

Testimony before the House Foreign Affairs Committee

“Smart Competition: Adapting U.S. Strategy Toward China at 40 Years”

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A superficial consensus

- Chairman Engel, Ranking Member McCaul – thank you for inviting me to testify.
 - I am grateful for this opportunity to express my views and I appreciate your efforts to reach bipartisan agreement on how best to meet the urgent and intensifying strategic challenge that we now face from China.
 - Here and throughout my remarks when I use the term “China” I am actually referring to that country’s Communist Party rulers.
- Despite what some recent commentary might seem to suggest, I don’t believe that we have yet achieved a consensus on the nature of that challenge, still less on the strategy that we are going to need to adopt in order to meet and defeat it.
 - To use a medical analogy: after a prolonged period of collective denial we’ve finally started to acknowledge the existence of some very troubling symptoms
 - But we haven’t yet reached agreement on a *diagnosis* of their cause, nor on a *prescription* for treating them.
- It is vital that we do so, and preferably sooner rather than later.
 - We have considerable strengths and sources of potential advantage that we can and should bring to bear.
 - But, given the nature of our domestic political system we will not be able to exploit these advantages to the fullest in the absence of broad agreement on the necessity of doing so.
- Historically, we have tended to achieve such consensus only in the aftermath of shocks or crises that galvanized and unified the nation.
 - This has worked out for us in the past, but it is a costly and potentially very risky way of doing business.
 - It would certainly be preferable if we could act decisively in anticipation of such events in order to prevent them from happening.
- With this in mind, I would like to discuss three sets of issues:
 - First, how did we arrive at this point? What is the nature of the strategy we have been pursuing towards China and why has it failed?

- Second, what is *China's* strategy? How does the CCP regime define its objectives and how is it attempting to achieve them?
- Third and finally, in light of what we now know, how should we redefine our goals and reshape our strategy so as to improve our prospects for eventual success?

A failed strategy

- For the better part of the past four decades the United States pursued a two-pronged approach to dealing with China, one that combined engagement with “balancing”:
 - On the one hand, we sought to engage with China across all fronts: diplomatic, cultural, scientific and above all economic.
 - At the same time, after the end of the Cold War, successive U.S. administrations worked to maintain a favorable balance of power in the Asia-Pacific region, primarily by strengthening U.S. forward-based forces and bolstering traditional alliances
- The goals of this two-pronged strategy were essentially to preserve stability, discouraging aggression or attempts at coercion while waiting for engagement to “tame” and ultimately to transform China.
 - Engagement was supposed to encourage China’s leaders to become “responsible stakeholders” in the existing, U.S.-led international order - while at the same time setting in motion forces that would accelerate the liberalization of China’s economy and, eventually, the democratization of its political system.
- This mixed strategy promised economic, as well as strategic benefits for the United States. It had strong, bipartisan political support. And it was not, from the start, an obvious mistake.
 - But it *was* a gamble.
 - And, has become increasingly obvious, that gamble has not paid off.
 - China has clearly become far richer and stronger, but instead of loosening its grip, the CCP regime has become even more repressive and more militantly nationalistic.
 - Instead of evolving towards a truly market-based economy, Beijing continues to deploy state-directed, market-distorting, mercantilist policies.
 - Meanwhile, China’s external behavior has become more assertive, and even in certain respects aggressive.
- The simplest explanation for the failure of U.S. strategy is that it underestimated the resilience, resourcefulness and ruthlessness of the Chinese Communist Party and its determination to hold on to domestic political power.
 - Even as they opened up and began to enjoy the enormous benefits of foreign trade and investment with the U.S. and other Western countries, China’s rulers worked diligently to retain control over the direction of their national economy and to

- preserve their grip on the Chinese people through an evolving mix of surveillance, repression, co-optation and nationalist propaganda and indoctrination.
- In sum, they found a way to enhance their wealth and power without having to fundamentally alter their economic and political systems and without triggering a strong counter-reaction from us.

What does Beijing want?

