly can see the power of the Chinese state and the growing power of the Chinese military over time, I don't think that is pushing people either towards trying to find some sort of accommodation with the mainland or towards independence. People want to keep things the way they are for as long as possible until such a time as they can be resolved on terms that are peaceful and acceptable.

COMMISSIONER LEE: Okay, thanks.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Lewis.

COMMISSIONER LEWIS: Thank you very much to both of you for helping instruct us. Could you take us through the historical basis of China's claim on Taiwan? When was Taiwan last part of China? And could you tell us about China's historical claims to waters in the South China Sea? I understand there are documents that prove that they don't have legitimate claims in the South China Sea.

Also, if China's military is getting greater in the future, and if China is deterred from taking Taiwan now because they think they can't win, will they think in the future that they can win as they get stronger? What do you see, first, as the basis of China's claims to both areas and, secondly, what is the likely outcome as China (audio interference).

DR. CLIFF: Do you want to go first, Bill, or do you want me to go first?

DR. HAYTON: I think mostly it was about Taiwan so I'll come in after you.

DR. CLIFF: Okay. So you are basically asking me to run through a political and cultural minefield here which fortunately I'm happy to do. Well, happy is too strong of a word but I'm willing to do it.

So I will give you Roger's version of the history of Taiwan's relationship with the mainland. What we know is that the original people of Taiwan are actually the progenitors of the Malayo-Polynesian people who wound up spreading all across the Pacific and across the Indian Ocean as far as Madagascar.

Han Chinese began immigrating to Taiwan in the 16th century and there was -- when the Manchus overthrew the Ming Dynasty in 1644 there was a Ming loyalist named Zheng Chenggong, or Koxinga in the West, who set up a base in Taiwan and tried to retake the mainland.

Long story short, the Ming -- sorry, the Manchus took the island of Taiwan and Taiwan has been under the control of the Chinese mainland since about the 17th century up until the Sino-Japanese War of 1895 when Japan took the island as basically spoils of war after having defeated China in that war of 1894-1895.

From that time until the end of WWII in 1945 Taiwan was under Japanese control. In 1945 it was returned to the control of the then nationalist government in China which took control of Taiwan with a very heavy hand that generated what is a euphemism for what is known as the White Terror in Taiwan.

Then when they were defeated and the Chinese civil war retreated, moved their capital to Taipei. So what exist in Taiwan is, if you will, the successor state of that Republic of China government since that time.

The argument is over the last 100 and now 125 years mainland China and Taiwan have been unified for only four years. Much of Taiwan's history has been separate, first under Japanese rule and then later under the Republic of China while mainland China was under the

People's Republic of China. But it is the historical fact that prior to 1895 Taiwan was Chinese territory. That is the basis for Beijing's claim to the island.

I'll stop there because I know Bill has much to say as well.

VICE CHAIRMAN BARTHOLOMEW: Indeed. Before you start, Dr. Hayton, Ken, you asked questions about which people have written books and doctoral dissertations so we're going to have to have Dr. Hayton speak fairly quickly about the history of the South China Sea. Then I think we're going to have to move on and other questions will go for the record.

DR. HAYTON: I might have to refer you to my book, I'm afraid, so that's very vulgar. Basically the Chinese claim emerges over the course of 40 years -- I'm talking about the South China Sea islands here -- over the course of 40 years between 1907 and 1947. It goes in stages depending on what crises are taking place.

So in 1907 there's a crisis with Japan over the island of Pratas, known in Chinese as Dongsha, which is much closer to the Chinese coast between Hong Kong and Taiwan which is currently Taiwanese occupied.

Since I mentioned it, I would say that the possibility of a Chinese invasion of Pratas as some kind of test of U.S. resolve at the moment must be high on the list of the Pentagon's contingencies frankly. Anyway, the Chinese sovereignty of Pratas is recognized by the Japanese in 1909.

The next crisis is 1933 when France occupies the Paracel Islands and China says that they belong to it and, indeed, it had mounted an expedition there in 1909 to claim them. But in the confusion -- so in the confusion in 1933 because France actually claims the Spratly Islands but the Republic of China thinks it's talking about the Paracel Islands so there's massive confusion in China in 1933.

In that confusion the idea that China has a claim to the Spratly emerges for the very first time. We know this because we have records from the U.S. survey in Manila at the time in 1933 of the Chinese consul coming to see the Americans and saying where are these islands that the French had just taken and asking for the map?

Yet, as late as 1943 a Chinese government handbook, published in English, says the southernmost point of China is the Paracel Islands. Yet, the second edition of that book published in 1947 says the southernmost territory is the Spratly Islands about 500 miles further south.

It's not until 1947 that we actually see Chinese claim to all of the islands, the small rocks and reefs in the South China Sea, fully emerge. It's not ancient. It's not mystical. It's a series of accidents and misunderstandings which emerged in the first half of the 20th century.

VICE CHAIRMAN BARTHOLOMEW: Excellent. Thank you. Perhaps you can -- Ken, we can see if we can get hold of Dr. Hayton's book for you.

Commissioner Talent, your turn.

COMMISSIONER TALENT: Thank you, Commissioner Bartholomew. Thanks to both of our witnesses.

Dr. Cliff -- two questions, one for each of you. Dr. Cliff, if you were to give us your top two or three hard power steps the United States could take to deter a Chinese action against Taiwan, what could we do in terms of our forward positioning to give them greater pause? What would they be?

Dr. Hayton, could you give us a little more background or flesh out a bit ASEAN's internal processes. One of the things that's concerned me watching it over the years is how the

Chinese are able to use, for example, Cambodia to block ASEAN statements that Beijing doesn't want.

Other than the things you've suggested, UNCLOS and an ambassador which I agree are good, although I don't think UNCLOS is going to happen anytime soon. That was an issue when I was in the senate 15 years ago so I would tell your friends not to hold their breath waiting on that one. But what can we do, at least to prevent, further Cambodias? If the two of you would address those questions, I would appreciate it.

DR. CLIFF: Well, in order to curb power methods and deter a Chinese attack on Taiwan, frankly I don't think -- as someone once famously said, you go to the war with the army that you have. So, if we're talking about in the next two years, there's not much we can do to change our capabilities.

We could forward deploy more aircraft and naval assets and that would help a little bit, but it also could potentially create vulnerability. Frankly, I think in the short term the most important things to do are in terms of soft power; rebuilding a relationship with the Republic of Korea, improving our relationship with Japan so that we will have their support and access to facilities on their territory perhaps in the event of a conflict.

Over the longer term I would say that the U.S. needs to continue focusing on improving its qualitative superiority over China. It's not a matter of numbers, it's a matter of the capabilities of the forces that we have. That refers both to the hardware and to the software, if you will, that is the human beings who are operating the equipment.

COMMISSIONER TALENT: Thank you.

Dr. Hayton.

DR. HAYTON: And the secretariats operate on a basis that the contributions to ASEAN's budget are what the poorest state can afford. My understanding is that each state only pays about a million dollars towards ASEAN. The organization has a budget of about \$10 million in its core funding which, of course, is nothing for an international organization.

I think it only directly employs about 300 officials in the ASEAN headquarters. Compare that to the EU, the European Commission, which I think has about 30,000 civil servants of various kinds. That's not the sum extent ASEAN funding because the EU and the U.S. and other countries and other systems also give money for particular projects and that kind of thing so they have extra resources.

ASEAN states are very jealous of their sovereignty. They don't want ASEAN to become too powerful like the EU and start telling their own governments what to do. They want it to be a consensus organization through which they can basically band together and push away pressure from outside. That's a lot of what ASEAN's function is.

The problem is they do operate a consensus and they have long resisted the idea of having majority voting or sort of ASEAN minus one type voting arrangement or little caucuses within ASEAN. So if a country like Cambodia is determined to play the role of sort of a sock puppet for China, then there's not much that can be done other than sort of mull persuasion by the other states.

Of course, for a country like Cambodia which has its own disputes with Vietnam over borders on land and sea, sometimes tweaking the nose of Vietnam on an unrelated subject like the South China Sea can actually be quite gratifying for the Hun Sen regime. Somehow annoying the Vietnamese can be a crowd-pleasing move for the Cambodian public.

There was a famous ASEAN summit of 2012 when no consensus statement was reached. You've seen Laos, perhaps, sometimes Thailand even, or Myanmar, move closer to China. That

said, we see under strong leadership of Vietnam at the moment which obviously wants ASEAN to take a lead on the South China Sea, that it has been able to steer ASEAN towards some relatively strong statements.

The ASEAN foreign ministers meeting is taking place right now and we are seeing a more, you know, determined statement as they come out of that meeting than we have from many ASEAN meetings. That is largely a function of whichever country is chairing the organization.

VICE CHAIRMAN BARTHOLOMEW: All right. Commissioner Wortzel. There you are.

COMMISSIONER WORTZEL: I have -- thank you. I think both your testimonies were great and the comments.

Dr. Hayton, what types of investment in maritime domain do you envision? Do you have specific systems you think would help and where they would be located? The second part of that is given ASEAN and their own internal disputes, what countries do you envision as partners in U.S. maritime domain awareness regime?

Roger, appreciate your testimony a lot. I'm interested in how you think the release of the text, the declassification of the text of the 1982 Reagan communiqués and Assistant Secretary Stillwell's remarks on the status of Taiwan being undetermined affect Taiwan's -- China's calculus?

DR. HAYTON: So in terms of maritime domain systems, I should say this is not my area of specific expertise but I'll offer a few thoughts. The U.S. is quite actively engaged in this field by funding radar and other systems in the Philippines, I think in Malaysia, and Indonesia.

One of the issues in Malaysia is inefficiency inside Malaysia's own defense ministry which has failed to respond to the American offer. Sometimes, you know, the Malaysians are their own worst enemy on some of these things.

Part of that I think has to do with their civil servants and how they are rotated. Sometimes you get somebody who gets moved from the Education Department into the Defense Department and they really don't know one end of a gun from the other frankly. It's not true of everybody but there is some lack of capacity there.

You also have problems inside particularly Malaysia and Indonesia with rivalry between different state agencies as to who is responsible for maritime policing and domain awareness. This can be a big problem. So just sometimes turning up, you know, with an offer of money and systems can be a way of obliging the host government to try and sort out some of these domestic conflicts and get in agreement.

What would obviously make a lot of sense is if the systems in different countries talk to each other but then you have problems with sovereignty and that kind of thing, so at the moment the best I think you'll be able to get is some kind of national system and then possibly some kind of ASEAN intelligence sharing arrangements possibly.

The Israelis have got some nice fat contracts to operate Vietnam's maritime domain awareness systems so there is definitely -- there are definitely things happening there but it may well be that, you know, an American contribution can be to convene meetings at which all these people talk to one another and try, you know, to sort out some of the problems which are preventing them cooperating even within their own countries.

COMMISSIONER WORTZEL: Thank you. I have that exact light behind you in my own house.

Roger.

DR. CLIFF: Okay. So with regard to the six assurances on the declassification of the text, I think these have been kind of publicized fairly well a number of years ago so I don't think seeing the actual text, and I confess that I have not read them, probably changes anyone's perspective.

Certainly the act of declassifying them is a significant signal that we are sending to China. We are basically -- and Taiwan for that matter, we do have these assurances to Taiwan that were made at the same time in 1982, the third of the so-called communiques between the U.S. government and the Chinese government regarding Taiwan.

I see I'm out of time but I will just say there is a debate going on right now about whether or not the U.S. should reduce the level of ambiguity and our long-standing policy of strategic ambiguity towards Taiwan and Taiwan's independence from the mainland.

I am a supporter of conditional reductions in that ambiguity. I think that's a good idea when there is ambiguity and mistakes can happen and I support that, but that's all I have time to say right now.

COMMISSIONER WORTZEL: That's the first time in 49 years anyone has said status is undetermined.

DR. CLIFF: Yeah. I actually had not picked up on that so I will look into that. That is a significant statement, especially coming from someone in an official position.

COMMISSIONER WORTZEL: Thanks a lot, Roger.

VICE CHAIRMAN BARTHOLOMEW: Okay. Since we have run over time, I'm just going to just put my questions into the record. I have questions for both of you but, just as a heads up, Dr. Hayton, given your expertise I'm going to take you a little far afield from the South China Sea and ask some things about the Mekong.

Dr. Cliff, I'm interested in the politics, right? So Beijing had willingly complacent people in Hong Kong who went along easily with getting rid of One Country, Two Systems, but the KMT is on record in Taiwan now as being against One Country, Two Systems.

I'm just curious how that ultimately would play out, if they were just saying it, if they would change their mind if Beijing, you know, becomes a little bit more aggressive or more assertive.

Again, sorry. Sorry to dump those on both of you but those are the questions I'll have for the record. Thank you both very much for the time and expertise that you brought to us. We are going to take a 10-minute break so we'll be back at 3:20. Thanks so much.

DR. CLIFF: Thank you.

DR. HAYTON: Thank you.

(Whereupon, the above-entitled matter went off the record at 3:11 p.m. and resumed at 3:22 p.m.)

## **PANEL IV INTRODUCTION BY CHAIRMAN ROBIN CLEVELAND**

CHAIRMAN CLEVELAND: Our concluding panel today will take a look at China's relations with India and Iran, in the context of its broader regional engagement in South Asia and the Middle East.

Our first expert speaking on the panel is Dr. Tanvi Madan, Senior Fellow on the project on international order and strategy in the Foreign Policy Program, and Director of the India Project at the Brookings Institution.

Dr. Madan's work explores India's role in the world, and its foreign policy, focusing in particular on relations with China and the US. She authored the book *Fateful Triangle: How China Shaped US-India Relations During the Cold War*.

We will also hear from Dr. Jonathan Fulton, Assistant Professor of Political Science in the College of Humanities and Social Sciences at Zayed University in Abu Dhabi. Dr. Fulton is also a non-resident fellow at the Atlantic Council, and has written widely on China-Middle East relations for both academic and popular publications.

His books include *China's Relations with the Gulf monarchies, External Powers and the Gulf monarchies*, and *Regions in the Belt and Road Initiative*.

I'd like to remind witnesses to please keep your statements to seven minutes, so that we can ask you a few questions. Dr. Madan, would you please begin?

## **OPENING STATEMENT OF TANVI MADAN, SENIOR FELLOW IN THE FOREIGN POLICY PROGRAM AND DIRECTOR OF THE INDIA PROJECT AT THE BROOKING INSTITUTION**

DR. MADAN: Thank you, Madam Chair. I appreciate this opportunity to provide testimony to the Commission on the China-India boundary crisis that is ongoing, as well as its implications.

Meeting about a year ago, Chinese leader Xi Jinping and Indian Prime Minister Narendra Modi sought to stress the cooperative elements in the relationship, which the two countries had tried to increase over the last two decades.

However, since the beginning of this year, the coronavirus pandemic and the boundary crisis have ensured that the competitive and conflictual elements of the Sino-Indian relationship have dominated, and are likely to persist, if not increase.

The scale of the People's Liberation Army's initial actions and deployment in May, at the China-Indian line of actual control, or LAC, makes clear that they were neither accidental nor the results of a local commander's initiative. Chinese motivations are still a subject of debate.

Officially, Delhi has accused Beijing of unilaterally attempting to change the status quo at the LAC by establishing a permanent presence or hindering Indian patrols in territory that both sides claim. Beijing, in turn, has complained about recent infrastructure building on India's side of the LAC.

It is noteworthy, though, that the peer reaction of the LAC did not occur in isolation, but in the context of a broader pattern of Chinese assertiveness over the last few months. There's a debate about whether this Chinese assertiveness, including against India, has stemmed from insecurity, or of Beijing perceiving a window of opportunity while other countries, including the U.S., are on the back foot, or are distracted because of COVID.

It is difficult to assess how Beijing might be evaluating the success of its actions against India without a better sense of its motivations. If, for instance, its goals were to acquire territory and consolidate its claims, presenting India with a fait accompli, and changing the LAC, then it might deem the moves a success, though this is still an ongoing situation and the final disposition at the LAC remains unclear.

If Beijing's objectives were to stop or dissuade Indian infrastructure building on its side of the LAC, reverse Indian political steps in Ladakh, or deter Delhi from a closer relationship with the U.S. and other partners, then the Chinese moves have been ineffective if not counterproductive.

Furthermore, they have fueled concerns in a number of countries of an assertive, if not aggressive, China, that is willing to risk escalation and challenge the rules-based order.

Finally, if Chinese policy-makers' idea was to make tactical gains while keeping the broader Sino-Indian relationship intact, recent developments should have put paid to that expectation. Beijing has indeed publicly sought a return to business as usual in the relationship, and wants the boundary issue to be put in its, quote, proper place.

However, New Delhi has made clear that it wants a restoration of the status quo ante at the border, and asserted that the boundary issues cannot be separated from the broader relationship. Indeed, the boundary crisis along with the pandemic, has already had an effect on Indian perceptions of China.



Public sentiment on China has deteriorated further. The foreign and security policy establishment, on its part in India, sees Beijing as having violated India's trust and the boundary agreements that the two countries put together, put in place for over two decades.

More significantly, the boundary crisis has hardened official views in India of China, and weakened the hands of those in policy-making circles that have argued for more engagement with China or for the idea that economic ties with China would help alleviate political strains.

The crisis has reinforced and, moreover, accelerated existing Indian concerns about China, including about economic over-dependence on and exposure to China, the inroads that Chinese companies have made into certain sensitive sectors, and the Chinese avenues of influence in the country. These intensifying Indian concerns have resulted in policy consequences.

While India's ban on Chinese apps has got most of the attention, the Indian government has also taken a broader slew of measures that will significantly restrict or scrutinize Chinese activities in the Indian economic, technology, telecommunications, public diplomacy, and education sectors.

The response to these policy changes in India have been mixed, with some considering them necessary to reduce Indian exposure to China, while others have questioned India's ability to reduce dependence on China and the costs that will entail, particularly as India deals with the economic fallout of the coronavirus.

The Chinese response has been a mix of persuasion, objections, warnings, and suggestions of legal actions in retaliation to these Indian policy steps. In isolation, one or two Indian steps might not have mattered to the Chinese government, but collectively they can have an impact. Moreover, in particular sectors, like telecommunications and technology, these Indian restrictions have implications to Chinese companies' valuations and their access to a significant and growing market.

Beijing also seems attuned to the global impact and perceptions of the Indian steps, and has raised questions about the link between Indian action and those of others, like the U.S. and Australia.

China can retaliate. It has a number of sources of leverage. So does India. For each side, one source of leverage has been their partnerships with other countries. And there are signs that the boundary crisis will result in both Delhi and Beijing doubling down on these partnerships.

In India's case, this offers opportunities to the US, which my written testimony outlines in detail. In the last few months, Delhi has moved to deepen diplomatic, defense, and economic ties with like-minded partners, like the US, Australia, Japan, and France. Beyond bilateral dynamics, India is engaged with these and other countries in issue- or interest-based coalitions.

