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COURSE CORRECTION:

TOWARD AN EFFECTIVE AND SUSTAINABLE
CHINA POLICY

Task Force Report

Orville Schell and Susan L. Shirk, Chairs
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This project was made possible by a grant from the Carnegie Corporation of New York, with additional support from The Annenberg Foundation Trust at Sunnylands, Henry Luce Foundation, and The Janet and Arthur Ross Foundation.

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Acknowledgements

This memorandum marks the second set of findings issued by the Task Force on U.S.-China Policy, a group comprised of China specialists from around the United States convened by Asia Society's Center on U.S.-China Relations and the University of California San Diego's 21st Century China Center. The Task Force first set out in the fall of 2015 to reexamine the U.S.-China relationship in an increasingly uncertain time and offered up a set of recommendations to the incoming Trump administration in its 2017 report, "U.S. Policy Toward China: Recommendations for a New Administration."

Now, two years into the administration, the United States and the People's Republic of China find their bilateral relationship at a dangerous crossroads. As more stresses and strains beset their relations, both sides are casting about for redefinitions of their national interest and new policy directions for attaining them. Thus, the findings in this report come at a particularly crucial time.

As co-chairs of the Task Force, we want to extend our deepest appreciation to all those who have helped us advance our work and without whom this project would have never come to fruition.

We'd like to start by thanking the Annenberg Foundation Trust at Sunnylands—especially its president, Ambassador David Lane, and policy director, Jeffrey Phillips—for their continuing partnership and hospitality shown to our group, both in California and Washington, D.C.

Of course, this project would not be possible without the generous support of our funders, including Carnegie Corporation of New York under the unfailing support of Vartan Gregorian and Stephen Del Rosso, Program Director, International Peace & Security. We are also grateful to The Henry Luce Foundation, especially Helena Kolenda, Asia Program Director, and Li Ling, Asia Program Officer; Janet Ross; and Harold and Ruth Newman.

A very special thank you is due to Laura Chang and Michael Laha at Asia Society's Center on U.S.-China Relations and Lei Guang at UC San Diego's 21st Century China Center, who have been the operating system for Task Force activities.

Finally, we would like to thank all the members of this Task Force who have generously and collegially devoted themselves to this project over the past three years. At a time when governments are so challenged, we feel it is more important than ever to have well-informed civil society groups such as this one playing a monitoring and advisory role.

Orville Schell and Susan L. Shirk

Co-chairs of the Task Force on U.S.-China Policy

Introduction

The United States and China are on a collision course. The foundations of goodwill that took decades to build are rapidly breaking down. Many American opinion makers are starting to see China as a rising power seeking to unfairly undercut America's economic prosperity, threaten its security, and challenge its values, while their Chinese counterparts are starting to see the United States as a declining power seeking to prolong its dominance by unfairly containing China's rise. Beijing's recent policies under Xi Jinping's leadership are primarily driving this negative dynamic, so the Trump administration is right to counter those Chinese actions that defy norms of fair economic competition, abrogate international law, and violate fundamental principles of reciprocity. The Trump administration is justified in pushing back harder against China's actions, but pushback alone isn't a strategy. It must be accompanied by the articulation of specific goals and how they can be achieved.

As the Trump administration stands up to China, it must also clearly express a willingness to pursue negotiated solutions by spelling out specific steps that could restore equity and stability to the relationship. Otherwise, the United States risks an irreparable, and possibly avoidable, rupture in this crucially important bilateral relationship. To avoid such a breakdown, the United States and China should seek negotiated solutions to priority issues whenever possible and erect prudent guardrails—including the appointment of specially designated officials—to keep the relationship from running further off the tracks. An adversarial United States-China relationship is in no one's interest. More responsible statecraft is required both to protect American interests and to increase the chances of avoiding that no-win outcome.

Fashioning a China Strategy Consistent with U.S. National Interests and Values

As the Trump administration begins its third year in office, this year's Task Force memorandum builds on our 2017 report (*U.S. Policy Toward China: Recommendations for a New Administration*, www.AsiaSociety.org/USChinaTaskForce) to identify the fundamental interests of the United States in its relationship with China. These are a fair market-based global economic system, a peaceful and stable Asia-Pacific region, a liberal rules-based political and economic order, and a stable and productive relationship with China.

To further these interests we propose a strategy of “smart competition.” “Smart competition” involves building on American strengths to compete effectively with China while maintaining as much cooperation as possible in areas of common interest; building international coalitions to press China to follow international laws and norms; negotiating resolutions of key disputes wherever feasible; and preserving and updating those international institutions that have enhanced the welfare and security of both countries and the rest of the world for so many decades.