- Over the past 40 years, and arguably since the founding of the People's Republic, its rulers appear to have had 3 strategic objectives:
 - First and foremost, to preserve the power of the CCP
 - Second, to restore China to what the regime sees as its proper, historic status as the preponderant power in eastern Eurasia
 - Third, to become a truly global player, with power, presence and influence on par with, and eventually superior to, that of the United States.
- These last two goals are related to the first:
 - As their power has grown, China's leaders have begun to reach out beyond their borders in an attempt to reshape the world in ways that they believe will make it less threatening and more conducive to the survival of their regime
 - Just as, at the turn of the twentieth century, American policymakers set out to "make the world safe for democracy," so, since the start of the twenty-first, their Chinese counterparts have been working more openly and vigorously to make it safe for authoritarianism, or at least for continued CCP rule of China
 - This shift towards a more assertive stance began to become visible in the aftermath of the 2008 global financial crisis, and it has intensified markedly since the rise to power of Xi Jinping in 2012/2013
- Like his predecessors, Xi is driven by a mix of insecurity and ambition.
 - He fears dissent, social instability, and political unrest and he is convinced that the United States and its democratic allies are out to encircle his country and undermine his regime.
 - He has also learned that, within certain limits, a measure of tension and controlled confrontation with other countries can be useful in stirring nationalist sentiment, rallying popular support, and deflecting public frustration outward against what the regime describes as "hostile foreign forces."
- Especially in the aftermath of the financial crisis, Xi and his colleagues have concluded that the United States is in relative decline, that their own power is on the rise, and that the moment has come for China to reclaim its rightful place in Asia and on the world stage.
 - They decided to put aside Deng Xiaoping's advice that China should "hide its capabilities and bide its time."
- But even the regime's overall, long-term confidence is tinged with uncertainty and a sense of urgency:

- China's rulers know that they face serious difficulties in sustaining growth (avoiding the so-called "middle income trap"), dealing with the needs of an aging population and a severely polluted natural environment, among other problems.
 - And they continue to have a healthy respect for the resilience and power of the U.S. system and our ability to mobilize resources once we recognize that we are being challenged.
 - One reason they are pressing so hard now is that they see a window of opportunity that may not stay open forever
- Both in Asia and more broadly, Beijing is attempting to integrate and apply all of the instruments of its national power, albeit in varying combinations
- In its own neighborhood:
 - The regime hopes that its growing military capabilities will help to undermine the credibility of America's security guarantees and to weaken its alliances.
 - The object of China's military buildup is not to be able to fight and win a war with the United States but rather to "win without fighting," building sufficient strength that resistance to its wishes will eventually appear futile
 - At the same time as it tries to push the U.S. away, China is using the attraction of its massive market and its increasing role as a source of investment to try to pull others toward it and to extend its influence, via the Belt and Road Initiative, into maritime East Asia and across continental Eurasia
 - At Xi's direction, the CCP has also stepped up its use of influence operations to try to undermine and weaken the ability of other countries to resist its efforts
 - Ultimately Beijing appears to envision a new regional system extending across Eurasia, linked together by infrastructure and trade agreements, with China at its center, America's democratic allies either integrated and subordinate or weakened and isolated, and the United States pushed to the periphery, if not out of East Asia altogether.
- As regards their global ambitions:
 - China's rulers believe that, in every historical period and every international system, there is a dominant player, or hegemon, that gets to set the rules and shape the institutions in ways that serve its own interests and reflect its ideology
 - Since the end of the Cold War that dominant player has been the U.S., with its insistence on what the CCP derisively refers to as "so-called universal values": freedom of speech and religion, representative democracy, the rule of law, and so on.
 - Those values are obviously profoundly threatening to the legitimacy of the CCP regime.
 - In the long run, China's rulers hope to be able to surpass the United States in terms of material capabilities and to usurp its role in shaping the international order.