Just today, Australia, France, and India, held their first trilateral dialogue, focused on cooperation in the maritime and multilateral domains. Concerns about dependence on China have also led India, Australia, and Japan to announce their intention to launch a supply chain resilience initiative by the end of the year.

There will also be a ministerial meeting of the quadrilateral later this year. Moreover, in recent months India has participated in regular deputy secretary of state level talks with other quad countries, plus New Zealand, South Korea, and Vietnam, to discuss COVID-related concerns.

At the same time, India is continuing to participate in plurilaterals, it involved another one of its partners, Russia, even as it remains concerned about growing Sino-Russian ties. These

plurilaterals include the Russia-India-China trilateral, the BRIC's grouping, and the Shanghai Corporation organization.

The scope and degree of these interactions are more limited, but these platforms do also give Delhi a platform to engage Beijing. This will be in evidence tomorrow, when Chinese Foreign Minister Wang Yi and Indian External Affairs Minister S. Jaishankar are expected to meet on the sidelines of the SCO Ministerial in Moscow.

The situation at the LAC remains tense, and all eyes will be on this meeting to see if they can find a way to de-escalate the situation. The longer it continues, the greater will be its impact on the Sino-Indian relationship, and on Asia as a whole. But even if and when Delhi returns to engaging Beijing, the boundary crisis ensured that the nature, extent, and expectations of our engagement will change. Thank you.

**PREPARED STATEMENT OF TANVI MADAN, SENIOR FELLOW IN THE FOREIGN  
POLICY PROGRAM AND DIRECTOR OF THE INDIA PROJECT AT THE  
BROOKING INSTITUTION**

## Emerging Global Issues: The China-India Boundary Crisis & Its Implications

Tanvi Madan

Senior Fellow, Foreign Policy & Director, The India Project, The Brookings Institution<sup>1</sup>

Testimony before the U.S.-China Economic and Security Review Commission  
Hearing on “U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges”  
Washington, DC  
September 9, 2020

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Chairman Cleveland, Vice Chair Bartholomew and Members of the Commission, thank you very much for your invitation to testify on the China-India boundary crisis and its implications.

The China-India relationship has had elements of cooperation, competition and potentially conflict. When they met in October 2019, Chinese leader Xi Jinping and Indian prime minister Narendra Modi sought to stress the cooperative elements in the relationship, which the two countries have tried to increase over the last two decades. However, since the beginning of the year, the novel coronavirus pandemic and the boundary crisis have ensured that the competitive and conflictual elements of the Sino-Indian relationship have dominated—and are likely to persist, if not increase. Recent developments have demonstrated that despite Delhi and Beijing’s efforts to engage and to stabilize their relationship, it remains a fundamentally competitive one that can spillover into conflict.

### Motives, Timing & Assessments

Motives: The motivations for the People’s Liberation Army’s initial moves at the China-India Line of Actual Control (LAC) in May, which Delhi saw as a unilateral attempt to change the status quo, are still a subject of debate. Analysts have put forth various possibilities: a Chinese effort to incrementally salami-slice or nibble its way to additional territory and present India with a *fait accompli*; a desire to put India in its place; concerns about Indian infrastructure building; Delhi changing the status of Ladakh (separating it from Jammu & Kashmir, and centrally administering it); or as a warning against India further deepening its relations with the U.S. and its allies.

Others have noted that the PLA action at the LAC did not occur in isolation and have pointed to a broader pattern of Chinese assertiveness over the last few months. Along with moving forward with the National Security Law in Hong Kong, Beijing has also seemed to target imports of barley, beef and wine from Australia. Canberra has also revealed major cyber-attacks on various organizations, with some officials confirming China as the culprit.<sup>2</sup> Japan, in turn, has flagged daily Chinese coast guard activity near the Senkaku Islands and “suspicious aircrafts heading to Japan’s airspace” more frequently as subjects of concern.<sup>3</sup> Taipei has complained about increased Chinese military activity in

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<sup>1</sup> The views expressed in this testimony are solely those of the author. The Brookings Institution does not take institutional positions.

<sup>2</sup> Stephen Dziedzic, “China’s meat import suspension a reminder of Beijing’s ability to inflict economic pain,” *ABC News*, May 13, 2020 <https://www.abc.net.au/news/2020-05-13/china-import-suspension-reminder-beijing-inflict-economic-pain/12243560>; “China Probes Australian Wine Imports as Relations Fray,” *Bloomberg*, August 17, 2020 <https://bloom.bg/32ezhWz>

<sup>3</sup> “Kono tells China SDF will respond to intrusions around Senkakus,” *Asahi Shimbun*, August 5, 2020 [www.asahi.com/ajw/articles/13609256](http://www.asahi.com/ajw/articles/13609256); Jamie Seidel, “Japan air assault: Chinese bombers flying towards airspace up to twice a day,” August 3, 2020, <https://www.news.com.au/technology/innovation/military/japan-air-assault-chinese-bombers-flying-towards-airspace-up-to-twice-a-day/news-story/b7cb4b4748a8aa55c989768bb4144155>

its vicinity.<sup>4</sup> Hanoi, on its part, has objected to Chinese vessels ramming—and in one case sinking—Vietnamese fishing boats in the South China Sea (SCS).<sup>5</sup> There were also reports of maritime harassment against other SCS claimants (Malaysia, Philippines).<sup>6</sup> In addition, Chinese coast guard and fishing vessels operating off the Natuna islands resulted in a stand-off with Indonesia.<sup>7</sup> And Beijing charged two Canadians for spying—and linked their 18-month detention to the Canadian detention of the chief financial officer of Huawei.<sup>8</sup> Meanwhile, a number of European countries and the United Kingdom have been subjected to coercive rhetoric from China’s “wolf warrior” diplomats.<sup>9</sup>

There is a debate about whether this Chinese assertiveness on a number of fronts, including against India, is stemming from (a) Xi Jinping acting out of insecurity, given domestic concern and international criticism of his regime’s handling of the coronavirus pandemic, and wanting to demonstrate resolve or strength,<sup>10</sup> or (b) Beijing’s desire to take advantage of other countries, including the United States, being on the backfoot or distracted due to the coronavirus.<sup>11</sup>

On the Chinese actions against India, former Indian national security advisor and ambassador to China Shivshankar Menon has suggested the first is at play, noting that “China has a pattern of risk-taking behavior at times of domestic crisis.”<sup>12</sup>

As far as the Indian government is concerned, external affairs minister S. Jaishankar has said, “frankly, we are at a loss to know why” Beijing has taken this approach.<sup>13</sup>

One thing that does seem clear, given the scale of the initial PLA deployment and activity, is that these movements were neither accidental nor the result of a local commander’s initiative. What is still not clear is what led to the the clash of June 15 that resulted in the first fatalities on the China-Indian boundary in 45 years.

Timing: The timing of the PLA’s actions was not surprising. The weather and terrain in the area mean that there is a window for such activity from around May to September each year.<sup>14</sup> This is also the period during which the two sides undertake military exercises on their respective sides of the LAC. This year, India postponed its exercise due to the pandemic. However, after a short delay, China did conduct its annual spring military exercise. Indeed, the PLA is reported to have undertaken its initial

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<sup>4</sup> “Chinese air force approaches Taiwan for fourth time this week, Taiwan’s military says,” *Reuters*, June 19, 2020 <https://reut.rs/2V2febq>

<sup>5</sup> Khanh Vu, “Vietnam protests Beijing’s sinking of South China Sea boat,” *Reuters*, April 4, 2020 <https://reut.rs/2XeAFrz>; “Chinese Ship Intentionally Rams Vietnamese Fishing Vessel Near Paracel Islands,” *The Maritime Post*, June 16, 2020 <https://bit.ly/3aP5ec6>

<sup>6</sup> Rozanna Latiff & A. Ananthalakshmi, “Malaysian oil exploration vessel leaves South China Sea waters after standoff,” *Reuters*, May 12, 2020 <https://reut.rs/2YXIW3Q>; Renato Cruz de Castro, “Implications of the Recent Philippines-China Naval Stand-Off,” *Asia Maritime Transparency Initiative*, May 7, 2020 <https://amti.csis.org/implications-of-the-recent-philippines-china-naval-stand-off/>; Enrico Dela Cruz, “Philippines protests China’s ‘illicit’ warnings, coast guard conduct,” *Reuters*, August 21, 2020 <https://reut.rs/34IZPYy>

<sup>7</sup> Stanley Widiyanto, “Indonesia mobilizes fishermen in stand-off with China,” *Reuters*, January 6, 2020 <https://reut.rs/2s32ypg>

<sup>8</sup> “China charges Canadians with spying,” *BBC News*, June 19, 2020 <https://bbc.in/34tob2L>; Steven Chase & Robert Fife, “China suggests it will free Kovrig and Spavor if Canada allows Huawei executive Meng to return home,” *The Globe and Mail*, June 24, 2020 <https://tgam.ca/3jda1qO>

<sup>9</sup> Luke Baker, Robin Emmott, “As China pushes back on virus, Europe wakes to ‘Wolf Warrior’ diplomacy,” *Reuters*, May 14, 2020 <https://reut.rs/3bxfjN>

<sup>10</sup> M. Taylor Fravel, “China’s Sovereignty Obsession,” *Foreign Affairs*, June 26, 2020

<https://www.foreignaffairs.com/articles/china/2020-06-26/chinas-sovereignty-obsession>

<sup>11</sup> Robert A. Manning & Patrick M. Cronin, “Under Cover of Pandemic, China Steps Up Brinkmanship in South China Sea,” *Foreign Policy*, May 14, 2020, <https://foreignpolicy.com/2020/05/14/south-china-sea-dispute-accelerated-by-coronavirus/>

<sup>12</sup> Sheela Bhatt, “Interview with Shivshankar Menon,” *Rediff*, June 30, 2020 <https://bit.ly/3gWSYrg>

<sup>13</sup> Shishir Gupta and R Sukumar, “Interview with Dr. S. Jaishankar,” *Hindustan Times*, August 30, 2020, <https://bit.ly/31PK4rf>

<sup>14</sup> That does not mean that winter deployments and actions are not possible—indeed the Sino-Indian war in 1962 took place in October and November—just that they are far more difficult.

moves to change the status quo at the LAC by redeploying its troops involved in this exercise. On the other hand, the Indian postponement meant that its military did not have a presence in matching strength on its side of the LAC, which the PLA could have seen as an opportunity to act before India had a chance to move troops from other locations.

Evaluating outcomes: It is difficult to assess how Beijing might be evaluating the success of its actions without a better sense of its motivations. If, for instance, its goals were to acquire territory and consolidate its claims, presenting India with a *fait accompli* and changing the LAC, it might deem the moves a success (though this is still an ongoing situation and the final disposition is as yet unclear). If Beijing's objectives were to stop or dissuade Indian infrastructure building on its side of the LAC, reverse Indian moves in Ladakh, or deter Delhi from a closer relationship with the US and other partners, then the Chinese moves have been ineffective, if not counterproductive. Furthermore, they have fueled concerns in a number of countries of an assertive, if not aggressive China that is willing to risk escalation and challenge the rules-based order. Finally, if Chinese policymakers' idea was to make tactical gains while keeping the broader China-India relationship intact, recent developments should have put paid to that expectation.

### **Impact on Indian Perceptions & the Sino-Indian Relationship**

China has publicly sought a return to business as usual in the relationship. Wang Yi and other officials have called for the border issues to be placed in "a proper place in bilateral ties."<sup>15</sup> However, while Beijing is seeking a restoration of the status quo ante in the relationship, Delhi has made clear that what it wants is a restoration of the status quo ante at the boundary (i.e. the PLA to return to its positions as of late April). Government officials have stressed that the boundary issue and the broader relationship cannot be separated, asserting that the "maintenance of peace and tranquility in border areas is *sine qua non* for progress in [the] rest of [the] bilateral relationship."<sup>16</sup>

Even as their militaries remain deployed in large numbers at frontline positions, the two countries' military and diplomatic officials are engaged in dialogue. However, former Indian foreign secretary Shyam Saran asserted in July that "tensions may subside, but the relationship will never be the same again."<sup>17</sup> The suggestion is that Delhi might return to engaging Beijing in the future, but even the nature, extent and expectations of that engagement will change.

For now, tensions have not subsided and the longer the boundary crisis continues, the greater its impact will be on the broader Sino-Indian relationship.

Impact on perceptions: Together with the coronavirus pandemic and its health and economic consequences, the boundary crisis has already had an effect on Indian perceptions. The Indian ambassador to China has noted the considerable damage to India's trust in China. Moreover, the recent developments have reinforced and even accelerated existing Indian concerns about China (some of which have existed since the mid-to-late 1950s).<sup>18</sup>

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<sup>15</sup> Wang Qingyun, "India urged to recall troops in incursion," *China Daily*, September 2, 2020 <https://bit.ly/2R1KuEZ>; PRC Embassy in India, "Video remarks by H.E. Sun Weidong on current China-India relations," July 10, 2020 <https://bit.ly/31Tong8>

<sup>16</sup> KJM Varma, "India warns China that attempts to alter status quo will have 'ripples, repercussions'" (Interview with Indian ambassador to China Vikram Misri), *Press Trust of India*, June 26, 2020 <https://bit.ly/32RrGNZ>

<sup>17</sup> Suhasini Haidar and Ananth Krishnan, "Sino-India disengagement statement follows Ajit Doval's Sunday call to Wang Yi," *The Hindu*, July 6, 2020 <https://bit.ly/3lI39DN>

<sup>18</sup> For pre-existing concerns, see Tanvi Madan, "Managing China: Competitive engagement, with Indian characteristics," *Brookings Global China Series*, February 2020 <https://brook.gs/2Ta4aHI>

In the foreign and security policy establishment, there are widespread calls for a reassessment of India's China policy. The boundary crisis—and particularly the fatal clash in June—has resulted in a remarkable convergence among the Indian government's former China hands on the ideas of a watershed moment, of significant damage to Sino-Indian ties, of a more adversarial relationship in the future, and of the need for India to build its strength and its partnerships further to tackle China. This contrasts with the messaging coming from Chinese officials who have stated that “the orientation of China and India as partners, friendly cooperation and common development remain unchanged.”<sup>19</sup>

Indian public sentiment on China, already turning sour due to the pandemic, also deteriorated further because of the killing of Indian soldiers in June. Among other things, this has resulted in calls to boycott Chinese products, partners and sponsors.<sup>20</sup>

More significantly, the boundary crisis has hardened official views of China in India. The Indian home minister has linked China both to the boundary and health crises affecting the country. The Indian external affairs minister told his China counterpart after the June 15 clash, “this unprecedented development will have a serious impact on the bilateral relationship.”<sup>21</sup>

Furthermore, the Indian government has called the Chinese “actions and behavior” a “clear violation of the bilateral agreements and protocols concluded between the two countries” over a two-decade period from 1993.<sup>22</sup> And the external affairs has added a reminder that, despite a boundary dispute that dates back decades, “It was because of these agreements and the adherence to them that the bilateral relationship moved forward in other, different spheres, including the economic one.”<sup>23</sup>

The boundary crisis indeed seems to have weakened the hands of those in Indian policymaking circles that argued for more engagement with China or for the idea that economic ties would help alleviate political strains.

**Policy consequences:** Thus, beyond rhetoric, there have already been policy consequences. These have resulted from the intensification of Indian concerns about (a) economic overdependence on and exposure to China, (b) inroads that Chinese companies—particularly those with close links with the state—have made into certain Indian economic sectors that are sensitive, and (c) avenues of Chinese influence in the country. This has led to a slew of measures that will restrict or scrutinize Chinese activities in the economic, technology, telecommunications, public diplomacy and education sectors.

Even before the boundary crisis, the Indian government had announced restrictions on foreign direct investment from countries that share a land boundary with India—a move clearly directed against China. Furthermore, it reportedly urged the Securities and Exchange Board of India to increase its scrutiny of foreign portfolio investment from China and Hong Kong.<sup>24</sup>

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<sup>19</sup> PRC Embassy in India, “Speech by Ambassador Sun Weidong at the China-India Youth Webinar,” August 18, 2020 <https://bit.ly/2Z3HtYT>

<sup>20</sup> Viju Cherian, “Why BCCI must abandon Chinese sponsorship,” *MoneyControl*, August 5, 2020 <https://bit.ly/3jElwaE>

<sup>21</sup> Indian Ministry of External Affairs, “Phone call between External Affairs Minister, Dr. S. Jaishankar and Foreign Minister of China, H.E. Mr. Wang Yi,” June 17, 2020, <https://bit.ly/3jJXJX7>

<sup>22</sup> Indian Ministry of External Affairs, “Official Spokesperson's response to a media query on the recent developments in the India-China Border Areas,” September 1, 2020 <https://bit.ly/3lL81rO>

<sup>23</sup> Shishir Gupta and R Sukumar, “Interview with Dr. S. Jaishankar.”

<sup>24</sup> Tanvi Madan, “How is the coronavirus outbreak affecting China's relations with India?” *ChinaFile*, April 30, 2020 <https://brook.gs/2SjYVVI>

Since the Chinese actions at the boundary, the Indian government has taken further action. Some have interpreted Prime Minister Modi's emphasis on *atmanirbharta* (self-reliance) over the last few months as primarily designed to reduce India's economic dependence on China. Road Transport, Highways and MSME minister Nitin Gadkari has indeed said, "imports from China will be discouraged and the country will take large strides towards self-reliance." He also indicated that, within his portfolio, Chinese companies could be excluded from future road construction projects.<sup>25</sup>

The government has amended public procurement rules "to enable imposition of restrictions on bidders from countries which share a land border with India" on defence and national security grounds.<sup>26</sup> And its online procurement platform now requires vendors to identify the country of origin of products.<sup>27</sup>

There have also been reports of other steps, signals and scrutiny. An Indian state government has put on hold some agreements with Chinese companies, and indicated that the central government has told them "not to sign any further agreements with Chinese companies."<sup>28</sup> Delhi is reportedly considering further measures to curb and scrutinize imports, including to prevent Chinese goods from being routed through third countries.<sup>29</sup> There are also reports that Indian state-owned oil companies will no longer use Chinese tankers to ship crude oil or petroleum products.<sup>30</sup> On a more positive note, the Indian government is providing incentives for Indian and foreign companies to manufacture in India, and to reduce dependence on Chinese imports in particular sectors like solar power, electronics and pharmaceuticals.