“Smart competition” means that while the United States must never compromise its national interests, neither should it define those interests as always antithetical to China's pursuit of its legitimate economic and security goals. It is natural for China's international role to expand as its economy, international interests, and diplomatic capabilities grow. Opposing Chinese influence across the board is neither desirable nor feasible. Our policy goal should be to provide the kind of American leadership that maximizes the chances of China's contributing at a global level in constructive ways that benefit not only itself, but the U.S. and the broader global community as well.

The Trump administration has put great power competition with Russia and China at the heart of its national security strategy. But Russia and China present very different challenges to the United States. Vladimir Putin aims to destabilize and subvert Western democracies, while China's leaders instead have tried to influence Western narratives about China in an effort to win acceptance and favor for its economic development model and its one-party system of government. The contrast between Russia and China is even sharper when it comes to their economic impact on the United States and the world. Except for oil and gas exports, Russia is neither a serious economic competitor

Given the close economic ties between the U.S. and China, efforts to decouple our two deeply intertwined economies should proceed with great caution.

nor an important economic partner of the United States. China, with an economy (the second largest in the world) deeply intertwined with that of the United States, is both a competitor and a partner.

Given the close economic ties between the United States and China, efforts to decouple our two deeply intertwined economies should proceed with great caution. The United States must safeguard its national security and the key technologies that underpin it. But national security restrictions on trade and investment should be highly selective, and policymakers should be mindful of their costs, including to America's own innovation ecosystem. Disruption of production chains could hurt global economic stability and growth. U.S. alliances could be weakened if friendly countries believe they must choose sides between two valued trading partners, the United States and China. A properly regulated system of economic relations is a crucial part of a comprehensive national security strategy.

A strategy of "smart competition" must be a mixture of competition and cooperation that does not foreclose the avenues for stability, comity, and growth. Only if we make a good-faith effort to negotiate the issues of importance to the United States will we be able to continue to test the willingness of China's leaders to modify their policies. Thus a deeper understanding of what is happening within China itself is essential information as we adjust our own policies going forward.

Many of China's recent actions require a firmer U.S. response and a greater insistence on fairness and reciprocity, and there is no guarantee China's leaders will be willing to respond to this challenge in a constructive way. But the United States has as much to lose from overreaction as it does from under reaction. The United States must not defend itself in ways that undermine the openness and vibrancy of its own society; these, after all, are the ultimate sources of American strength and competitiveness. Our critical challenge is to right-size the China threat and pursue solutions that effectively address that threat without undercutting the vitality of the American system, our alliance structure, or our economic well-being.

So long as we preserve our alliances and partnerships, the prospects that China will be able to drive the United States from the Asia-Pacific, much less to dominate the world, are slight. When it chooses its policies wisely, the United States has many inherent economic and political advantages. In short, in the face of China's rapid rise and the myriad challenges it poses, the United States has good reason to be confident in its ability to compete successfully and to continue to lead globally.

Taking Stock of 2017-19: What Has Changed

This memorandum of the Task Force on U.S.-China Policy considers what has changed in China's strategy since we issued our first report in February 2017 and then makes recommendations on how the United States ought to respond in the current climate. We focus on five different issue areas: economics and trade; regional security; global governance; human rights; and China's influence-seeking and interference abroad.

When the Task Force issued its first report in February 2017, China's leaders were already acting more assertively in Asia, taking an increasingly mercantilist approach toward trade and investment, using more coercion to advance their maritime claims, and adopting a more authoritarian posture in their domestic politics. These negative trends had begun to gain momentum after the global financial crisis in 2008 tarnished the prestige of Western democratic capitalism as a model and stimulated a sense of nationalist triumphalism in China. After Xi Jinping became the country's leader in 2012, China's assertiveness increased markedly in both international and domestic domains, and in the intervening years has provoked a growing backlash in the United States and around the world.

Beijing has engendered serious doubts about its peaceful intentions with assertive efforts to consolidate its long-held, vaguely defined, and expansive claims of sovereignty over the South China Sea in ways that have harmed the legitimate interests of neighboring countries and flouted international law. At the same time, it also has begun developing asymmetric military threats to the decades-long strategic stability created by U.S. military presence in the Asia-Pacific, under which China, too, thrived. The Chinese Communist Party (CCP) also stepped up its worldwide efforts to claim what it calls "discourse power," by using sometimes covert and intrusive methods to induce ethnic "overseas Chinese" as well as other foreign groups abroad to adopt, or at least accept, pro-CCP positions. Beijing's encroachment on Hong Kong's autonomy and its pressure tactics to narrow Taiwan's international space have further marred its international image.