- That is why, among other things, they attach such importance to closing the technological gap that still separates them from the West and transforming China into an “innovation superpower”
 - This is not just a matter of prestige, still less of improving the welfare of the Chinese people.
 - Winning the contest for technological advantage is part of China’s ongoing struggle for power and influence with the United States. It is a matter of life and death.
- But Beijing is not sitting back and waiting for the day when it overtakes the United States according to some abstract measure of national power. To the contrary, it is actively applying its growing capabilities to expand its global presence and influence and to begin to reshape portions of the existing international order.
 - It is sometimes said that, because it has benefited so greatly from that order China would never seek to overthrow it. That may be true in a narrow sense, at least for now. But it also misses the reality of what Beijing is up to:
 - The regime is currently picking and choosing, continuing to support and to exploit those institutions from which it still benefits (like the World Trade Organization and the UN Security Council), ignoring those that do not serve its interests (like the International Tribunal for the Law of the Sea), turning others (like INTERPOL) to its own purposes, and weakening those (like the UN Commission on Human Rights) that threaten its legitimacy.
 - Beijing has also begun to develop new institutions (like the AIIB) and to promote new norms (like the idea of “internet sovereignty”) that aim to circumvent and perhaps eventually to displace those favored by the West.
 - Some observers also claim that China is not trying actively to spread its own brand of market authoritarianism to other parts of the world. While this may once have been true, it is no longer the case.
 - Xi Jinping has recently said that China has a model that others may wish to imitate.
 - In any case, China is acting in ways that weaken democratic institutions where they are not firmly established (through bribery and corruption) and strengthening the hands of the authoritarian regimes with whom it generally prefers to deal (including by providing them with CCTV networks, facial recognition software and other surveillance technology).
 - Chinese planners are focusing particular attention on parts of the developing world, especially Africa (a continent whose population is now projected to double to over 2 billion people by the middle of this century)
 - They evidently see African nations (and other parts of the global South) as a source, not only of raw materials as in the past, but of

markets, data and diplomatic support in future confrontations with the West.

- And they are also clearly interested in acquiring access to ports, airfields and other facilities from which they can conduct surveillance and one day project military power.
 - As regards the advanced industrial democracies, in the last several years, Beijing has become more aggressive in using economic threats to try to squelch criticisms of its domestic repression and to punish other governments for pursuing policies to which it objects.
 - More generally, China seeks to exploit and widen divisions within the West, taking advantage of differences over trade issues to try to drive wedges between the U.S. and its allies in Europe and Asia.
- China's leaders may not yet have a fully developed picture of how they would like the world to look, but in certain respects their picture of a desired future will likely resemble an inverted image of the recent past. In the coming decades:
 - CCP-ruled China will be acknowledged as the world's most powerful nation
 - Especially in the developing world, an increasing number of countries will look to it as an example of how to organize their economic and political systems
 - International institutions, norms and standards will increasingly reflect its preferences
 - And its presence and influence will expand, even as those of the U.S. contract.
 - In the long run, the United States will be reduced to playing the part of a regional power, while China steps up to become a truly global player
- It is one thing to have such ambitions, quite another actually to fulfill them.
 - But if we are to compete effectively, we need to begin by trying harder to understand what it is that our opponents seek to achieve and by acknowledging that Beijing's vision for the future is likely very different from and, in many respects, antithetical to our own.

How should the U.S. respond?

- In light of these considerations, how should we adjust (or overhaul) our strategy?
- The root of our problems with Beijing is the character of the CCP regime.
 - This is not a "civilizational struggle," nor is it merely a traditional great power rivalry (although it does have elements of one).
 - Rather it is a contest between two opposing political systems and two contending visions for the future of Asia, and the world.
- The history of the last several decades suggests that we have very limited capacity to encourage positive change in China, certainly not by offering yet more rewards and inducements.

- We need to deal with China as it is, not how we might wish it to be.
- But, for that reason, we need to acknowledge that, for the foreseeable future, the prospects for meaningful cooperation are very limited and conciliatory gestures risk being perceived as signs of weakness.
- Notwithstanding their various anxieties and concerns, at least for the moment, the CCP leadership believes they have the wind at their backs and that history is on their side.
 - They are going to continue to push and, unless we choose to give way, a period of intensifying rivalry is thus inevitable.
- A second point that should be obvious but bears repeating: our prospects in this rivalry will be greatly enhanced if we can find ways to cooperate more effectively with our democratic friends and allies.
 - Both in Asia and in Europe there is a growing awareness of the challenge China poses across multiple fronts and of the need to find an effective response.
 - Taken together, the democratic nations of Europe, Asia and the Western Hemisphere account for over half of global GDP (versus only about 15% at present for China)
 - Properly mobilized and applied, this should be more than enough to maintain a favorable balance of power, even assuming that China continues to grow rapidly, which it may not
 - In a sense, Beijing has done us a favor in recent years by acting as aggressively as it has.
 - The CCP leadership would probably have been wiser to continue to follow Deng Xiaoping's advice about keeping a low profile.
 - But we need to take advantage of this opportunity rather than squandering it by squabbling with our allies over secondary issues.
- Looking ahead, our strategy will have to be two parts defensive and one part offensive.
- First, and perhaps most obvious: together with our friends and allies, we will need to work harder to counter Beijing's attempts to expand its influence through coercion and subversion.
 - In the Indo-Pacific region this is, at root, a problem of military planning and collective defense:
 - Our top priority must be devising, articulating, funding and implementing a set of operational concepts that visibly offset China's investments in anti-access/area denial capabilities.
 - This is essential to the continuing credibility of our security commitments and therefore to the durability of our regional alliances.
 - Yet, as the recent report of the National Defense Strategy Commission points out, it is something that the Defense Department has not yet done.
 - Congress needs to hold DoD's feet to the fire on this issue.