Sino-Indian technology sector ties have also been affected. The amendments to Indian investment rules will adversely affect Chinese technology companies interested or operating in India. Moreover, in three tranches, India has banned a number of Chinese apps on the grounds that they are "prejudicial to sovereignty and integrity of India, defence of India, security of state and public order." These include TikTok, almost a third of whose total downloads come from India, as well as AliPay.<sup>31</sup>

There has also been an impact on the telecommunications sector. State-owned firms BSNL and MTNL canceled a tender issued in March to upgrade their 4G networks. The revised tender is expected to exclude Chinese firms Huawei and ZTE from bidding to provide equipment.<sup>32</sup> There are also reports that the Indian government is ready to use investment restrictions to exclude these companies from India's 5G trials. This is a shift from the Indian approach earlier in the year when the

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<sup>25</sup> "No Chinese Firms In Road Projects, Not Even Joint Ventures: Nitin Gadkari," *Press Trust of India*, July 1, 2020 <https://bit.ly/2F2sXJH>

<sup>26</sup> Indian Ministry of Finance, "Restrictions on Public Procurement from certain countries," July 23, 2020 <https://pib.gov.in/PressReleasePage.aspx?PRID=1640778>

<sup>27</sup> Archana Chaudhary, "India Takes Another Step to Block China Products With New Rules," *Bloomberg*, June 23, 2020 <https://bloom.bg/351J3P1>

<sup>28</sup> Clara Lewis, "Maharashtra freezes 3 Chinese projects worth Rs 5,000 crore," *Times of India*, June 22, 2020 <https://bit.ly/2Z1CIPF>

<sup>29</sup> Aftab Ahmed, "With eye on China, India looks to increase barriers on imports from Asia," *Reuters*, August 3, 2020 <https://reut.rs/31dfFlb>; Banikinkar Pattanayak, "Govt mulls stricter curbs amid India-China faceoff," *Financial Express*, June 22, 2020 <https://bit.ly/3bqEvmw>

<sup>30</sup> Debjit Chakraborty et al, "India Bars China Ships From Oil Trade as Ties Strain Further," *Bloomberg Quint*, August 13, 2020 <https://bit.ly/3bmBPGp>

<sup>31</sup> Indian Ministry of Electronics & IT, "Government Bans 59 mobile apps which are prejudicial to sovereignty and integrity of India, defence of India, security of state and public order," June 29, 2020, <https://pib.gov.in/PressReleasePage.aspx?PRID=1635206>

<sup>32</sup> Ajith Athrady, Anirban Bhaumik, "BSNL, MTNL cancel 4G upgradation tender aimed at keeping China's Huawei, ZTE out of India's telecom sector," *Deccan Herald*, July 1, 2020 <https://bit.ly/32KeZV2>



government had announced that it would permit all vendors, including Huawei, to participate in the trials.<sup>33</sup>

In addition, after a phase of encouraging travel and exchanges from China, the Indian government seems set to adjust course in this sphere. Delhi is reportedly considering requiring prior security clearance for visas for Chinese business, civil society and academic professionals. Indian institutions' and universities' agreements with Chinese organizations, particularly Hanban, are also being reviewed and likely to be discouraged.<sup>34</sup>

## Responses and the Road Ahead

Current responses: The response to these policy changes in India have been mixed. There have been questions about India's ability to reduce dependence on China, and the costs that will entail—particularly as India deals with the economic fallout of the pandemic. There are also concerns about supply disruptions, especially since Prime Minister Modi has been emphasizing the importance of India playing a greater role in global value chains. Others have questioned the government's motives, suggesting these moves stem from a protectionist impulse and are reminiscent of pre-liberalization import substitution policies.<sup>35</sup> And there has been anxiety in some quarters of the technology sector because China has been a major source of investment for Indian start-ups—by one estimate, two-thirds with a billion-plus-dollar value have at least one Chinese investor. Some of these investments have reportedly been put on hold.<sup>36</sup>

Former Indian officials have acknowledged that these restrictions will hurt India, but have argued that it is still worthwhile to take these steps to reduce Indian exposure to and overdependence on China—and noted that it might be easier to take these steps when Indians are already feeling economic pain as a result of the pandemic fallout. Gautam Bambawale, a former Indian ambassador to China, also expected these steps to lead to a deterioration of Sino-India ties, but said “so be it.”<sup>37</sup> Others have argued that alternative sources of capital and imports exist and should be explored. Indian government officials, on their part, have indicated that they neither expect overnight overcomes nor total decoupling, but stressed the importance of starting the process.

The Chinese response has been a mix of persuasion, objections, warnings, and suggestions of legal action or retaliation. In isolation, one or two Indian steps might not have mattered to the Chinese government—India, for instance, is far more dependent on Chinese imports than the other way around. But collectively, they can have an impact. Moreover, in particular sectors like telecommunications and technology, these Indian restrictions have implications for Chinese companies' valuations and their access to a significant and growing market. Beijing also seems worried

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<sup>33</sup> Archana Chaudhary, “China's Huawei, ZTE Set To Be Shut Out of India's 5G Trials,” *Bloomberg*, August 13, 2020 <https://bloom.bg/32Pqmv7>

<sup>34</sup> Sudhi Ranjan Sen, “India Slaps New Curbs on Visas, Schools to Stem China Influence,” *Bloomberg*, August 21, 2020 <https://bloom.bg/2GhLYbO>

<sup>35</sup> Kiran Rathee, “BSNL does not want a ban on Huawei, ZTE, other foreign vendors,” *Financial Express*, June 29, 2020 <https://bit.ly/3lNqUdx>; Sushma Ramachandran, “Self-reliance after lockdown a long-term goal,” *The Tribune*, June 10, 2020 <https://bit.ly/3hVOpP7>; Udit Misra, “Atmanirbhar Bharat: A brief and not-so-affectionate history,” *Indian Express*, August 17, 2020 <https://bit.ly/2EUqDVB>

<sup>36</sup> Benjamin Parkin, “China provides record funding for Indian tech start-ups,” *Financial Times*, February 16, 2020, <https://on.ft.com/3hWY1OA>; Aditi Shah, Sumeet Chatterjee, “Alibaba puts India investment plan on hold amid China tensions - sources,” *Reuters*, August 26, 2020 <https://reut.rs/3gu472l>

<sup>37</sup> Jyoti Malhotra, Interview with Shivshankar Menon, July 9, 2020 <https://youtu.be/OO8gaJqRa6A>; Tamanna Inamdar, Interview with Gautam Bambawale, July 16, 2020 <https://bit.ly/32Us923>

about the global impact and perceptions of the Indian moves, and has raised questions about the link between Indian actions and those of others like the U.S. and Australia.<sup>38</sup>

Thus, the Chinese government has objected to a number of the steps India has taken to restrict Chinese activities. The Chinese ambassador to India Sun Weidong has spoken to civil society and media audiences calling for relations to get back on track. But he has also warned against the “forced decoupling of the Chinese and Indian economies,” noting that “it will only lead to a ‘lose-lose’ outcome.” The ambassador has further suggested that Indian restrictions “violate market laws and WTO rules.” Furthermore, he has reminded Indians of how dependent they are on imports of certain products from China, and warned that even non-Chinese multinational companies operating in India will be adversely affected.<sup>39</sup> Chinese state-linked media outlets have gone further, suggesting that Beijing could retaliate. That, however, would likely only prove the Indian government’s point and could lead to further Indian restrictions, including, on exports to China of pharmaceuticals, for instance.

Other potential sources of leverage: Nonetheless, China does have points of leverage include its ability to pressure India further on the boundary. It can also complicate India’s internal security situation (particularly in India’s northeast as it did in the past), and Delhi’s regional options given Beijing’s expanding ties with India’s territorial and maritime neighbors. Furthermore, China can use its relationship with Pakistan as a tool to pressure—or reassure—India. Beijing can also be helpful or harmful to Indian interests in key international bodies, especially the U.N. Security Council. Finally, while China’s ability to use economic coercion with India is relatively limited because of their still limited—and lop-sided—investment relationship, there are areas Beijing could target. For instance, India’s pharmaceutical sector, which is fairly dependent on imports of active pharmaceutical ingredients or India’s automotive sector that needs components from China.

India, in turn, also has other sources of leverage beyond its market, which China and its companies have wanted to access. Another is the presence of Tibetan leaders and refugees in India. A third is Delhi’s ability to complicate Beijing’s interests—and exploit its vulnerabilities—in the Indian Ocean. A fourth could be doing more with Taiwan. Finally, India’s partnerships—especially, but not only, with the United States. After all, China might not worry much about India in and of itself given the gap in the two countries’ relative capabilities, but the US-India partnership does give it pause. Delhi can also work with these partners to complicate Chinese interests in the region and in international institutions. In the next few years, it will be chair of the World Health Organisation Executive Board, a member of the UN Security Council, as well as host of the G-20.

India and its Partners: The boundary crisis will likely result in India doubling down on these partnerships with like-minded countries. They help India (1) enhance its own capabilities, (2) balance and deter China, and (3) ensure a rules-based and multipolar order prevails in the region.

There have already been signs that India is moving forward with deepening ties with partners like the US, Australia and Japan. Bilaterally, Delhi has been in close touch with Washington during the crisis and seen the US as helpful both as a source of diplomatic support, military equipment and intelligence. The two countries will be holding their 2+2 defense and diplomacy ministerial dialogue shortly, and

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<sup>38</sup> PRC Minister of Foreign Affairs, “Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference,” September 3, 2020 <https://bit.ly/2Z6azah>

<sup>39</sup> PRC Embassy in India, “Speech by H.E. Ambassador Sun Weidong at the seminar on ‘China-India Relations: The Way Forward’,” Institute of Chinese Studies, New Delhi, July 30, 2020 <https://bit.ly/32RY575>

are expected to sign another foundational agreement that will facilitate interoperability and intelligence sharing. Delhi is also expected to sign a military logistics agreement with Japan in the near future. It has recently also signed one with Canberra. Furthermore, it has upgraded its 2+2 with Australia to the ministerial level, and signed an agreement with that country to cooperate on cyber affairs and critical technology.

Beyond the bilateral dynamics, concerns about dependence on China have also led India, along with Australia and Japan, to announce their intention to launch a Supply Chain Resilience Initiative. A recent meeting of their economic ministers noted that they would welcome other like-minded partners.<sup>40</sup>

Delhi has also showed continued willingness to work with Australia, Japan and the U.S. via the Quad, with a ministerial meeting expected later this fall. Indian officials have also indicated that they are ready to include Australia in MALABAR, the annual India-Japan-U.S. maritime exercise. Moreover, in recent months, it has participated in a deputy secretary of state-level grouping with the other Quad countries and New Zealand, South Korea and Vietnam to discuss and tackle coronavirus-related concerns.

Indeed, India can be expected to participate in other such issue- or interest-based coalitions as well. For instance, the D10 (G7+Australia, India, South Korea, proposed by Britain to deal with concerns related to reliance on China for 5G and other technologies) or the Global Partnership on Artificial Intelligence. Delhi has also taken the lead in forming other such initiatives such as the International Solar Alliance and the Global Coalition for Disaster-Resilient Infrastructure (China is not a member of any one of these).

At the same time, India is continuing to participate in plurilaterals that involve another partner—Russia—as well as China: the Russia-India-China trilateral, the BRICS grouping, and the Shanghai Cooperation Organization. However, the scope and degree of these interactions are more limited, though on a bilateral basis, Delhi continues to see Moscow as a key partner, particularly in the defense equipment and technology space.

## **Conclusion**

The boundary crisis remains serious and requires careful watching. The US is probably considering different scenarios. Members of Congress can encourage the administration to also consider what Delhi might ask of it in each case, whether or not the US is willing to be responsive, and, if it is, prepare for those contingencies. In previous crises, Washington has also played a role vis-à-vis Beijing. However, in the current situation, it is not clear how effective or welcome that might be.

Second, moments like the current one can be clarifying for India, including in terms of which of its partners is reliable. If the US wants to be responsive or to show support to India, it should convey this willingness, while taking care not to escalate the situation. Such responsiveness and support will facilitate a closer Indian alignment with the US in the future. However, Washington should not try to push India into decisions or choices, or let Delhi think it is taking advantage of the boundary crisis—that would be unhelpful, if not counterproductive.

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<sup>40</sup> “Australia-India-Japan Economic Ministers’ Joint Statement on Supply Chains Resilience,” September 1, 2020 <https://bit.ly/2Z4j6u8>

Third, over the last few months, a number of members of Congress have criticized Chinese assertiveness vis-à-vis India, sought a peaceful resolution of the dispute, as well as expressed support for the US-India relationship. It is important that this has come from both sides of the aisle—particularly in an election year, the signal a bipartisan approach sends to Delhi and Beijing is crucial. It will also help maintain public support for the US relationship in India.

Fourth, Congress in the past has played a crucial role in enabling or facilitating the US-India partnership, including deeper diplomatic, defense and intelligence cooperation. This role will continue to be important in maintaining the momentum in the relationship.

Fifth, how India deals with the boundary crisis, as well as the choices and tradeoffs it makes, will affect the US. It will offer opportunities, but potentially also challenges. For instance, Delhi's desire to reduce its economic dependence on China could benefit American companies. But if this leads to broader Indian protectionism, that could adversely affect American economic interests.

Finally, for partners like India, their willingness to cooperate with the US in the region and globally will depend not just on Chinese missteps but on the US willingness and ability to respond. A robust US response to challenges to the rules-based order could help deter certain Chinese behavior; it will also make Washington a more attractive partner, increasing countries' willingness to work with the US and to burden share. Steps that members of Congress can take or encourage the administration to take to strengthen deterrence in the Indo-Pacific, as well as ensure the maintenance of a rules-based order will be helpful in this regard.

**OPENING STATEMENT OF JONATHAN FULTON, ASSISTANT PROFESSOR OF  
POLITICAL SCIENCE IN THE COLLEGE OF HUMANITIES AND SOCIAL  
SCIENCES AT ZAYED UNIVERSITY**

CHAIRMAN CLEVELAND: Thank you, Dr. Madan. Dr. Fulton?

DR. FULTON: Thank you to the Commission for inviting me to speak here today. It's quite an honor. I've been asked to discuss China-Gulf relations, specifically with regards to how the China-Iran relationship could affect U.S. interests in the Middle East, as well as those of its allies and partners. This issue is all the more important given the dramatic reports from this July that the China-Iran relationship was being dramatically expanded.

As I wrote in my testimony, I believe that these reports are actually quite unrealistic. It is true that China and Iran have been developing this comprehensive strategic partnership, and it's been in the works since 2016. That's an important point. It's not something new. This is something that they've been working on for about four years.

It's also important to note that a partnership, at least in Chinese practice, is not the same thing as an alliance. It doesn't come anything similar to the same type of security commitments, or really, any kind of commitments. It's a matter of working across issues of shared interests rather than what you expect from a traditional alliance partnership.

The timing in when this partnership was signed is actually quite interesting in telling. It was signed in January, 2016, a few months after the JCPOA was announced. This is important, because there was a period, brief as it was, that many countries in the world thought that Iran might be willing to change its aggressive behavior and start to act like a more normal state.

It wasn't just China that started to engage with Iran. We saw many European countries and Asian countries also saw this as an opportunity to enter a very potentially lucrative market in a strategically located country.

The U.S. general election, which took place a few months later, really shut the window on that as it became quite clear that under the Trump administration, the JCPOA was not going to continue to be U.S. policy towards Iran. This put China in, actually, a difficult situation. They had to weigh the benefits of engagement with Iran against the cost of alienating D.C.

In this type of situation, China has been quite consistent over the years. U.S. represents a much more important country than Iran to Beijing, and what we've seen time and again is, under this type of opportunity or pressure, Beijing will basically throw Iran under the bus to develop a stronger relationship with the U.S.

This is an important point, because there seems to be widespread assumption in a lot of the media accounts of the China-Iran relationship, that the two countries share a revisionist orientation that could threaten Middle East stability. I argue quite frequently that China's Middle East interests are actually quite heavily tilted towards Middle Eastern status quo.

When you look at what China's trying to achieve in the region, whether it's stability for the Belt and Road initiative, whether it's affordable energy, whether it's a stable trading investment and contracting environment, all of these things require a degree of stability, as much as that's possible in the Middle East.

You don't get that by working with isolated and aggressive Iran, which is constantly threatening status quo countries. You get that by working with countries that are almost always U.S. partners and allies, like the Saudis, the Emiratis, the Israelis.

This is an important point, because when you look at China's Middle East orientation, you'll find that it consistently is much more heavily weighted towards these countries across a

wide range of issues than it does with Iran. Whether that's politically, economically, or strategically, China consistently favors these countries over Iran.

Politically, yes, there is a comprehensive strategic partnership with Iran, but China also signed a similar deal with Saudi Arabia four days prior. They've also since signed one with UAE, and the difference here is that those two countries haven't had anything like the kind of political problems Iran has had since signing this deal with China, which has given them the chance to focus on developing it.

Both countries have appointed senior governmental officials. For the Saudis, it's been Crown Prince Mohammed bin Salman; for the Emiratis, it's been Khaldoon Al Mubarak, who was appointed special presidential envoy, and they've been liaising with their Chinese counterparts.

In this case, for the Saudi's it's Vice Premier Han Zheng, and with the UAE it's Yang Jiechi, former foreign minister and current state counselor.

So they've actually been quite proactive in developing a much stronger, more durable set of partnerships with China than the Iranians have been able to.

In terms of economic interactions, what we've seen between China and Iran is a steadily decreasing set of trade relations. The peak was just before the JCPOA was signed, in 2015, or, I guess, the year the JCPOA was signed in 2015, bilateral trade between China and Iran hit 38 billion dollars. Last year, it was half that, at 19, and this year it's already 40 percent less than last year.

When you look on this side of the Gulf, I'm speaking to you from Abu Dhabi. When you look at the GCC side of the Gulf, and I realize it's always iffy to describe the GCC as a collective whole anymore, but these six countries' trade with China last year was worth 170 billion, against Iran's 19, which indicates that China's economic interests lie very, very substantially on this side of the Gulf.

And if you want to break that down by countries, with the Saudis it was about 73 billion last year, with the Emiratis it was 50. Even relatively modest companies like Oman and Kuwait were trading at about the same level as Iran. So economically, it's really no question. China's much more heavily engaged with this side of the gulf. They have large expatriate populations on this side. There are very few Chinese expatriates in Iran.

So, economically, it's also kind of obvious to me that this side of the Gulf is more important to Beijing. Strategically, there's been an assumption, especially since the BRI was announced, that Iran has more to offer because Iran shares this overland corridor, the China - Central West Asia economic corridor in which Iran is featured as an end point.

But in this, the so-called economic belt, the overland route is expensive, slow, and it passes through rather underpopulated Central Asian countries that don't offer much economically. The Gulf side is much more active in the Maritime Silk Road initiative.

There's a point I'd like to talk about, perhaps in the questions, but in 2018, China announced an initiative called the industrial park-port interconnectivity two wing, two wheel approach, which is a bit of a mouthful, but this is a set of parks and ports that China's investing in on the Arabian Peninsula and along the eastern coast of the Red Sea that provides access from the Persian Gulf to the Arabian Sea to the Red Sea to the Mediterranean. So again, strategically, it offers much more.

The question, I guess, that I started with, does China's engagement with Iran threaten U.S. interests in the region, or its allies? I think actually it has very minimal impact. Thank you.