At the same time, China's increasingly unfair business practices have generated growing international criticism, especially from the very businesspeople who have traditionally been most enthusiastic in their support of engagement with China. One of their most serious concerns is the way Beijing has ramped up its massive state drive to dominate the technologies of the future, both at home and abroad. This has included not just legitimate forms of Chinese innovation and investment, but also the acquisition of foreign technology through illegitimate means such as cyber theft, intellectual property violation, and forced technology transfer. As market reforms stalled or were reversed and the Chinese state's role in the economy has grown, it has become increasingly clear that China is no longer converging with global norms of fair market competition but is in fact steadily diverging from them.

Xi Jinping's revival of personalistic autocratic rule makes China a less predictable and trustworthy partner and accentuates the political and values system gap that makes finding common ground more difficult.

Xi Jinping's revival of personalistic autocratic rule, including the scrapping of presidential term limits and his refusal to adhere to precedent for the peaceful turnover of political power for top leadership positions, makes China a less predictable and trustworthy partner and accentuates the political and values system gap that makes finding common ground more difficult. The Chinese Communist Party has tightened its control over information and society. It enforces ideological orthodoxy, demands political loyalty, and screens out foreign ideas, particularly in education and the media. Moreover, by arresting rights lawyers, incarcerating and indoctrinating Muslim minorities in the Xinjiang region, and repressing independent Christian congregations throughout the country, the regime has attracted increased international opprobrium as a human rights violator and set itself more explicitly in opposition to liberal values.

Across multiple domains, Xi Jinping is enacting policies that put China's impressive development success story at risk by diminishing its once self-professed hopes for a "peaceful rise" in a stable international environment. Moreover, the leadership is now attempting to paper over its responsibility for the growing global backlash against its more assertive policies by framing the foreign response as a reaction to China's economic, technological, and

military achievements. In reality, the global community is reacting not to China's success and growing capabilities, but to how the current leadership has sought to use China's new wealth and power in ways that are inimical to the very global order that fostered China's rise, as well as to the interests of the United States and many other nations.

This new dynamic that emanates from Beijing has precipitated a deep questioning—even among those of us who have spent our professional careers seeking productive and stable U.S.-China ties—about the long-term prospects of the bilateral relationship. We view this current period as unprecedented in the past forty years of U.S.-China relations. In the past, good sense usually prevailed and American and Chinese policymakers and scholars always managed to overcome severe bilateral strains triggered by specific incidents. We saw such a recovery even after the 1989 Tiananmen Square crackdown, as well as after the 1995-96 Taiwan Strait crisis, the 1999 accidental bombing of the Chinese embassy in Belgrade, and the 2001 collision between a U.S. surveillance plane and a

The Trump administration has exacerbated these dangers by undervaluing two of the United States' greatest advantages: our network of allies and partners and the global multilateral institutions on which we all depend.

Chinese fighter jet. By contrast, the current downturn in relations is deeper and more systemic in scope. What is more, it is occurring at a time when the U.S. and China's economic and military capabilities have become more evenly matched, making the dangers of overt conflict far greater.

The Trump administration has exacerbated these dangers by undervaluing two of the United States' greatest advantages: our network of allies and partners

and the global multilateral institutions on which we all depend. By questioning the benefits of or actively undermining these alliances, trade agreements, and multilateral institutions—and sometimes casually violating America's international commitments—it has heedlessly devalued the rule of law, alienated friends, and undercut America's reputation at the very time when, given China's actions, we need them more than ever. The Trump administration's behavior also has tarnished the U.S. image as a beacon of liberal values on the world stage. This has emboldened the CCP, worried countries caught between the U.S. and China, unnerved our allies, and dispirited those Chinese people who desire political reform.

A particularly damaging error was the administration's abandonment of the Trans-Pacific Partnership (TPP), a regional trade agreement that would have joined together a dozen like-minded states and pushed China to conform to higher standards of fairness and reciprocity in trade relations. The administration also disrupted the U.S.-global economy through the imposition of unilateral punitive tariffs on trade with China. Although the massive tariffs had the virtue of getting Beijing's attention, they not only seemingly violated U.S. commitments at the WTO, but left unclear whether the administration's goal was to “decouple” the deeply intertwined Chinese and American economies, or to pressure China to adopt a more reciprocal and rules-based approach to trade and investment. If the latter, better alternatives, including TPP, were available to the administration.