- Both in the region and beyond, especially in the developing world, we will need to work with others to limit the harmful effects of China's closely linked investment and political influence operations, especially under the auspices of its so-called Belt and Road Initiative.
 - Here the emphasis must be on economic statecraft, diplomacy and public information, rather than military means.
 - But here again we need a strategy to help set priorities and to discipline and focus our actions.
 - We should not, and cannot afford to oppose everything China is trying to do in this domain.
 - Not so much because some of it may have benefits for local populations (although that is possible) but because much of it will likely turn out to be economically wasteful and strategically counterproductive for Beijing.
 - We shouldn't do things that have the effect of shielding them from the consequences of their own mistakes.
 - Exposing the risks and problems associated with Chinese investment is useful.
 - Recent experience suggests that this can be done far more credibly by local journalists, think tanks and NGOs than by State Department-sponsored videos
 - Organizations like the International Republican Institute and the National Endowment for Democracy can play an especially helpful role in this regard and they deserve strong and continuing Congressional support.
 - But we can't beat something with nothing.
 - Here the BUILD Act is a step in the right direction.
- At the same time as we seek to block some of the many vectors of China's outward expansion we, together with our friends and allies, are going to have to find ways of better protecting our own societies, economies and political systems from exploitation and manipulation.
 - In sum, we are going to have to modulate and constrict certain aspects of our economic and societal engagement with China.
 - This is a difficult problem and one that we have only begun to wrestle with.
 - Among the questions that need to be addressed are: how can we do this without imposing greater costs on ourselves than on our competitors? And how can we do it without sacrificing the openness that has historically been our greatest source of strength?
 - The toughest challenge we and the other advanced industrial nations face in this regard is figuring out exactly where and to what extent we should seek to disentangle or decouple our economies from China's.

- This process is already well underway, and largely at China’s instigation.
 - We need to reexamine all aspects of our economic relationship, including but not limited to those related to the development of new technologies that may have military as well as commercial applications.
 - The question we should be asking is not whether particular transactions or arrangements benefit specific companies or even entire sectors but whether, on balance, they serve the interests of the nation as a whole.
- Third and finally: we cannot afford to remain entirely on the defensive in our evolving competition with China.
 - We need to find ways to illuminate the brutal and corrupt character of the CCP regime and to impose costs on it for its egregious and harmful behavior, both at home and abroad.
 - To take only one example:
 - We and our allies should be seeking ways to make Beijing pay a price for its treatment of its Uighur minority population
 - At a minimum, we should not be doing things that make it easier for the CCP to repress and control its people.
 - For example, by failing to discourage our firms and universities from cooperating with Chinese counterparts in developing technologies that can be used for these purposes.
- The proximate aim of our new strategy must be, not to change the character of the CCP regime, but to protect ourselves against it.
 - We need to demonstrate to China’s current rulers that they cannot succeed if they continue along their present path.
 - In the process, it is possible that we could help to set in motion forces that will lead eventually to meaningful change. We should certainly not overlook or do anything to foreclose this possibility.
 - But, because the regime now has confidence and a good deal of momentum behind it, this is going to take time.
 - There is reason to believe that, in the long run, China’s efforts to combine authoritarian politics with partially market-driven economics will prove unsustainable.
 - This is especially likely to be the case if we do not do things that help Beijing prolong the life of its current development model.
 - In the meantime, to paraphrase George Kennan, we are going to have to look to our own defenses while we await the “breakup or gradual mellowing” of CCP power.