**PREPARED STATEMENT OF JONATHAN FULTON, ASSISTANT PROFESSOR OF  
POLITICAL SCIENCE IN THE COLLEGE OF HUMANITIES AND SOCIAL  
SCIENCES AT ZAYED UNIVERSITY**

## **Testimony before the US-China Economic and Security Review Commission Hearing on “US-China Relations in 2020: Enduring Problems and Emerging Challenges”**

September 9, 2020

Dr. Jonathan Fulton

Assistant Professor of Political Science, Zayed University

Senior Nonresident Fellow, Atlantic Council

### **Introduction**

The emergence of China as an important actor in the Persian Gulf region appears to have been sudden, but in reality it has been a rather gradual process. China has been steadily building a presence based largely upon commercial interests and political cooperation throughout the 21<sup>st</sup> century. The introduction of the Belt and Road Initiative (BRI) in 2013 has resulted in a more expansive set of Chinese regional interests, firmly establishing the Gulf, Arabian Peninsula, and Red Sea as important hubs in the Initiative’s Eurasian and Indian Ocean Region (IOR) ambitions, linking them to East Africa, the Mediterranean, and South Asia. This in turn has led to deeper diplomatic engagement with many key states in the region, mostly US allies and partners, and the growth of China’s influence is introducing a new dynamic to a region long acknowledged as a US vital interest. It is therefore important that US policy is informed by a clear assessment of China’s strategic goals, capabilities, and limitations in the Gulf.

In particular, China’s relationship with Iran has come under increasing scrutiny, especially in the period since the US withdrew from the Joint Comprehensive Plan of Action (JCPOA), an agreement that Beijing had participated in and spent no small amount of diplomatic capital in getting Iran to sign. The two countries have long if not especially deep historical ties that have often been exaggerated in the service of political goals. Despite rhetoric of being “indispensable...strategic partners,”<sup>1</sup> the contemporary bilateral relationship between the People’s Republic of China and Islamic Republic of Iran is opportunistic, based on limited shared interests, and inherently asymmetrical.

Sino-Iranian relations, while important in their own right, need to be understood in the context of broader objectives for policy-makers in both countries, and in doing so it becomes clear that Beijing’s interests in the Gulf and Middle East – North Africa (MENA) are much better served by working with Iran’s enemies or rivals, which are, importantly, US allies and partners. That is not to say that China would abandon Iran completely, but just to emphasize that the current prominent concerns of a China-Iran axis potentially undermining MENA/Gulf stability does not accurately reflect the state of affairs. China has a diverse set of relations across the region and a clear preference for the Middle East status quo, as fragile as that may be.

### **China, Iran and the Gulf Monarchies: A Delicate Balance**

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<sup>1</sup> Alex Vatanka, “China’s Great Game in Iran,” *Foreign Policy*, September 5, 2019, <https://foreignpolicy.com/2019/09/05/chinas-great-game-in-iran/>



The news of a comprehensive strategic partnership (CSP) between China and Iran drew a lot of attention over the summer of 2020, but it is an agreement that has been under development for four years and has thus far not significantly affected China's relations with other Gulf states. The CSP was signed in January 2016 during President Xi's state visit only six months after the completion of the JCPOA. This is the top level in China's hierarchy of diplomatic relations, whereby it agrees to work with the partner toward the "full pursuit of cooperation and development on regional and international affairs."<sup>2</sup> Research on China's partnership diplomacy has indicated that Chinese leaders are especially cautious with partnerships at this level, with three conditions needing to be met: high levels of political trust, dense economic ties, and good relations in other sectors such as cultural exchanges.<sup>3</sup>

Iran is not the only Gulf state with such an agreement, however. China signed one with Saudi Arabia that same week, having been in Riyadh prior to visiting Tehran, and the United Arab Emirates (UAE) was upgraded to that level as well during a state visit in 2018. Every other Gulf country except Bahrain has a strategic partnership with China, the next level down. This is an important point to emphasize: China has not chosen to partner with Iran instead of other Gulf states. It has continued to navigate the region with a balanced approach, working with all countries on issues of shared interests. This type of partnership allows for a greater degree of flexibility than a traditional alliance. For one thing, they are goal-driven rather than threat-driven, which allows partners to "quarantine" areas of disagreement.<sup>4</sup> This is an important consideration for China in the Gulf as it navigates relationships with all eight states in an especially fractious region.

The timing of the CSP with Iran was not a coincidence. The expectation that Iran would return to the fold of "normal" states influenced Beijing's calculus, along with the realization that a less aggressive Iran would be an important market and energy supplier, as well as an important regional power. As such, the CSP may be seen as a result of Iranian commitments to a more constructive international presence through the JCPOA.

It is worth noting that China played a significant diplomatic role in getting Iran to agree to the JCPOA. Between June 2013 and July 2015 Chinese officials met with their Iranian counterparts on seventeen occasions to encourage them to come to an agreement with the P5.<sup>5</sup> At the same time, they linked the possibility of increased investment and economic assistance to the successful resolution of the nuclear agreement. Understood was without a resolution, China would have to make the obvious choice between support for an isolated and disruptive Iran or continued

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<sup>2</sup> "Quick guide to China's diplomatic levels," *South China Morning Post*, January 20, 2016, <http://www.scmp.com/news/china/diplomacy-defence/article/1903455/quick-guide-chinas-diplomatic-levels>

<sup>3</sup> Georg Stüver, (2017). "China's Partnership Diplomacy: International Alignment Based on Interests of Ideology." *The Chinese Journal of International Politics* 10 (1), p. 45.

<sup>4</sup> H.D.P Evenall & Ian Hall, "Asian Strategic Partnerships: New Practices and Regional Security Governance," *Asian Politics & Policy*, 8(1), p. 92.

<sup>5</sup> John Garver, "China and the Iran Nuclear Negotiations: Beijing's Mediation Effort," in James Reardon-Anderson (Ed.) *The Red Star & the Crescent: China and the Middle East* (London: Hurst & Company, 2018), pp. 139-144.

economic engagement with the US. Of course, for Beijing there was no question; trade with Iran in 2015 was worth just under \$34 billion against over \$555 billion with the US.<sup>6</sup>

This underscores an essential point: despite narratives of mutual respect and friendly cooperation, the China-Iran relationship is fundamentally lopsided. China is consistently Iran's top source of imports and largest export destination. In 2019, Iran was China's thirty-third-ranked source of imports, between Kuwait and New Zealand, and its thirty-eighth-ranked export destination, between Egypt and Israel.<sup>7</sup> China is an economic lifeline for Tehran, while Iran is a useful but often problematic partner for Beijing.

In a frustrating and recurring trend for Iran, China has consistently chosen its interests with the US over support for its partner. As Esfandiyar Batmanghelidj, a frequent commentator on Iran, recently noted, "Beijing remains unwilling to defend its commercial ties to Iran in the face of US sanctions."<sup>8</sup> In the first half of 2020 China-Iran trade is down 40% from the same period in 2019.<sup>9</sup> The Bank of Kunlun, the only Chinese bank operating in Iran, announced earlier this year that it would no longer be involved in the financing of construction, mining, manufacturing, or textile industries, instead limiting its services to "settlements involving humanitarian supplies and non-sanctioned industries."<sup>10</sup> This was in response to US Executive Order 13902, which imposed sanctions on the Iranian industries listed above.

A recent report from Chatham House reinforces the notion that China's partnership with Iran is overstated. Chinese respondents described Iran as "not that relevant to China's national interest... China is both preoccupied with its trade dispute with the US and at the same time frustrated with Iran... many Chinese businesses do not believe it is worth doing business with Iran, given the difficulties involved."<sup>11</sup>

Because of this, the July 2020 leak of a document that claimed a forthcoming substantial expansion of the CSP parameters would seem, if true, to represent a dramatic departure from China's approach to the Middle East. The details of this document had previously been released in September 2019 by *Petroleum Economist*, a UK-based publication, and was largely dismissed as

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<sup>6</sup> International Monetary Fund, Direction of Trade Statistics, <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491>

<sup>7</sup> Ibid.

<sup>8</sup> Esfandiyar Batmanghelidj, "Iran Can No Longer Rely on Trade with China," *Bloomberg*, April 27, 2020, <https://www.bloomberg.com/opinion/articles/2020-04-27/iran-can-no-longer-rely-on-trade-with-china>

<sup>9</sup> "Iran's Trade with China Hit \$8.6b in Seven Months, Down 40% YOY," *Financial Tribune*, August 30, 2020, <https://financialtribune.com/articles/domestic-economy/105035/irans-trade-with-china-hit-86b-in-seven-months-down-40-yoy>

<sup>10</sup> Batmanghelidj, "Iran Can No Longer Rely on Trade"

<sup>11</sup> Sanam Vakil and Neil Quilliam, "Getting to a New Iran Deal: A Guide for Trump, Washington, Tehran, Europe and the Middle East," *Chatham House*, October 22, 2019, <https://www.chathamhouse.org/publication/getting-new-iran-deal-guide-trump-washington-tehran-europe-and-middle-east>

unrealistic by analysts tracking the bilateral relationship.<sup>12</sup> It reappeared this summer during a round of bilateral meetings, and notably neither side has verified the claims.

The supposed deal would include \$400 billion worth of Chinese investment into Iran, with \$280 billion of that into its oil, gas and petrochemical sectors and \$120 billion to upgrade its transport and manufacturing infrastructure. This is unlikely, given the trend of declining Chinese overseas investment and contracting since its peak level in 2016.<sup>13</sup> Also in the leaked document is the ominous threat of increased military and security cooperation, although it refers to cooperation that already exists: joint training exercises and intelligence sharing and a focus on counterterrorism, trafficking and transnational crime. This does not represent a shift in China's Gulf priorities; the People's Liberation Army Navy conducted three-week naval exercises, Blue Sword 2019, with the Saudi Royal Navy in November 2019.<sup>14</sup> If these security elements of the supposed deal prove to be correct, they will not fundamentally alter the Gulf balance of power.

The same can be said of increased economic engagement between China and Iran. Looking at China's greater Gulf presence, Iran is far behind both Saudi Arabia and the UAE as a trade partner, and only slightly ahead of Oman in 2019. No doubt sanctions play a role in this, creating an artificially low ceiling for trade, but the reality is that over the past twenty years China has become the largest economic partner of the Gulf Cooperation Council (GCC) states. Trade as a bloc was worth over \$170 billion in 2019, against \$19 billion for Iran.<sup>15</sup> This is not an outlier; over the past decade the Sino-GCC trade has consistently been substantially higher than that between China and Iran. Investment and contracting tells a similar story. Since the BRI was announced in 2013 the GCC has represented \$64 billion worth of contracts and investment while Iran just under \$13 billion.<sup>16</sup> China's economic interests are heavily weighted in favor of the Arabian side of the Gulf.

The GCC states have been very savvy in making themselves more attractive than their neighbour. With free trade zones along the Arabian coast of the Persian Gulf, more convenient business atmospheres, and welcoming expatriate lifestyles many Chinese companies have set up regional

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<sup>12</sup> Simon Watkins, "China and Iran Flesh Out Strategic Partnership," *Petroleum Economist*, September 3, 2019, <https://www.petroleum-economist.com/articles/politics-economics/middle-east/2019/china-and-iran-flesh-out-strategic-partnership>; Jacopo Scita, "No, China Isn't Giving Iran \$400 Billion," *Bourse and Bazaar*, September 20, 2019, <https://www.bourseandbazaar.com/articles/2019/9/20/no-china-isnt-giving-iran-400-billion>

<sup>13</sup> Dereck Scissors, "China's Global Business Footprint Shrinks," *American Enterprise Institute*, July 10, 2019, <https://www.aei.org/research-products/report/chinas-global-business-footprint-shrinks/>

<sup>14</sup> "Saudi Arabia, China Conduct Drill to Improve Combat Readiness," *Arab News*, November 17, 2019, <https://www.arabnews.com/node/1585431/saudi-arabia>

<sup>15</sup> International Monetary Fund, Direction of Trade Statistics, <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491>

<sup>16</sup> "China Global Investment Tracker," *American Enterprise Institute*, <https://www.aei.org/china-global-investment-tracker/>

headquarters in the Gulf monarchies, especially Dubai where there are over 4,200 Chinese companies and a Chinese expatriate population estimated at between 250,000 to 300,000.<sup>17</sup>

Its growing geo-political role in MENA also tilts toward engaging with US partners and allies. China's geo-strategic ambitions for the region are tied to its Belt and Road Initiative (BRI), linking markets, business clusters and supply chains across Eurasia and the Indian Ocean. The interconnectivity that drives the BRI increases the importance of cooperation with stable, status-quo oriented countries while also highlighting the risks that Iran presents. For China, any semblance of Middle East stability is likely to be achieved by working within a network of strong states, and in this Iran has little to offer while its rivals in the GCC are much better positioned. Chinese investments into industrial parks and ports in the UAE, Oman, Saudi Arabia and Egypt are key to the Middle East branch of its Maritime Silk Road Initiative, the seaborne component of the BRI, linking the Gulf to the Arabian, Red, and Mediterranean seas.<sup>18</sup> Iran could be an important endpoint in the Silk Road Economic Belt, the overland section of the BRI, but to reach it China must pass through sparsely populated and less prosperous Central Asian countries. While Iran is generally assumed to be a more important BRI partner for China, the evidence indicates otherwise.

All of that said, China does have interests in cooperating with Iran, and the CSP is an important pillar of the bilateral relationship. For one thing, it remains a potentially important country, despite its present limitations. With the largest market in the Gulf, a geo-strategic location, and an educated workforce, a "normal" Iran would be a valuable partner, and offering support, as meagre as it has been, keeps the door open for future engagement should Iran change course. It also serves a geopolitical purpose. As Jon Alterman from the Center for Strategic and International Studies has explained, "tensions with Iran help ensure that the United States cannot fully focus its military attention on the western Pacific."<sup>19</sup> China's minimal support for Iran therefore provides a low-cost means of keeping the US preoccupied with the Middle East. Another important consideration is that because Iran is so firmly outside the US sphere of influence, Beijing does not have to worry that Tehran could succumb to pressure from Washington to reduce energy flows to China. While perhaps far-fetched, the same cannot be said with absolute certainty about US allies and partners; under President Trump's administration Middle Eastern countries are increasingly given the binary choice of working with the US or China on a range of sensitive issues, and Chinese leaders would have to consider that this could extend to other types of engagement if the Sino-US relationship further deteriorates.

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<sup>17</sup> Binsal Abdul Kader, "Chinese Community in UAE Grows Fourfold in 10 Years," *Gulf News*, August 10, 2016, <https://gulfnews.com/going-out/society/chinese-community-in-uae-grows-fourfold-in-10-years-1.1877034>

<sup>18</sup> Consulate-General of the People's Republic of China in Kuching, *Wang Yi: China and Arab States Should Jointly Forge the Cooperation Layout Featuring 'Industrial Park-Port Interconnection, Two-Wheel and Two-Wing Approach'*, July 10, 2018, <https://kuching.chineseconsulate.org/eng/news/t1576567.htm>

<sup>19</sup> Statement before the House Foreign Affairs Subcommittee on the Middle East, North Africa, and International Terrorism, "Chinese and Russian Influence in the Middle East," A Testimony by Jon B. Alterman, May 9, 2019, <https://www.csis.org/analysis/chinese-and-russian-influence-middle-east>

However, none of this should overlook the fact that for China, the Gulf monarchies are more valuable partners now and in the foreseeable future. Iran brings to mind the Napoleon quote about Brazil: “It is the country of the future and always will be.” Iran’s potential as a market and BRI partner leads many to overstate its importance to Beijing. Some day that may be true, but for now, it remains an acceptable (if often inconvenient) partner, but only one among several in the region.

For Iran, China is an unreliable but essential economic lifeline, the only major economy that they can pin their hopes on. As described above, however, China has consistently offered rhetorical and diplomatic support in the face of the US “maximum pressure” campaign, but in material terms there has been a steadily diminishing return. The perception that China will help is perhaps its most important benefit; the threat of a China-Iran-Russia axis could provide Tehran with some leverage in negotiating with the US and Europe. That both China and Russia voted against the Trump administration’s attempt to extend the arms embargo was a diplomatic win for Iran, helping to undermine the credibility of both the US and United Nations, at least among the Iranian domestic constituency. This too should not be misread as unconditional Chinese support for Iran, but rather as a rejection of the US strategy. As it became clear that the US wanted to extend the arms embargo, the Chinese mission to the UN tweeted, “US failed to meet its obligations under Resolution 2231 by withdrawing from #JCPOA. It has no right to extend an arms embargo on Iran, let alone to trigger snapback. Maintaining JCPOA is the only right way moving forward.” Given China’s role in the JCPOA, the cavalier manner with which the US pulled out of the agreement limited the cooperation Washington could expect from Beijing.

While the impact of the China-Iran CSP in the Gulf is over-stated, it is worth tracking what - if any - influence it will have in South Asia. China and India have a more immediately volatile relationship than China and the US, and as their interests increasingly bump up against each other’s this could heighten tension. New Delhi has consistently been outspoken against China’s BRI ambitions and among regional powers probably has the most to lose from Chinese expansion. With investment into ports in Myanmar, Bangladesh, Sri Lanka, the Maldives and Pakistan, China is increasingly competitive in a region that India has long considered its own sphere of influence. India’s investment into Iran’s Chabahar port represents a crucial access point for New Delhi to reach Afghanistan and Central Asia. The project has often stalled, but that has less to do with India’s intentions than international pressures. India has been discussing the project with the Iranian government since 2003, but it was not until 2016, after the JCPOA, that the two were able to make any headway. A return to US sanctions against Iran made the project very difficult for Indian companies to participate.<sup>20</sup> If deeper China-Iran cooperation were to be used to balance Indian power in South Asia, this would result in a more combustible regional environment.

As for the US, it is the underlying factor in all of these relationships. China has taken advantage of US security commitments in the Gulf, expanding its commercial and political presence knowing that US forces provided an umbrella for them to operate under. China is not alone in this, however;

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<sup>20</sup> Suhasini Haidar, “Why is India Out of the Chabahar Rail Project?” *The Hindu*, July 19, 2020, <https://www.thehindu.com/news/international/the-hindu-explains-why-is-india-out-of-the-chabahar-rail-project/article32126361.ece>

the same can be said of nearly every extra-regional power with interests in the Gulf.<sup>21</sup> While the current state of the US-China relationship is especially fraught, the Middle East is one region that does not necessarily look like a natural theatre of competition. If the US and China could develop a working relationship in the region, the two countries would likely recognize that while their approaches differ significantly, their interests align, and they could actually complement each other.<sup>22</sup> Both see their MENA interests revolving around freedom of navigation and access to energy resources for global markets. To this end they both have a preference for the maintenance of the status quo. China does not have any intention to replace the US in the Middle East, nor does it have the desire or capacity. In the absence of such a constructive relationship, however, they could well find themselves in a heightened state of competition, forcing local actors to make undesirable alignment choices and creating an even less stable Gulf region.

## Recommendations

- Convene a meeting with leaders of Middle East allies and partners to discuss means of limiting Chinese support for Iran
- Convene a non-partisan panel consisting of Middle-East / Gulf experts and China experts to liaise with the policy community on regional affairs to ensure a better awareness of potential outcomes
- Establish a dialogue between US, Chinese, and Middle Eastern foreign policy experts to enhance understanding of each other's' regional interests and objectives

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<sup>21</sup> See Jonathan Fulton and Li-Chen Sim (Eds.), *External Powers and the Gulf Monarchies* (London: Routledge, 2019)

<sup>22</sup> Jonathan Fulton, "China's Changing Role in the Middle East," Atlantic Council, 2019, p. 15.

## PANEL IV QUESTION AND ANSWER

CHAIRMAN CLEVELAND: Thank you very much. I think you get the award for the greatest time difference. I appreciate your testifying, given that it's quite late at night for you. Commissioner Bartholomew?

VICE CHAIRMAN BARTHOLOMEW: Thank you. Thank you to both of our witnesses. It's interesting. I guess I have one question for each of you. In terms of Iran, could you talk a little bit, Dr. Fulton, about the geostrategic interest that China might have in aligning with a country that does not have friendly relationships with the United States and how the Russians play into that?

I understand what you're saying about the economic relationship. Could you just talk a little bit more about, as I said, the geostrategic relationship.

And, Dr. Madan, there's so much going on on the India-China border. I have trouble keeping up. But I noticed that, two things. One, of course, that there has been concern about the building of infrastructure in Tibet, and how the Chinese might use that in a conflict situation. I wondered if you have some observations on that.

But I also just noticed that there was a Tibetan Special Forces person who was working on, I mean, he's part of the Indian military, I guess, but covert or overt, and how you think that might play out? I mean, are the Tibetans being put into a no-win situation with the conflict between India and China?

Dr. Fulton, you want to start?

DR. FULTON: Sure. In terms of what does China get strategically by working with Iran, I think China's engagement with Iran has actually been quite minimal. It's largely been rhetorical. They say a lot. They say the right things to Iran, but they don't deliver a lot.

But that minimal engagement does create a perception, as we all know from watching the news cycle over the past couple of months, that China and Iran have this kind of nefarious relationship. This was made all the more dramatic in January or December, when there was a trilateral naval drill with Russia, which really seemed to be something that was going to destabilize the region.

What didn't really get picked up a lot in the media was that the month before, China had engaged in a similar drill with the Saudis, a month-long naval drill. So they've been very, very skillful at signaling to local actors that they're not going to really tilt one side or the other too heavily. I don't think that means neutrality, I think it just means they're going to maintain the appearance of not picking sides but they're going to continue to work with both.

Really, what they do get, I think, is that it keeps the U.S. planted in the Gulf. The idea that China and Iran are going to work together means that the U.S. is going to keep the Fifth Fleet here instead of moving a bunch of troops into the Sea of Japan or the South China Sea. I think that's really what it comes down to, is keeping the U.S. bogged down in the Gulf.

CHAIRMAN CLEVELAND: All right. Thank you. Dr. Madan?

DR. MADAN: Thank you, Commissioner. I think that the concern about the buildup of infrastructure on the Tibetan side has existed for a while, and it's one of the reasons that both, it's seen as both to consolidate its claims in Tibet, but also to be able to conduct these deployments towards the boundary with India.

Having said -- and this is the infrastructure building that Beijing has undertaken for a number of years, and this is what also spurred the Indian infrastructure building on its side, to be

able to match those deployments and get troops if they need to, as soon as possible to the boundary.

And so, for example, built a north-south road that lets Indian forces connect to the northernmost space that it has.

This is the infrastructure, in particular, that Beijing has pointed to as troublesome from its perspective, so I think we're going to see, we have seen on both sides, kind of each one building infrastructure. This has made these kind of face-offs more likely than they were. In the past there were several agreements that were supposed to ensure that these face-offs didn't result in clashes. Those have broken down, and that's what we're seeing, what we've been seeing over the last few months.

The Tibetan soldier, he's part of what is called Special Frontier Force, which was, interestingly, created after the 1962 China-India war. It was a result of cooperation between the U.S. government and the Indian government, specifically the CIA and the intelligence bureau. It has existed since then, and the Special Frontier Force has fought on other fronts as well, so very much part of the Indian military.

The difference this time is not just the death of the soldier, but that we actually found out about it, that it was publicized. No Indian government official attended the funeral of the soldier, but it was interesting that a member of the ruling BJP party did attend, and it did spark some concerns on the part of Beijing, which were publicly expressed.

It is a sensitive situation. The Chinese do not like when the Indians rile them up on Tibet. In fact, that is one of the major differences that they have with India that encompasses the presence of the Dalai Lama in India a number of refugees.

Having said that, India is quite careful, usually, about the Tibet situation and has recognized Tibet as a part of China.

VICE CHAIRMAN BARTHOLOMEW: Thank you very much. No more questions from me.

CHAIRMAN CLEVELAND: Thank you. Commissioner Borgeas? Andreas, are you there?

COMMISSIONER BORGEAS: Yes, thank you, Robin. My first question, I'd like to pose it to Dr. Fulton, and I believe he already touched on a good portion of them. My question initially was this balancing act between Saudi Arabia and Iran, and you've already identified that it's more, it's a relationship between China and Iran is more perception-oriented, but essentially that there is an equilibrium that is being pursued so that one side is not too far advantaged that would otherwise hurt China's interests.

My question following up on your explanation of that, can you describe in a little bit more detail what you think Russia's role in the China-Iran relationship, or the China-Saudi relationship? Essentially, what should we be looking at in terms of Russia's political and strategic cooperation, if you will, with China in this neck of the woods.

And the second, I'll pose it to Dr. Madan, she too had already talked a little bit about -- I framed this question earlier with one of our panelists when we had gone to Australia last year, the Aussies at the time, with the National Security College, had suspected that India would not be interested in pursuing a real alignment with the U.S., but more of a cooperative arrangement.

Do you see that this will move forward for the indefinite period, or do you actually foresee there being a more formal alignment that may be based on the one that Australia, Japan, and India are trying to forge at this moment? Just your thoughts on those. Thank you. Quickly, if you can. Thanks.



DR. FULTON: First, with the China-Russia, I think what it comes down to is that the issue of a balanced approach is quite important to China in the Gulf, because they're pursuing an alternative to the U.S. They're constantly being described as a competitor or a potential replacement to the U.S. in the Middle East.

That's not the goal here. They're not trying to assume this hegemonic position. They're here to do business and to develop relationships, and you don't do this by balancing against any regional actor. You do this by hedging and building relations with everybody.

So their perception is neutral, because China is working with everyone, whereas the U.S. balances against power, or balances against threats. Whereas China just says, we're here to work with everyone.

Again, this is a neutrality, because it's very clear that there are certain states that China that privileges over others. I could go into detail about this later, but Qatar and the UAE don't have the same type of relationship, even though they're both kind of described as very important partners.

I think that's the difference between Russia and China. China is pursuing relations with everybody because they're just pursuing this kind of balanced approach through making a positive regional presence, whereas Russia, I think, is more of a pure revisionist that sees a like-minded government in Iran that could be used to kind of poke the U.S. and try to create some kind of challenge to an order that doesn't really support Russia's interests.

What Russia does with the Gulf states I'm not really expert on, but I don't see Russia as really playing a very significant role. Economically they're competitors, they're all selling the same stuff. The stuff that Russia could sell, weapons, Gulf countries mostly get from the U.S., so they're really pretty shallow.

I think the Gulf states are looking towards Russia as a hedge, or to have some kind of influence in other countries where Russia, like in Iran or Syria, where Russia's played a big role, but I think those are very shallow relationships, actually.

DR. MADAN: On India, Commissioner, India does not formally ally with countries, and absent a major emergency, security emergency, that is unlikely to happen the future. What India does do, and it has done in the past, is align with countries, like-minded countries as it would put it, to balance against China to deter Beijing.

And you've seen that over the last few years. It is one of the major reasons why you've seen India's relations with the U.S. in particular deepen on the defense, security and intelligence side over the last two decades, to the point that there is now a real-time intelligence sharing between the two countries, including during the course of this crisis.

And what you've seen where it's not just with the U.S., with Australia, with Japan, Delhi's links have been increasingly institutionalized between these countries, signing logistic, military logistics, support agreements with each of these countries. It's negotiating one with Japan, it has one with Australia and the U.S.

It has two plus two defense and diplomacy dialogues with only three countries in the world. That happens to be Australia, Japan and the U.S. It is also, especially with countries like Australia, deepening relations in a way that it did not do in the past.

And so along with these kind of quad countries, whether it's in a trilateral domain, a quadrilateral domain, also countries like France, Indonesia, you're seeing an institutionalization of these links that earlier were perhaps more talk shops. This is particularly happening in the defense-security domain, and I think you'll see more of this and also see this spread to things like technology cooperation and cyber dialogues in a way that you didn't see in the past.

So, I think it won't be an alliance, but you're increasingly seeing these institutionalized links that will be part of these different coalitions.

CHAIRMAN CLEVELAND: Thank you. Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Dr. Madan, I appreciate very much what you had to say today, and I wanted to ask you to clarify something for me. I attended, almost a year to the day ago, an event in Houston, where I live, that they called Howdy Modi. It was really a big love fest between the present administration and the Prime Minister of India.

I was there, and then the other 49,999 people were Indian-Americans, and it was a fascinating thing for me because number one, the President of the United States actually introduced the Prime Minister of India, so he played for an opening act. And they both had a lot of very, very nice things together.

The Prime Minister of India appeared to me to be doing what I would call Chamber of Commerce kind of promotion for the country, explaining why we should, as American business folks, be spending our money in India, particularly in the technology area.

Until this Commission, I really had no sense that there was any real concern about the loyalty of the two countries toward each other. I didn't realize that there was any chance for any leverage, even if China is not intentionally doing it, as Dr. Fulton said. From reading what you wrote, I guess there is the reality that every country is looking out for itself.

So my questions for you is, given that American-Indian immigrants in America are now the second-biggest immigration group, and half of them that live here and are citizens were born in India, do we really have anything to be concerned about, in a practical matter, that India and America would not be in lockstep economically?

DR. MADAN: Thank you, Commissioner. I think that economic concerns have tended to be on the trade front. In fact, the economic area is one area of the relationship that has perhaps had the most friction in recent years, but not friction of the kind that has spilled over into anything like a trade war.

There have been concerns here about market access, Indian tariffs, there have been concerns about, for instance, e-commerce and data localization rules. India, on its part, has been concerned about U.S. tariffs, has been concerned about losing some trade benefits, and, because of things like immigration as in U.S. immigration policy as a trade and all kind of economic issues, has had some concerns on that front and still and spill-over into the relationship, particularly high-skilled immigrant visas.

So the concerns that have been economic do exist,. It is partly a result of the two countries engaging even more. One of the questions is, moving forward, though, because of their shared concerns about China, including in the space of overdependence on Chinese imports, has been the issue of, for example, can, as U.S. companies perhaps look at a China Plus One strategy, trying to attract that investment as companies diversify. India's been trying to attract that investment into India.

The question is, can it create the business climate, can it institute the reforms that would actually make it even more attractive to American companies to go there as opposed to Vietnam or Bangladesh, even?

And so I think this economic issue, these are not deal breakers. But they are important issues. There's been a phase one trade deal that is being negotiated. We won't know if it'll get done before the elections.

But I think this is an area of cooperation on the economic side, but it has also been, quite frankly, one of the key areas of friction in the U.S.-India relationship.

COMMISSIONER BOROCHOFF: Very good answer. Thank you.

CHAIRMAN CLEVELAND: Commissioner Fiedler?

COMMISSIONER FIEDLER: I'd like to -- Dr. Fulton, the diminution of China-Iranian trade, is it largely because of U.S. sanctions and the implications of sanctions?

DR. FULTON: Yeah. I mean, you can see that they were building towards, as I say, when they announced this partnership agreement in 2016, they had this very ambitious and unrealistic target. That year, like I said, the bilateral trade was worth something like 38 billion dollars. They said over the next ten years they wanted 600 billion of trade between the two.

They were not on any kind of trajectory to reach that, but the U.S. has always been able to, you know, the threat of sanctions has really put the brakes on it for any kind of expansion of trade, investment, everything they're trying to do has basically come to a stop now.

COMMISSIONER FIEDLER: And the remaining amount is oil that we've given exceptions to?

DR. FULTON: I read today, there's a wonderful report published yesterday by the Wilson Center about the bilateral relationship, but I think they said oil trade is down to almost nothing now. I think they said it was \$200,000 the last cycle. I think what's happened is that almost everything that's been covered in the latest round of sanctions from this spring, has really killed a lot of whatever China's been doing with Iran.

COMMISSIONER FIEDLER: That's pretty dramatic, actually.

DR. FULTON: It is.

COMMISSIONER FIEDLER: The Indian-China border dispute seems to me, or not just me, I guess, to be virtually insoluble. Is there a real solution to this problem?

DR. MADAN: There are solutions. In fact, they have been part of the agreements that have been set up over a two-decade period from about the early '90s, was a mechanism at various levels to actually reach an agreement on the boundary issue.

In some ways it's easier to solve than some other boundary disputes around the world. The issue has been, it comes down to a question of political will. Each side will have to undertake some give and take. They haven't got to that point in the last number of decades.

There are kind of certain things that can be done to at least de-escalate. One of those has been, and there have been calls for this, for the two sides to actually demarcate the line of actual control that separates the two sides in what is called the western sector, which is where this crisis is playing out. It's an undemarcated line of actual control. There was agreement to try to demarcate it between the two sides to avoid accidents or such incidents, such face-offs.

However, after that truce, China did engage in these discussions, but since 2002, has refused to discuss it.

And so that's one easy way to at least de-escalate the situation and perhaps this crisis, if it does kind of de-escalate, one thing that could happen is the two sides recognize this could spill over into conflict, and decide, at the very least, to at least demarcate this line of actual control. But it will not be easy.

COMMISSIONER FIEDLER: You want to speculate about what Chinese motivation was?

DR. MADAN: I think the one that seems the most, it is hard to separate what's happening at the line of actual control with what's happening everywhere else. I think the argument that seems to be in play is that this is kind of stemming from the sense of needing to show resolve, strength, consolidate claims, perhaps a sense of insecurity.

There could be proximate reasons whether that's Indian infrastructure building or whether that's the Chinese desire to do essentially what they've done in the South China Sea, salami slicing, and consolidate or take over some of the territory that both sides claim within that broader context.

But I think there is, it is linked to what is happening elsewhere. This is still very much a live debate, and it is a question, part of what makes this difficult about not knowing motivations, and this has been true for the Indian government as well, is the external affairs minister frankly said we don't know why they're doing this. This is after multiple rounds of talks, and this makes it very hard to resolve, if you actually don't know why it happened in the first place.

COMMISSIONER FIEDLER: Thank you very much.

CHAIRMAN CLEVELAND: Commissioner Kamphausen?

COMMISSIONER KAMPHAUSEN: Thank you. Thanks to the panelists. Dr. Madan, I have a question that builds on what you've just said, and is based on some of the things in your written statement and then also, brings in a feature or a point that Dr. Fulton made a few minutes ago. I'll try to make sense of that. It may be longer than an ideal question, but I'm leading in a certain direction.

You noted and just quoted the external affairs minister, noting that Beijing's motives are the subject of debate. It's unclear as to what China might be hoping to achieve, at least in a bilateral context.

You also note there are fairly predictable consequences in terms of a downturn of bilateral relations as a result of the brawls, lethal brawls, that took place on the line of actual control in June.

I'm wondering, especially in light of the point that Dr. Fulton made, that Beijing's objectives in the Persian Gulf may well be about more than simply bilateral relations that it's hoping to develop, and in fact may be an effort to distract or, I should say, to ensure that the U.S. is more firmly committed in the region then, or to ensure that it doesn't think about reallocating assets to the Indo-Pacific region.

Is there a sense of all, this is the question, is there a sense at all in Delhi among elites and foreign policy thinkers, that Chinese goals may be about more than simply the India-China bilateral relationship?

That in fact, given the real unlikely possibility that this conflict could escalate to something much more than what it has been, that China might have goals elsewhere, that it might be seeking, for instance, to make a statement about Indian participation in the quad.

And if you pair that with similar kinds of Chinese pressure on Japan and Australia, one gets a sense that maybe the issues are about much more than simply the bilateral relationship. That's the supposition on my part. My question is, any sense in India that this might be a possible motivation for Chinese behavior?

DR. MADAN: There has been, Commissioner, some discussion about whether Chinese moves have been directed to both kind of putting India in its place in a regional sense, as in that this is not a real competitor in the region, it cannot be a major call in Asia, but also this idea that it's been the especially taken to dissuade India from some of the steps that it's been taking towards deepening ties with the U.S.

Having said that, there is also a counter-argument to that in India, which is that while they've watched across the board, they have noticed China also push countries like the Philippines, that seem to be restricting, at one point, its relations with ties, also pushing Japan, where Prime Minister Abe was trying to increase outreach with Beijing, and so for some people

the lesson is, well, even if you are friendly towards Beijing and you limit your ties with the U.S., they're going to do this anyway.

And so I think that's been one kind of sense. The other thing, which is, and it's not clear whether it is something that Beijing discounts or it doesn't understand is, every time it takes one of these steps, yes, there is an argument among some in India that Beijing is doing this because we're deepening ties with the U.S., but every time it actually happens you see India deepening ties with the U.S., and I'll just give you one brief example. So it's entirely counter-productive.

One brief example, the Doklam crisis, the standoff that took place in 2017 involving Bhutan, China, and India. After that crisis, even as China and India moved to stabilize relations, including through two summits, over the last few years you saw India revive the quadrilateral, deepen, sign number of foundational agreements with the U.S. that have allowed greater military interoperability and real-time intelligence sharing.

It has bought more military equipment from the U.S., and it also deepened ties in these two or three years with Japan and Australia as well, including through military exercises that it's revived with Japan, and a new tri-service exercise with the U.S.

So while that might be something that Beijing is trying to do, and it is an argument that is discussed in India, its effect over and over again, seems to be exactly the opposite.

COMMISSIONER KAMPHAUSEN: I agree, and I was not trying to rationalize China's behavior as being, leading to successful outcomes. In fact, there are these highly counterproductive elements that you note.

It also suggests, at least to my mind, that there is no likely near-term solution to the Line of Actual Control disputes. That is, in fact, an effective tool for Beijing to maintain within its foreign policy arsenal. It takes two to resolve the border, it takes two to demarcate. I think the likelihood of China engaging in that behavior in any sort of serious manner is very, very low. Thank you.

CHAIRMAN CLEVELAND: Thank you. Commissioner Lewis?

COMMISSIONER LEWIS: Thank you. Dr. Madan, is it possible that the whole impetus of what took place with India was to garner more support for the Chinese leader? Obviously, that didn't occur, the skirmish didn't occur without his approval. It's not as though it was accidental. I think the consensus is it was not accidental.

By having India be involved with a skirmish and maybe even have some Chinese people be injured or die, would that bring more support for the Chinese leadership. Is that one of the motivations?

And Dr. Fulton, I'd like to ask you, given the hostility between Iran and Saudi Arabia, and Iran and Israel, what was China hoping to get out of anything from a relationship with Iran, and the risks that other relationships might deteriorate as a result of that? Dr. Madan, would you please go first?

DR. MADAN: Commissioner, it is something that has been speculated about. I think one of the people who has written about this quite well is Dr. Taylor Fraval, who has talked about it at MIT, who has made the distinction between and pointed out that there hasn't actually been much public coverage of this boundary situation in China. Most of the rhetoric that we've heard has tended to be from outward-facing outlets.

The Chinese language outlets, and this is something India's China hands are also noted, especially compared to the 2017 boundary incident, there has not been much coverage until very recently, and so that it's unlikely to generate public support but perhaps it is to kind of take on critics amongst people within the leadership who might be critical of Xi Jinping for his, or at

least to curtail that criticism, for his approach towards, especially the outbreak of COVID, and also to kind of take on criticisms, international criticism as well, of weakness.

So more to do with more elite, perhaps, criticism, and countering that rather than public criticism because it hasn't really played amongst public outlets within China.

DR. FULTON: In terms of what China would hope to get, if anything, by engaging with Iran, knowing how it could potentially alienate countries like Saudi or Israel, I don't think Israel is really too much of a consideration, because Beijing knows that Israel is so firmly in America's camp that there's no prying that loose.

But in terms of the Saudis, I think what they're looking at is, there's a deep fear of abandonment among a lot of Arab partners in the Middle East, American partners in the Middle East. Israel, again, feels very, very secure in its relationship with the U.S., but countries like the Saudis or the Emiratis, it's a feature of an asymmetrical relationship.

You're always worried, as the weaker side, of being dumped, and this is something that is pretty consistently articulated by the American voters, or the American political elites. Nobody is going to win an election by saying, let's commit more troops to the Middle East and let's dig this hole a little deeper.

So I think what China might be looking at is what a lot of countries here are looking at, is the possibility, which I think is far-fetched, to be clear, but it is a very dominant idea that the regional security environment is not very stable, and it's probably not that durable.

The idea that Iran, by far the biggest country in the Gulf, is completely isolated from the regional political and security environment, doesn't make a lot of sense, and I think China might be looking to the future and thinking, there could be a point in the not-too-distant future, when Iran could have a role in shaping events in a less negative way in the Gulf, why not engage with them and try to have some kind of positive influence in the event that this comes.

Because, again, it doesn't cost much, and it doesn't, if the Saudis or the Emiratis don't like it, really, what kind of leverage do they have against a country of 1.4 billion people in a 13 trillion dollar economy? It's not like the Saudis or the Emiratis or all the Arab countries together could say, China, dump Iran or else. All they can do is offer positive inducements or incentives, which they're very good at.

But I think what China thinks as well, we could engage with Iran and it doesn't cost much. It doesn't really hurt our relationships with anybody. We're always willing to disengage if it's good for us, so it really seems like the low-cost approach to building a more balanced approach to the region.

COMMISSIONER LEWIS: Thank you very much to both of you.

CHAIRMAN CLEVELAND: Senator Talent.

COMMISSIONER TALENT: Do we have a chairman?

CHAIRMAN CLEVELAND: Yes. Senator Talent, you're next.

COMMISSIONER TALENT: Thank you, Robin, Commissioner Cleveland. Really brilliant testimonies from both of you. Thank you so much. Dr. Fulton, I couldn't agree more with everything that you've said. There was one factor I don't think you mentioned in either your oral testimony or your written testimony. I'd like you to comment on it.

Beijing needs the support of Islamic nations when issues arise regarding Xinjiang province and how they're treating the Uyghurs. How does that play into this, if at all? That's one for you.

And Dr. Madan, I'm going to ask you a question, really and sort of what I've been thinking about today with the other panels. I'd love to hear your opinion of it. Everybody's been

wondering why the Chinese would risk these costs to their reputation in this last year of aggressiveness, in which the border dispute with India was obviously one of the biggest, and I'm wondering if we're not looking at it the wrong way.

In other words, maybe they're just trying to send the message, look, we're powerful, we have prerogatives, particularly in East and Southern Asia. We don't care whether you like them. We don't care whether international law approves of them, and if you don't go along, the consequences can be severe, and we want you to know we're prepared to be brutal.

In other words, everybody's thinking that they've been suffering reputation costs, but maybe this is exactly the reputation they're trying to promote, both for now and for the future. Sometimes I think it's hard for us to get in the minds of extreme authoritarians like this, who on top of it are highly nationalistic. So if you would comment on that, I would appreciate it.

Dr. Fulton, you want to go first, since I asked you first?

DR. FULTON: Sure. I was waiting for the Xinjiang question. We can't let that one pass.

It is an important facet of what's happening, and I think it's a very complicated issue because there seems to be quite a lot of concern. Why are countries like Saudi, for example, which considers itself the leader of the Islamic Ummah, why is it not doing more about the situation in Xinjiang?

I think what's important are a couple of factors. One is, if you look at what most Gulf Arab leaders consider the biggest threat to their stability, their political stability, it's not Iran, it's political Islam. These groups, the Muslim Brotherhood the biggest among them, have a very different idea of what leadership or a political society should look like in Arab or Muslim societies. This is a threat, especially in monarchies.

This is important, because in China, what the CCP says is this thing we're doing in Xinjiang, and I'm not excusing it, but their rationale is, this is our approach to political Islam, to extremist religious ideology that's threatening the state's stability.

That's an attractive message, frankly, for a lot of Arab leaders, to think, hey, you guys actually have a possible answer to this. It's a very unattractive answer to a Western liberal like me, but it seems to gain some traction.

Another issue, and this is maybe a stretch, Uyghurs are ethnically Turkic people. Turkey is in competition with the Saudis, with the Emiratis, with the Egyptians, for leadership of the Sunni states of the Middle East.

So, this is kind of egg on the face of Turkey, is not really the worst thing for Gulf states, to think, hey, if you guys aren't supporting Turkic Muslims in Xinjiang, it's bad on you. It's not something that resonates very deeply here, and a big part of that is because most of the media in the Middle East is state-owned, and the states that look to China as a very important economic partner have no interest in alienating it on an issue that doesn't really resonate with the public here.

COMMISSIONER TALENT: Thank you.

DR. MADAN: I think, Commissioner, as Commissioner Kamphausen mentioned earlier, it suits Beijing to keep India unsettled, to keep that message, that signal out there that if you go all out and support the U.S., we have ways of making trouble. Of course India can do the same in the maritime space, and there is this tit-for-tat leverage and signaling that's possible.

But I think there's also, at least it seems from what we know, that it doesn't seem that Beijing anticipated that India would take the step, especially in the policy measure it's taken, to not decouple but really kind of reduce its exposure to China across the spectrum.

I don't think Beijing anticipated, for example, that making these tactical gains, I think it probably expected that it would acquire some territory, send a signal, and they could go back to normal. And that's what it's been asking for since it undertook those initial moves, let's get back to normal, let's restore status quo ante in the relationship.

So I don't think there was a sense that this would really lead to, one, pushback at the boundary itself, but also this broader slew of measures that has really, I think, set this up to be a turning point in the China-India relationship, and they do seem to be a little surprised by that, and a number of these steps are unlikely to be reversed, even if they do get back to kind of a more normal, or de-escalated, situation in the relationship.

COMMISSIONER TALENT: So they may have been trying to send a message, as I suggested, but they underestimated what the reaction would be in Delhi. Thank you.

CHAIRMAN CLEVELAND: I will ask the last question. Dr. Fulton, I'm curious about your first comments about the Chinese establishing industrial parks and ports in a deal in 2018, and we have written and researched Chinese ambitions when it comes to establishing ports in Djibouti and then, sorry, military base in Djibouti and then access to logistics and supply points throughout Africa.

I'm wondering how you might see these industrial ports or parks being integrated into a broader strategy that may be civilian and commercial in nature now, but could fit into a longer-term security strategy.

DR. FULTON: I was hoping someone would ask me about this, because I love to talk about it. It's got the worst name, Industrial Park-Port Interconnectivity Two-Wheel, Two-Wing Approach. The CCP is really bad at naming stuff.

But being here in Abu Dhabi, we kept seeing these projects that were being announced, and they were big numbers. This fishing village in Oman, Duqm, which is under-populated, there's not much there, then suddenly in 2017 China says, yeah, we're going to drop 11.5 billion dollars and build pipelines and refineries and hospitals and schools and apartment complexes, and all this stuff. It seemed very unusual.

Then, as I mentioned, in 2018, there's this China-Arab States Cooperation Forum, which is interesting in its own right, showing that China is actually institutionalizing its approach to the region.

At this forum, they announced this project. And what we could see is that what looked like a set of loosely connected projects actually is part of a strategy. So in Abu Dhabi, just down the road from where I am right now, there's a park, industrial park and a port called Khalifa Port. There's this one in Oman, there's Jizan, which is an industrial park in Saudi just north of Yemen. There's the Djibouti base, which you mentioned, and there's a park in Sokhna and Port Said in Egypt.

They always emphasize, these are commercial endeavors. What you can see, it links up, as you mentioned, to a lot of other commercial endeavors like Piraeus in Greece, or other things in the Mediterranean, these things that they're announcing in Italy, or projects in Africa.

Despite all these protestations that these are purely commercial, and I'm not an expert, but it doesn't seem too far a stretch that a big port could somehow be made into a dual-purpose facility.

As it stands now, we've got this actual base, it's a supply base, but the base in Djibouti, bracketing one side of the Gulf. On the other side of the Gulf, see whatever Gwadar is meant to be at the end in Pakistan.



This looks like, I don't like the phrase string of pearls, because it's obviously not a Chinese idea, but this is connecting a bunch of ports that surround a very strategically important part of the world where the U.S. has a substantial military presence. China says, we're not building bases, we're just building commercial entities.

But it seems to me that in the long term, this might be something to consider: that a port in Gwadar or a port, an industrial park in Saudi, could have some kind of strategic use. And given how it connects, from the Gulf to, bypassing the Strait of Hormuz in Oman, and getting up the Red Sea and into the Mediterranean, this seems to be the physical architecture of China's presence in this region for the foreseeable future.

CHAIRMAN CLEVELAND: Very helpful. I have a question for Dr. Wortzel for the record, but given the time, I think that we'll submit it for the record rather than take the time now.

I thank the panelists for superb testimony and responses to our questions, many of them. I also want to thank the staff, Howard, Charles, Ben, Nargiza, and Dan, for really terrific support for this hearing. It was exhausting in the middle of writing the annual report. I think this concludes, unless, Carolyn, you have anything else you want to add.

VICE CHAIRMAN BARTHOLOMEW: No, just a thank you to everybody for participating.

CHAIRMAN CLEVELAND: This is our last hearing of the 2020 report season. We will be moving forward with releasing the report in December.

So thank everybody for participating, particularly Dr. Fulton, given the time difference. The hearing is adjourned.

**STATEMENT FOR THE RECORD**

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**STATEMENT OF JOHN CALABRESE, ASSISTANT PROFESSOR AT AMERICAN  
UNIVERSITY AND SCHOLAR IN RESIDENCE AND DIRECTOR OF THE MIDDLE-  
EAST ASIA PROJECT AT THE MIDDLE EAST INSTITUTE**

## **Sino-Iran Relations and Chinese Engagement in the Middle East**

### **The Middle East is China’s Extended Periphery.**

The Western Pacific and China’s immediate neighbors remain its highest priorities. However, Beijing has come to regard the Middle East as part of its extended periphery. Over the past decade, China has emerged as an increasingly significant player in the Middle East, with a growing economic, political, and — to a lesser extent — security footprint in the region.

Access to energy resources is China’s foremost interest in the region, which is the source of nearly half the country’s oil supplies. China’s second key interest in the Middle East derives from the desire to place the country at the center of global trade networks, as reflected in the Belt and Road Initiative (BRI).<sup>1</sup> A third Chinese interest is expanding its presence and influence in the region to counter perceived U.S. efforts aimed at “encirclement.” A fourth interest is ensuring domestic security by quashing public criticism of its policies and by inoculating Chinese territory from religiously-inspired violent extremism. China’s fifth interest is being accorded a level of respect and deference commensurate with China’s status as a major world power.<sup>2</sup>

### **China’s Presence in the Middle East Has Expanded.**

In recent years, China has emerged as the biggest trade partner and external investor for many countries in the region. China has concluded partnership agreements with 15 Middle Eastern countries; participated in counter-piracy and maritime security missions in the Arabian Sea and the Gulf of Aden; twice conducted large-scale rescue operations for its nationals (from Libya in 2011 and Yemen in 2015); increased its diplomatic profile and activities in the region; embarked on counter-terrorism cooperation; and inserted itself as a niche player into the Middle East arms market.

Evidence of the changing focus of the People’s Liberation Army Navy (PLAN) — from “offshore waters defense” to “open seas protection”<sup>3</sup> — and nascent ability to operate in distant

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<sup>1</sup> See Ministry of Foreign Affairs of the People’s Republic of China, “China’s Arab Policy Paper,” January 13, 2016, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1331683.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1331683.shtml); and The National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People’s Republic of China (with State Council authorization), “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,” March 28, 2015, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1249618.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml).

<sup>2</sup> See for example, Andrew Scobell, “Why the Middle East Matters to China,” in Anoushiravan Ehteshami and Nov Horesh (eds.), *China’s Presence in the Middle East: The Implications of the One Belt, One Road Initiative* (London: Routledge, 2018), pp. 9-23.

<sup>3</sup> China’s State Council Information Office, “China’s Military Strategy,” May 2015, <http://eng.mod.gov.cn/Database/WhitePapers/2014.htm>. See also Caitlin Campbell, “Highlights

maritime environments<sup>4</sup> can be seen in naval vessel visits to Gulf Arab ports<sup>5</sup> and joint exercises with Iran, Saudi Arabia, and Turkey.<sup>6</sup> To date, Beijing's preference has been for a "soft," as opposed to a "hard" military presence in the region, the former being mission-oriented and characterized by temporary.<sup>7</sup> From December 27-29, as U.S.-Iran tensions escalated and reached a crisis point, China, Iran, and Russia held their first joint naval drills in the Indian Ocean and the Sea of Oman.<sup>8</sup> Iran touted the exercises as evidence that it had foiled U.S. efforts aimed at its isolation.<sup>9</sup> In contrast, Chinese naval officials framed the drills as routine anti-piracy operations — an indication of Beijing's determination not to be drawn into Middle East conflicts.<sup>10</sup> Nevertheless, viewed in conjunction with Beijing's endorsement of Moscow's Gulf security proposal, these activities could presage further Sino-Russian coordination to promote and develop their own collective security concept and arrangements.<sup>11</sup>

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from China's New Defense White Paper: 'China's Military Strategy,'" *U.S.-China Economic and Review Commission Issue Brief*, June 5, 2015, [https://www.uscc.gov/sites/default/files/Research/Issue%20Brief\\_Highlights%20from%20China%20New%20Defense%20White%20Paper\\_Campbell\\_6.1.15.pdf](https://www.uscc.gov/sites/default/files/Research/Issue%20Brief_Highlights%20from%20China%20New%20Defense%20White%20Paper_Campbell_6.1.15.pdf).

<sup>4</sup> U.S. Department of Defense, Office of the Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2017*, Annual Report to Congress, [https://www.defense.gov/Portals/1/Documents/pubs/2017\\_China\\_Military\\_Power\\_Report.PDF](https://www.defense.gov/Portals/1/Documents/pubs/2017_China_Military_Power_Report.PDF).

<sup>5</sup> "Chinese navy ends Persian Gulf visits to Kuwait, Saudi Arabia, Qatar and United Arab Emirates," *Associated Press*, February 6, 2017, <http://www.scmp.com/news/china/diplomacydefence/article/2068445/chinese-navy-ends-persian-gulf-visits-kuwait-saudi>.

<sup>6</sup> "Iranian and Chinese destroyers hold joint drill in Persian Gulf," *Jerusalem Post*, June 8, 2017.

<sup>7</sup> Degang Sun, "China's Soft Military Presence in the Middle East," Middle East Institute, March 11, 2015, <http://www.mei.edu/content/map/china%E2%80%99s-soft-military-presencemiddle-east>.

<sup>8</sup> "Russia, China, Iran start joint naval drills in Indian Ocean," *Reuters*, December 27, 2019, <https://www.reuters.com/article/us-iran-military-russia-china/russia-china-iran-start-joint-naval-drills-in-indian-ocean-idUSKBN1YV0IB>.

<sup>9</sup> See for example: "US, Allies Failed to Sabotage Iran-Russia-China Naval Exercise, Commander Says," *Tasnim News Agency*, January 2, 2020, <https://www.tasnimnews.com/en/news/2020/01/02/2172678/us-allies-failed-to-sabotage-iran-russia-china-naval-exercise-commander-says>.

<sup>10</sup> "China, Russia, Iran to hold joint naval exercise," *Xinhua*, December 26, 2019, [http://www.xinhuanet.com/english/2019-12/26/c\\_138659848.htm](http://www.xinhuanet.com/english/2019-12/26/c_138659848.htm); Minnie Chan, "China's role in joint drill with Iran and Russia limited to anti-piracy forces, say analysts," *South China Morning Post*, September 23, 2019, <https://www.scmp.com/news/china/diplomacy/article/3030032/china-expected-send-anti-piracy-fleet-not-navy-joint-drill>

<sup>11</sup> "Putin's Gulf security plan depends on Trump," *Al-Monitor*, August 16, 2019.

### **China Has Striven to Be Everyone's Partner.**

China's long-standing approach to the Middle East has been to develop extensive and profitable economic ties, while avoiding becoming ensnared in regional rivalries and conflicts. This strategy is encapsulated in the "three no's principle" — no proxies, no spheres of influence, and no attempt to fill any power vacuum — put forward by Chairman Xi Jinping in his January 21, 2016 speech at the Arab League Headquarters in Cairo.<sup>12</sup> In short, China is determined to be and to remain everyone's partner.

### **China Has Deftly Balanced Competing Interests.**

China has successfully diversified its relationships both within the Gulf and across the wider Middle East and North Africa (MENA) region. However, the unremitting turmoil that has plagued the region since the Arab Spring uprisings in 2011 has unquestionably made Beijing's task of balancing competing interests ever more complex. During that time, China's relationship with the United States has grown more contentious, intra-GCC political relations have grown more brittle, and the Saudi-Iran rivalry has become more toxic.

For the most part, China has managed to steer clear of the rift between the Qatar and the Saudi-led Quartet; the intensifying strategic rivalry between Saudi Arabia and Iran; and the proxy conflicts in Syria, Libya and Yemen. China's success in balancing its relationships with Middle Eastern partners in this challenging environment is attributable to several factors: 1) scrupulous adherence to the Five Principles of Peaceful Coexistence, notably the principle of non-interference; 2) a strong preference for U.N. Security Council-based multilateral diplomacy; 3) diplomatic cooperation and coordination with and/or a willingness to let Moscow take the lead and assume risks incurred by doing so.

Specifically with respect to the Saudi-Iran rivalry, Beijing has been careful to avoid giving the appearance of favoritism, as when it upgraded relations with both countries to "comprehensive strategic partnerships" during Chairman Xi's January 2016 visit to the region.<sup>13</sup> A further indication that Beijing remains keen to balance its interests in the region can be found in the three outcome documents of the Ninth Ministerial Conference of China-Arab States Cooperation Forum (CASCF), held by video conference on July 6, less than a week before *The New York Times* reported on a leaked draft of a China-Iran strategic pact (discussed below).<sup>14</sup>

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<sup>12</sup> "President Xi's Speech at Arab League Headquarters: Full Text," *China Daily*, January 22, 2016, [https://www.chinadaily.com.cn/world/2016xivisitmiddleeast/2016-01/22/content\\_23191229.htm](https://www.chinadaily.com.cn/world/2016xivisitmiddleeast/2016-01/22/content_23191229.htm).

<sup>13</sup> "KSA, China agree on strategic partnership," *Arab News*, January 21, 2016, <https://www.arabnews.com/saudi-arabia/news/868276>.

<sup>14</sup> Foreign Ministry of the People's Republic of China, "China-Arab States Cooperation Forum Holds Ninth Ministerial Conference," July 6, 2020, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1795754.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1795754.shtml); and Huaxia, "China, Arab

The fact that Beijing has defined its relations with the region primarily in material terms is an approach that is widely understood, appreciated, and reciprocated by its Middle Eastern counterparts. This affinity goes well beyond authoritarian patterns of government. China's success in balancing competing interests should also be viewed as an outgrowth of regional leaders' attraction to the "Chinese model" of development and recognition of the potentially valuable contribution of China's economic power to their own modernization efforts.

The state-centric approaches of the Arab Gulf states to diversify their economies — a challenge that has grown more acute with the plunge in oil prices — has led to more extensive, synergistic ties between state-owned firms. Intra-GCC rivalry has not stymied Chinese efforts to pursue its economic interests. On the contrary, China has capitalized on national competition between the Gulf states to develop regional logistics hubs through its financing of port projects and industrial zones. Thus, a symbiotic relationship between China and the GCC countries is in the process of developing, with China providing port development, large-scale construction, and state-backed finance instruments and countries on both sides of the Gulf maneuvering to make inroads into China as a site of production and consumption for their energy products.

Regarding Syria, Beijing has followed a "middle path," neither disengaging from nor condemning the Assad regime. China has repeatedly called for a political settlement,<sup>15</sup> appointed a Special Envoy (in 2016),<sup>16</sup> and held an international symposium on the Syrian issue (in 2018).<sup>17</sup> China has drawn some criticism for the eight U.N. Security Council vetoes it has cast (following Russia's lead) on the Syrian issue. However, Beijing has worked to cement economic ties through the BRI, infrastructure investment and trade. As a result, Middle Eastern states no longer admonish China, as they initially had; nor have they publicly criticized Beijing for its repression of the Uighurs and other Chinese Muslim communities.

In addressing the terrorist threat emanating from the region, Beijing declined to take part in coalition fighting even after China was cited by ISIS as a target. In tackling the limited terrorism threat and "foreign fighters problem" it faces, China has focused on developing law

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countries adopt declaration, action plan to deepen cooperation," *Xinhuanet*, July 7, 2020, [http://www.xinhuanet.com/english/2020-07/07/c\\_139195393.htm](http://www.xinhuanet.com/english/2020-07/07/c_139195393.htm).

<sup>15</sup> For a recent example, see: "Chinese envoy calls for political settlement of Syria crisis," *Xinhua*, May 19, 2019, [http://www.xinhuanet.com/english/2020-05/19/c\\_139067611.htm](http://www.xinhuanet.com/english/2020-05/19/c_139067611.htm).

<sup>16</sup> Ministry of Foreign Affairs of the People's Republic of China, "Special Envoy of the Chinese Government on Syrian Issue Xie Xiaoyan Gives Joint Interview to Chinese and Foreign Media," April 8, 2016, [https://www.fmprc.gov.cn/mfa\\_eng/wjbxw/t1354847.shtml](https://www.fmprc.gov.cn/mfa_eng/wjbxw/t1354847.shtml).

<sup>17</sup> Ministry of Foreign Affairs of the People's Republic of China, "Special Envoy of the Chinese Government on the Syrian Issue Xie Xiaoyan Attends International Symposium on the Syrian Issue," May 14, 2018, [https://www.fmprc.gov.cn/mfa\\_eng/wjbxw/t1559820.shtml](https://www.fmprc.gov.cn/mfa_eng/wjbxw/t1559820.shtml).

enforcement cooperation and has relied on massive domestic crackdowns.<sup>18</sup> The latter have consisted of an increasingly sophisticated surveillance network coupled with a heavy police and security presence. In March 2019, the Council of Foreign Ministers of the Organization of Islamic Cooperation (OIC), headquartered in Saudi Arabia, adopted a resolution on safeguarding the rights of Muslim communities that included a *positive* reference to China.<sup>19</sup> Meanwhile, demand for China's surveillance technology has grown. The United Arab Emirates (UAE), Saudi Arabia, and Iran are among over five dozen countries using Chinese-manufactured AI monitoring systems or blending Chinese-made components with technology procured from other sources<sup>20</sup> — though it is important to note that companies based in liberal democracies such as France, Germany, Israel and Japan are also proliferating this technology.<sup>21</sup>

### **Iran Has Attributes And Potential That Appeal To China.**

Iran is an important regional partner for China. Ranked second in the world in natural gas reserves and fourth in proven oil reserves,<sup>22</sup> Iran has enormous undeveloped hydrocarbons resources with a low cost base. The Iran's population exceeding 80 million constitutes a potentially lucrative market for Chinese commodities, and an especially attractive destination for goods produced by small- and medium-sized Chinese businesses. The launch of the Belt and Road Initiative (BRI) in 2013 boosted Iran's potential value to China as a key nodal point in an evolving regional transport network. As a Caspian Sea littoral state whose southern flank lies at

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<sup>18</sup> Mathieu Duchatel, "China's Foreign Fighters Problem," *War on the Rocks*, January 25, 2019, <https://warontherocks.com/2019/01/chinas-foreign-fighters-problem/>; and Daniel Byman and Israa Saber, "Is China Prepared for Global Terrorism?" Brookings Institution (September 2019), [https://www.brookings.edu/wp-content/uploads/2019/09/FP\\_20190930\\_china\\_counterterrorism\\_byman\\_saber-1.pdf](https://www.brookings.edu/wp-content/uploads/2019/09/FP_20190930_china_counterterrorism_byman_saber-1.pdf).

<sup>19</sup> Organisation of Islamic Cooperation [OIC], Council of Foreign Ministers Resolution No. 1/46-MM, "On Safeguarding the Rights of Muslim Communities and Minorities in Non-OIC Member States," in Resolutions on Muslim Communities and Muslim Minorities in the Non-OIC Member States, March 1-2, 2019, <https://www.oic-oci.org/docdown/?docID=4447&refID=1250>.

<sup>20</sup> Paul Mozur *et al.*, "Made in China, Exported to the World: The Surveillance State," *The New York Times*, April 24, 2019, <https://www.nytimes.com/2019/04/24/technology/ecuador-surveillance-cameras-police-government.html>.

<sup>21</sup> See Steven Feldstein, "The Global Expansion of AI Surveillance," Carnegie Endowment, September 17, 2019, <https://carnegieendowment.org/2019/09/17/global-expansion-of-ai-surveillance-pub-79847>. See also John Calabrese, "Huawei and the 5G Revolution in the Gulf," Middle East Institute, July 30, 2019, <https://www.mei.edu/publications/huawei-wars-and-5g-revolution-gulf>.

<sup>22</sup> *BP Statistical Review of World Energy 2020*, <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf>.

the narrowest point of the Persian Gulf, connecting the Arabian Sea and the Indian Ocean, Iran is poised to become a link in a contiguous China–Europe rail route that bypasses Russia.<sup>23</sup>

### **... But Iran Needs China More Than China Needs Iran.**

The fact that China today enjoys a “privileged” relationship with Iran is more a function of the latter’s geopolitical predicament than the two countries’ mutual affinity or even their economic complementarity. Whereas China has succeeded in establishing itself as Iran’s largest trading partner and export destination, the Sino-Iranian relationship has long been a limited and lopsided partnership.<sup>24</sup>

During the 1990s, China’s growing energy needs, and Iran’s abundant oil and gas resources, formed the basis of a partnership. However, it was not until the early 2000s that Iran, cut off from the West, adopted a “Look East” economic strategy and that Sino-Iranian relations matured. Since then, China has emerged as Iran’s most important economic partner, with Chinese companies having deeply penetrated the underserved Iranian market: injecting capital into its extractive industries, developing its transportation infrastructure, and expanding its refining capacity.

Energy relations continue to loom large in Sino-Iranian relations. China regards investment in the energy sectors of its oil and gas suppliers as a means of reducing its energy security risks. Tehran needs Chinese investment and technology to boost its economy and mitigate the impact of U.S. sanctions. However, there is a greater need and urgency for Iran than for China in moving energy cooperation faster and farther. It is China that currently has bargaining leverage, as Iran holds a weak hand.

Although the Iranian economy is diversified, the petroleum sector remains of critical importance to the country’s wellbeing. In addition, many of Iran’s products derive from the oil sector (e.g., plastic and rubber products). However, Iran has been experiencing steep production declines in mature fields, which require a major infusion of capital and technology to revive. Iran also has had to contend with growing domestic primary energy consumption, energy inefficiencies, a high degree of energy price subsidization, and a complex and constraining policy environment.

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<sup>23</sup> John Calabrese, “China’s “One Belt, One Road” (OBOR) initiative: envisioning Iran’s role,” in Anoushiravan Ehteshami and Nov Horesh (eds.), *China’s Presence in the Middle East: The Implications of the One Belt, One Road Initiative* (London: Routledge, 2018), pp. 174-191.

<sup>24</sup> Information for this section has been drawn from John Calabrese, “Intersections: China and the US in the Middle East,” Middle East Institute, June 18, 2019, <https://www.mei.edu/publications/intersections-china-and-us-middle-east>; and “Is Asia Iran’s Energy Lifeline?” Middle East Institute, May 9, 2018, [https://www.mei.edu/publications/asia-irans-energy-lifeline#\\_ftn34](https://www.mei.edu/publications/asia-irans-energy-lifeline#_ftn34).



Prior to the reinstatement of sanctions under the Trump administration’s “maximum pressure” campaign, China alone had accounted for about a third of Iran’s crude oil exports. At the time, China was also Iran’s largest market for petrochemicals, especially methanol. Iran has looked to China not just as a major market for its oil but also as a key source of much-needed investment in energy.

Meanwhile, though, China has hedged against overreliance on Iranian oil shipments by expanding partnerships with other suppliers within and beyond the Middle East. To be sure, state-owned CITIC Group and the China Development Bank have provided billions of dollars in financing for Chinese-led railways and other projects in Iran. However, Beijing invested less than \$27 billion in Iran from 2005 to 2019; moreover, annual investment has dropped every year since 2016.<sup>25</sup>

### **Sino-Iranian Relations Have Yet to Fulfill Either Side’s Expectations.**

Beijing and Tehran share the view that the international order intends to constrain their actions unfairly. However, they have divergent ideological orientations and approaches to regional and international issues. First, Iran’s repeated threats to close the Strait of Hormuz have sounded alarms in Beijing. Second, the sectarian dimension of Iran’s rivalry with Saudi Arabia is a source of consternation for Chinese leaders, who are concerned about religiously-inspired violent extremism permeating their own borders as well as placing their overseas interests and citizens at risk. Third, Iran’s possible development of nuclear weapons capability is sharply at odds with the PRC’s official non-proliferation stance and overriding interest in regional stability. Finally, Iran’s expansive regional ambitions, which seem to stretch beyond simply advancing Silk Road integration, are incongruent with Chinese aims in the longer term.

Whereas despite these differences China’s engagement with Iran has become more extensive over the past two decades, the relationship has been continually tested and beset by setbacks and disappointments. The two sides have alternated between reaping the rewards of their burgeoning partnership and finding themselves in the crosshairs of U.S. policy. During the period 2010-2016 (i.e., prior to the signing of the JCPOA), China did not ban *all* energy trade with Iran.<sup>26</sup> When Iran was blocked by sanctions from accessing foreign exchange, China settled the trade balance in goods rather than hard currency.<sup>27</sup>

Beijing emerged from the first sanctions period having managed to retain its privileged economic relationship with Iran while avoiding a blow up with Washington by complying with

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<sup>25</sup> See American Enterprise Institute (AEI), China Global Investment Tracker, <https://www.aei.org/china-global-investment-tracker/>.

<sup>26</sup> Cathleen D. Cimino-Isaacs and Kenneth Katzman, “Iran’s Expanding Economic Relations with Asia,” *CRS Report for Congress*, November 29, 2017, <https://fas.org/sgp/crs/mideast/IN10829.pdf>.

<sup>27</sup> John Calabrese, “Is Asia Iran’s Energy Lifeline?” Middle East Institute, May 9, 2018, [https://www.mei.edu/publications/asia-irans-energy-lifeline#\\_ftn34](https://www.mei.edu/publications/asia-irans-energy-lifeline#_ftn34).

17 sanctions as well as by exploiting their deficiencies and loopholes. When the JCPOA took effect, China moved quickly to fortify its position in Iran and to elevate the bilateral relationship to a “comprehensive strategic partnership.”<sup>28</sup>

However, with President Trump’s May 2018 announcement of U.S. withdrawal from the JCPOA, China-Iran relations reverted to a familiar pattern. China continued to buy crude oil from the Islamic Republic even after the Trump administration ended sanctions waivers for all Iranian customers, though Chinese purchases were sharply reduced. Over the past two years, sanctions have taken a toll on China-Iran commercial relations. Key Chinese state-owned enterprises pulled backed from their investments in Iran. China Petroleum & Chemical Corporation (SINOPEC) prolonged its negotiations on developing the Yadavaran oilfield while China National Petroleum Corporation (CNPC) pulled out of the South Pars gas project last year, after initially promising to take over the French company Total’s stake.<sup>29</sup> Washington’s crackdown on Chinese tankers carrying Iranian oil (as well as other entities found to have breached U.S. sanctions) has continued apace. The Bank of Kunlun, headquartered in Beijing, has regularly updated the list of Iranian companies under American sanctions, and has refused to grant them credit.<sup>30</sup> China’s oil imports from Iran plummeted 89% year-on-year in March.<sup>31</sup> In June — officially, at least — China imported zero crude from Iran.<sup>32</sup>

Both before the implementation of the JCPOA since the deal began to unravel, Beijing has offered both diplomatic support and an economic lifeline to Tehran. The fact that China has never acceded to U.S. pressure to “isolate” Iran reflects an overriding concern in Beijing to avert a situation in which either Iran implodes, or in which the current regime is rendered so desperate that it lashes out. China’s approach might also reflect a desire to use its relationship with Iran as a leverage point in its relationship with the United States.

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<sup>28</sup> “China, Iran Lift Ties to Comprehensive Strategic Partnership,” *Xinhua*, January 23, 2016, [http://news.xinhuanet.com/english/2016-01/23/c\\_135038615.htm](http://news.xinhuanet.com/english/2016-01/23/c_135038615.htm); and “China-Iran Agree on Comprehensive Strategic Partnership”, NSNBC International, 24 January 2016. Accessible online at <https://nsnbc.me/2016/01/24/china-iran-agree-on-comprehensive-strategic-partnership/>.

<sup>29</sup> See John Calabrese, “China-Iran Relations: The Not-So-Special ‘Special Relationship,’” *China Brief*, March 16, 2020, <https://jamestown.org/program/china-iran-relations-the-not-so-special-special-relationship/>.

<sup>30</sup> “Concern in Iran Over China Commerce as China Gets Trade Deal,” *Bazaar & Bourse*, January 29, 2020, <https://www.bourseandbazaar.com/articles/2020/1/29/concern-in-iran-over-china-trade-following-us-trade-deal>.

<sup>31</sup> Esfandyar Batmanghelidj, “Iran Can No Longer Rely On Trade With China,” *Bloomberg*, April 28, 2020, <https://www.bloomberg.com/opinion/articles/2020-04-27/iran-can-no-longer-rely-on-trade-with-china?sref=9gvlpwtg>.

<sup>32</sup> “China’s Iran crude imports at zero in June: Customs,” *Argus Media*, July 27, 2020, <https://www.argusmedia.com/en/news/2126674-chinas-iran-crude-imports-at-zero-in-june-customs?backToResults=true>.

Indeed, Sino-Iranian relations have become more than ever tightly intertwined with the U.S.-China bilateral relationship, which has grown increasingly contentious across a wide range of issues. It is perhaps telling that the Phase 1 U.S.-China trade agreement contains a Chinese pledge to buy over \$50 billion more in U.S. oil and related products.<sup>33</sup> The latest sign of the interplay between Sino-Iranian and U.S.-China relations was Beijing's decision to join with Moscow and most other members of the U.N. Security Council in rejecting Washington's bid to extend the arms embargo on Iran due to expire in October and to reimpose U.N. sanctions.<sup>34</sup>

### **The Artfulness and Artifice of "The Deal" — and Its Implications.**

According to a story appearing in *The New York Times* on July 11 and subsequently updated, Beijing and Tehran have quietly drafted an 18-page proposed agreement to dramatically expand China's footprint in various economic sectors, provide China with a heavily discounted supply of oil over 25 years, and deepen military cooperation.<sup>35</sup>

The disclosure of the document might have come as a shock to many, though not to those who have been following Sino-Iranian relations reasonably closely in recent years. When the Joint Comprehensive Plan of Action (JCPOA) was implemented, the China was the least hesitant of Iran's foreign economic suitors to restart trade relations.<sup>36</sup> During his January 2016 visit to Tehran, Chairman Xi sketched out a plan with President Hassan Rouhani, to broaden relations and increase bilateral trade to (a seemingly unattainable) \$600 billion within a decade.<sup>37</sup> In August of last year, following a visit to Beijing by Foreign Minister Mohammad Zarif, the two countries reportedly agreed to update the "comprehensive strategic partnership" to include an unprecedented \$400 billion of investment in the Iranian economy, in return for Chinese firms maintaining first right of refusal to participate in any and all petrochemical projects in Iran<sup>38</sup> —

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<sup>33</sup> Finbarr Bermingham *et al.*, "Trade war: China to make huge purchases of US goods as details of phase one deal revealed," *South China Morning Post*, January 14, 2020, <https://www.scmp.com/economy/china-economy/article/3045937/trade-war-deal-details-phase-one-revealed-china-make-huge>.

<sup>34</sup> Michelle Nichols, "Thirteen of 15-Member U.N. Security Council oppose U.S. push for Iran sanctions," *Reuters*, August 22, 2020, <https://www.reuters.com/article/us-usa-iran-un/thirteen-of-15-member-un-security-council-oppose-us-push-for-iran-sanctions-idUSKBN25H1Q5>.

<sup>35</sup> Farnaz Sassihi and Steven Lee Myers, "Defying U.S., China and Iran Near Trade and Military Partnership," *The New York Times*, July 11, 2020 (updated July 22, 2020), <https://www.nytimes.com/2020/07/11/world/asia/china-iran-trade-military-deal.html>.

<sup>36</sup> "China pumps billions into Iranian economy as Western firms hold off," *Reuters*, reported in *South China Morning Post*, December 1, 2017, <https://www.scmp.com/news/china/diplomacy-defence/article/2122435/china-pumps-billions-iranian-economy-western-firms-hold>.

<sup>37</sup> Chris Zambelis, "China and Iran Expand Relations After Sanctions' End," *China Brief*, March 7, 2016, <https://jamestown.org/program/china-and-iran-expand-relations-after-sanctions-end/>.

<sup>38</sup> Adnan Aamir, "China Focuses on Iran after CPEC Setbacks in Pakistan," *China Brief*, November 1, 2019, <https://jamestown.org/program/china-focuses-on-iran-after-cpec-setbacks-in-pakistan/>.

an investment bonanza that has yet to materialize. That said, it is worth noting that if Iran had other (i.e., Western) suitors, Chinese largesse, even if it were forthcoming, might look less enticing given the cost of excessive dependence on China.

Still, there are fewer knowns than unknowns about this latest effort by Beijing and Tehran to reach agreement on and implement an ‘historic strategic pact.’ For one thing, the authenticity of the leaked Persian-language document has not been officially confirmed, nor has the document been signed. For another, the Iranian side, which likely leaked the document, appeared much more eager than Chinese officials to publicize or discuss it publicly.<sup>39</sup> Furthermore, the final details have yet to be hammered out. Finally, when or if the Iranian *Majlis* will approve the deal remains to be seen, given the concerns some of their members have already raised that it would risk ‘turning Iran into a Chinese colony.’ Indeed, members of the Conservative faction, which currently dominates the parliament, have even sought to amplify the rumors of embarrassing concessions, perhaps anticipating of the clock running out on the Rouhani administration’s term in office and indicating their desire to set the stage for the ascendance of a hard-liner in the next (June 2021) presidential election.<sup>40</sup>

Given these uncertainties, it is difficult to assess the implications of the deal, except by conducting a brief thought exercise that considers the possible geopolitical and military ramifications if an agreement of the scope outlined in the leaked document were to be reached. Perhaps the most far-reaching implications would arise from major Chinese commitments to 1) develop the transportation infrastructure connecting Chabahar Port to inland and maritime markets and 2) develop Bandar-e-Jask Port, which is strategically situated to the east of (outside) the Strait of Hormuz. The former could enable Beijing to shift transit trade from Afghanistan and Central Asia through Pakistani ports, thus depriving India of a lever of influence. The latter could provide China with an additional dual-use port and augment the Chinese naval presence in the Indian Ocean Region (IOR). However, these and other possible outcomes are contingent on Beijing and Tehran not only reaching a final agreement but implementing it — neither of which is a forgone conclusion.

### **Sustaining U.S. Engagement in Gulf Affairs**

America’s traditional allies in the Gulf do not view a security relationship with China as a substitute for their partnership with the United States. (Nor, for that matter, do America’s traditional allies elsewhere in the wider region.) However, the Gulf Arab states, to varying

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<sup>39</sup> “Iran Says It Is Negotiating 25-Year Bilateral Deal With China,” *RFE/RL*, July 6, 2020, <https://www.rferl.org/a/iran-china-sanctions-zarif-/30709081.html>. Compare with: Foreign Ministry of the People’s Republic of China, “Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference on July 13, 2020,” July 13, 2020, [https://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/t1797455.shtml](https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1797455.shtml).

<sup>40</sup> Golnaz Esfandiari, “Explainer: Why Are Iranians Angry Over A Long-Term Deal With China?” *RFE/RL*, July 13, 2020, <https://www.rferl.org/a/explainer-iranian-china-deal-anger-among-iranians/30724344.html>.

degrees and for a variety of reasons, including diverging security outlooks and policy agendas as well as the erosion of their confidence in the U.S. long-term commitment to serve as a security “guarantor” have proceeded along three paths: upgrading their indigenous defense capabilities, adopting more assertive and interventionist postures throughout the region and in the Horn of Africa, and diversifying their security relationships including with China.

When considering the implications of China’s involvement in the Gulf for U.S. interests and policy, it is important to bear in mind the following observations: First, China has been, and remains first and foremost an *economic* actor driven mainly by commercial aims. Second and related, increasingly extensive Sino-Middle Eastern ties are a function of ‘supply *and* demand’, driven as much by regional states’ needs and ambitions as those of China.

Third, although the Belt and Road Initiative (BRI) framework gives the impression of a detailed, finely sculpted overarching strategy, in fact Beijing’s relations with the Gulf and to the wider Middle East have been structured and conducted on a bilateral rather than on a regional basis — with each partner accorded a different level of priority and serving a distinct need or role. A sharper, more discerning examination of the particularities of these relationships could help U.S. policymakers develop more focused, targeted responses to China’s inroads in the region.

Third, it is worth mentioning that China did not instigate the rift between the Saudi-led Quartet and Qatar, spur intra-GCC competition, nor has China fuelled Saudi-Iranian strategic rivalry, militarily intervened or materially supported nonstate actors in the catastrophic proxy conflicts in Syria, Libya, or Yemen. China’s policies in no way contributed to the misgovernance or internecine violence in Iraq, nor to the rise of ISIS. On the contrary, the turmoil originating from within the Middle East has placed the security of China’s energy supplies, economic assets, and overseas nationals at risk. Indeed, given that China’s interests in the region overlap with those of the United States, it is all the more advisable that U.S. policymakers avoid viewing all of China’s activities through a “great power competition” lens.

Rather than for the United States to allow itself to become trapped in zero-sum thinking regarding China’s involvement in the region, it would be more prudent to extricate itself from the trap in which it has already enmeshed itself — toggling between a futile quest to sustain American supremacy indefinitely and an ill-defined retrenchment has sowed uncertainty, diminished American credibility, and incentivized behavior by allies and adversaries alike.

It is not inconceivable, but it would be advisable for the senior leadership of the next Congress, working jointly with the next administration to seek to cobble together a bipartisan coalition for sustained engagement in the Middle East, and specifically in Gulf Affairs. and rebuild a domestic constituency acknowledge ready overly preoccupied with Chinese involvement in the region. A potentially useful departure point for such an endeavor would be to acknowledge and articulate the important U.S. interests still at stake and to commit to rebalancing the tools deployed in promoting and protecting them. Maintaining a modest forward military presence could make a valuable contribution to strategic reassurance and deterrence. So, too, could continuing to support the enhancement of partners’ defense capacity, though not to the extent

of transferring weapons and furnishing logistical support unconditionally, such that doing so provides a license for counter-productive military adventurism. Whether specifically in dealing with Iran or contending with other challenges in the region, American interests would be best served by guarding against the over-militarization of U.S. policy. This can be accomplished not only by investing in and otherwise supporting the use of vigorous and agile diplomacy, with as much energy and determination devoted to preventive as to coercive measures.

## QUESTIONS FOR THE RECORD

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### RESPONSES FROM ANDREW SMALL, SENIOR TRANSATLANTIC FELLOW WITH THE ASIA PROGRAM AT THE GERMAN MARSHALL FUND OF THE UNITED STATES

#### Question for the Record: Hearing on “U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges”

September 23, 2020

*Submitted by Commissioner Kenneth Lewis*

To Andrew Small:

- What do you consider to be the most significant Chinese foreign policy success? What is its most important failure?
- What should the United States do in response to the success you’ve identified?

China’s most significant foreign policy success has been its ability to maintain, over the long-term, the external conditions that propel its rise as a great power. It has sustained relatively free and open access to international markets and to advanced technologies in critical sectors; it has strengthened its capacity to set global rules, norms and standards; and it has prevented the establishment of any counterbalancing coalition that might seek to contain it. Without securing enthusiastic support for its rise, China has at least ensured that there is sufficient acquiescence to it that any setbacks are tactical in nature rather than strategic, and that power dynamics have continued to move in its favor over time. This is a decades-long success story.

The most important failure is the undermining of international consent for this situation to continue, particularly during Xi Jinping’s tenure. First, through failing to renew and refresh the bargain with its major economic partners by persisting with at least enough reform and opening of the Chinese economy to persuade them that the rewards of continuing down the current path are sufficient. Second, by sharpening the ideological, political and security dividing lines, moving from calibrated assertiveness to outright aggression, and using the very instruments that had once been designed to smooth over these divisions – emollient diplomacy and economic ties – instead to exacerbate them, through economic coercion and “wolf warrior” tactics.

To respond, the United States should ensure that the external conditions for China’s rise are more clearly contingent on its economic, political, and security choices. This will require working with a wider array of US partners to ensure that there is a systematic rebalancing of the openness of advanced markets to China, a rebalancing that is sufficiently coordinated to ensure that flows of goods, finance, and technology between those partners are not themselves inhibited in the process as collateral damage of our China policy. It will require building stronger coalitions on different issue sets – security,

trade, technology, and many other areas laid out in more detail in the testimony – both to push back against Chinese practices and to ensure greater resilience and capacity among coalition partners. Nonetheless, it should continue to be clear that China’s own behavior will condition the scope and nature of these efforts – that, for instance, a different set of economic choices by the Chinese government will create the conditions for a more open trade and economic relationship, and that a turn away from the worst authoritarian practices will have an impact on the conditions facing Chinese companies and Chinese officials, from sanctions to export controls. Given the trajectory of the Chinese government under Xi Jinping, most of the measures pursued by the United States and its partners are likely to stick, and most will continue to make sense even if we see some recalibration of the Chinese Communist Party’s approach. But there is still value both intrinsically and for the sake of keeping partners on board, to lay out a clear path where Beijing’s stepping away from the most egregious behavior that it has exhibited in recent years can translate into a smoother – if not as friction-free – path for China’s continued rise, and where Xi’s approach is demonstrably more costly than the alternatives.



**RESPONSES FROM JOEL WUTHNOW, SENIOR RESEARCH FELLOW IN THE  
CENTER FOR THE STUDY OF CHINESE MILITARY AFFAIRS AT NATIONAL  
DEFENSE UNIVERSITY**

Question for the Record: Hearing on “U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges”

September 23, 2020

*Submitted by Vice Chairman Carolyn Bartholomew*

To Joel Wuthnow:

- Why is China taking on so many conflicts or potential conflicts at one time?

Several explanations are needed to fully account for the conflux of Chinese coercive actions against its neighbors between January and August 2020. One set of explanations concerns the dynamics of the individual disputes. In Taiwan, for instance, Beijing likely felt compelled for domestic political and deterrence reasons to respond to what it perceived as negative developments, including Tsai Ing-wen’s decisive re-election, the U.S. passage of the TAIPEI Act, Secretary Azar’s visit, and the visit of a U.S. Undersecretary of State to attend former president Lee Teng-hui’s funeral. Some aspects of the May-June border standoff with India can also arguably be traced to Chinese concerns about Indian road construction in the western sector. Another set of explanations concerns the impact of the COVID pandemic. Chinese saber-rattling in the South China Sea through March or April may have been due in part to an impetus to dissuade rivals such as Vietnam or Malaysia from taking advantage of China’s internal distraction to more actively enforce their territorial claims. It is also possible that Beijing saw a strategic window of opportunity to consolidate its own position in the South and East China Sea as the focus of the pandemic shifted from China to other Asian states. A third explanation concerns weaknesses in China’s interagency process. Historically, bureaucratic coordination has been an assessed weakness for Chinese national security policymaking. Aggressive military and paramilitary actions towards Japan and India undercut diplomatic attempts to entice them, including planned and prospective visits by Xi. This suggests a breakdown in coordination between the military and diplomatic systems and demonstrated the limited value of the Central National Security Commission, which Xi established in 2013 to correct these problems.

- Are the individual conflicts being directed or commanded by Beijing, or are they being directed by officers in the field?

China’s Leninist political culture emphasizes centralized decision-making in military affairs, including military operations in regional disputes that could have negative implications for the party’s legitimacy and core interests if not handled correctly. Xi has responded to what he perceived as a weakening of central leadership under Hu Jintao by increasing his own status in the military and paramilitary forces (including by bringing the People’s Armed Police and the Coast Guard under his authority through the Central Military Commission). Some of the most provocative signals we observe, such as major exercises opposite Taiwan, are likely undertaken

with Xi's cognizance. Nevertheless, we should not overestimate the ability of Xi or his closest associates to micromanage the actions of thousands of individual military and paramilitary units stationed across China's vast frontier. The situations are too numerous and complex, and Xi's personal bandwidth too narrow (after all, CMC chairman is only one of his many hats), to allow for daily management of all of China's disputes. This creates the potential for slippage between Xi's intent and the actions of those at lower levels, even if there is no evidence of PLA units actually "going rogue." For instance, the timing and scope of some of China's programs to expand its military presence in disputed regions might unfold in ways that Xi did not intend or that work at cross-purposes with his other priorities. This was apparently the case in 2017 when China's road construction projects on the Doklam plateau—a program that Xi might have been aware of but probably did not manage on a daily basis—generated a crisis with India that undercut Xi's attempts to build stronger ties with Prime Minister Modi. There is also the problem of individual operators (e.g. ship captains and pilots) using reckless maneuvers or theatrics, creating embarrassing incidents that the center then has to carefully walk back. For this reason, Beijing has often been willing to discuss confidence-building measures with the United States and Japan, among others, that promote more predictable operations among China's own forces.

## RESPONSES FROM ROGER CLIFF, INDEPENDENT ANALYST

### Question for the Record: Hearing on “U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges”

September 23, 2020

*Submitted by Vice Chairman Carolyn Bartholomew*

To Roger Cliff:

- How is the KMT positioning itself, both domestically and with its relations in the Mainland, in light of the end of one country, two systems in Hong Kong?

Response: The KMT has always rejected the One Country, Two Systems proposal, as it would make Taipei a local government subordinate to Beijing and extinguish the ROC’s existence as an independent country. Thus, neither of the two main political parties in Taiwan (the KMT and DPP) have ever accepted the One Country, Two Systems proposal. To that extent, the end of One Country, Two Systems in Hong Kong has had little effect on the *actual* likelihood of Taiwan voluntarily accepting a similar arrangement, as it was always extremely unlikely that Taiwan would do so. What was not clear, however, was whether China’s leadership *recognized* this fact. My argument, therefore, is that what has changed as a result of the imposition of the National Security Law on Hong Kong is that at this point even China’s leadership should now recognize that the One Country, Two Systems proposal has no chance of ever voluntarily accepted by Taiwan. Assuming they do, the question then becomes whether the Chinese public more broadly recognizes that Beijing’s “peaceful unification” strategy, of which the One Country, Two Systems proposal is a key component, has failed and, if so, whether they therefore will put pressure on the Chinese government to take more forceful action toward Taiwan. As of right now, the answer to that question is unclear to me.

Even though the KMT never accepted the One Country, Two Systems proposal, moreover, events in Hong Kong have unquestionably affected the KMT’s policy positions. The KMT’s resounding defeat in this year’s elections, in which the juxtaposition of Beijing’s treatment of Hong Kong with the KMT’s pro-Beijing policies undoubtedly played a significant role, has caused the KMT to reexamine its policy positions, including those regarding “cross-strait relations.”<sup>1</sup> A particular issue has been whether the KMT should continue to adhere to the “1992 Consensus,” under which both the mainland and Taiwan (controlled by the KMT at the time) agreed that both parts belonged to a single Chinese nation, but made no agreement regarding whether that nation was the PRC or ROC, thus allowing each side to express its own view.<sup>2</sup> Since the January electoral defeat, younger KMT leaders have advocated for modifying the KMT’s position on the 1992 Consensus while older leaders have opposed doing so.<sup>3</sup> As of today,

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<sup>1</sup> Russell Hsiao, “Who and What Will Shape the KMT’s “New” China Policy?”, *Global Taiwan Brief*, Vol. 5, No. 8 (April 22, 2020).

<sup>2</sup> This was a tacit understanding, not an explicit agreement.

<sup>3</sup> William Yang, “KMT’s Proposal for Cross-Strait Policy Exposes Generational Differences in Views toward China,” *Global Taiwan Brief*, Vol. 5, No. 13 (July 1, 2020).

no agreement has been reached on this issue, and the KMT's official party platform remains the one issued in 2017, which includes reference to the 1992 Consensus.<sup>4</sup> However, an indication of the KMT's inclination to adopt a more distant posture toward the mainland can be seen in its decision not to send an official delegation to an annual forum on cross-Straits affairs hosted by the PRC in the southeastern city of Xiamen this year.<sup>5</sup>

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<sup>4</sup> 《中國國民黨政策綱領》(*KMT Policy Platform*), Kuomintang Office Website, August 20, 2017 ([http://www.kmt.org.tw/p/blog-page\\_3.html](http://www.kmt.org.tw/p/blog-page_3.html)).

<sup>5</sup> Sherry Hsiao, "KMT boycotts Straits Forum 'as party,'" *Taipei Times*, September 15, 2020 (<https://taipeitimes.com/News/front/archives/2020/09/15/2003743433>). The specific reason for the decision was that China's official television station, China Central Television, claimed that the leader of the KMT delegation was going to the mainland "to sue for peace" and refused to retract or apologize for the statement. Many KMT members nonetheless attended the forum in their private capacities.

## **PUBLIC COMMENT SUBMITTED FOR THE RECORD**

Submitted via email by Jean Public on August 31, 2020

public comment on federal register

clearly china wants to be no 1 and to tell everybody in the world where to get off. they are gradually claiming more and more territory. clearly they show no interest in slowing down taking over the world and telling all citizens everywhere what to do and when to do it. clearly they intend to fight america. it is certainly time to get all chinese nationals out of american govt. none of them should be in american govt at all. all loyalty of all chinese need to be investigated and whether it is loyalty to china or to the usa. it would be best to close down all immigration from china immediately. it would be best to make things in america, not buy from china at all. nothing from china should be coming here anymore. this comment is for the public record. we can make it in america. we used to. this comment is for the public record. please receipt. jean public