But such failures do not obviate the reality that the long-held bipartisan strategy of engaging China from a principled position of strength now requires adjustment to reflect Beijing's growing assertiveness and the new reality of our more competitive bilateral relationship. Engagement from a principled position of strength always included an adjustable mix of cooperation, deterrence, and pressure. That strategy has basically been successful, enhancing regional stability for decades, convincing China to forego the use of force in its many regional disputes in the South China Sea and East China Sea, and encouraging China to pursue economic marketization and reassurance policies toward its neighbors. This approach also allowed the United States and China to manage their differences while cooperating on many global issues of common interest such as fostering trade, addressing

climate change, and preventing nuclear proliferation. In response to China's growing assertiveness in military and foreign policy matters in the past ten years, as well as its increasingly mercantilist economic policies, the United States must respond with a course correction, altering the mix of cooperation and pressure to more strongly emphasize pressure and deterrence. But we do not call for the United States to pivot toward a latter-day containment policy or give up seeking cooperation with China where it can. In fact, a tougher approach of push-back against Chinese assertiveness and destabilizing policies gives us the maximum chance that China will return to the more cooperative and less destabilizing policies it had adopted earlier.

Emerging Challenges to American Interests

Unfortunately, by the midpoint of the Trump administration's first term, the negative trends in Chinese behavior that were highlighted in our earlier report have only grown more pronounced and worrisome. If the three most harmful trends identified below are now to be effectively addressed, a more robust and proactive U.S. policy toward China is required.

(1) China's pursuit of a mercantilist high-tech import-substitution industrial policy

The Chinese state ramped up its clearly scripted and lavishly funded strategy to dominate the technologies of the future, not just through its own innovation but also by acquiring foreign technology by inappropriate means. This is not a standard industrial policy in which the government merely enables or channels spontaneous market activity. Instead, the policy aims to help Chinese firms control targeted sectors of technology markets both at home and abroad, dominate a wide range of cutting-edge industries deemed "strategic," and put systemic limits on the operation of foreign competitors in its own domestic markets. As a result of this strategy, many foreign firms are pressured to transfer technology in order to conduct business in China, while others become victims of cyber theft by Chinese state actors. Despite decades of reform, discriminatory treatment of foreign firms is still deeply embedded in the Chinese system of bureaucratic protectionism.

As a result of intensified state control, the Chinese economy is diverging from global market norms. While rhetorically China's leaders espouse an open global economic order, domestically the party-state is now dominating the economy more than it has at any time since the Mao era. Market reforms and the opening of the country to imports and inbound investment have stalled. At the same time, China's government funds outbound investments by private as well as state firms to bring home technology and know-how in areas like robotics, chip fabrication, artificial intelligence, aerospace, ocean engineering, advanced railway equipment, new energy vehicles, power equipment, agricultural machinery, new materials, and biomedicine and medical devices. The goals of China's industrial policy as expressed in the government's major plans, such as "Made in China 2025" and "Civil-Military Integration," are not just to help China achieve high-tech import substitution and dominate global markets in tech sectors, but also to enhance the country's military power.

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Beijing's approach is forcing the United States and other advanced industrial countries to reassess their open and market-based commercial relationships with China in order to discipline mercantilist and zero-sum Chinese practices, preserve their own economic competitiveness, and protect their defense industrial bases.

(2) China's efforts to project power and influence in East Asia

Beijing's actions and its military modernization signal its growing desire to project greater power in East Asia. To do this, China is seeking to increase control over the South China Sea (SCS), pressure Taiwan's government toward reunification, shift the military balance with Japan in the East China Sea, weaken the credibility of American assurances to allies and partners throughout the region, and deter or delay U.S. intervention in a conflict over Taiwan. Reforms of the People's Liberation Army (PLA) launched by Xi Jinping emphasize improving China's naval, air, missile, and cyber forces in order to be able to conduct joint operations in the region, especially in the "near seas" adjacent to China, against U.S. allies. China also continues to repudiate the ruling of the 2016 International Tribunal on the Law of the Sea, which rejected China's claim to historic rights in the South China Sea and upheld the lawful claims of littoral states to Exclusive Economic Zones in these waters. China completed development of seven artificial islands in the SCS, in which the PLA navy, coast guard, and maritime militia now maintain a continuous presence. This increased maritime activity raises the risk of accidents or confrontations with U.S., French, British, Japanese, Indian, Australian, and regional forces operating lawfully in the area.

(3) China's hardening authoritarianism

Under Xi Jinping's leadership, China has been reversing what had been a slow and sometimes halting process of social and political liberalization by turning back toward more authoritarian forms of political control. For three decades after Mao Zedong's death in 1976, China's party-state gradually lessened its ideological controls on social and economic life. This progress created domestic support in both countries for U.S.-China cooperation. By making a U-turn back to personalistic dictatorship, Leninist party rule, and enforced ideological conformity, Xi has created new obstacles to engagement with the United States and other liberal democracies around the world, while also erecting barriers to Chinese interactions with foreign civil society institutions such as universities, think tanks, and non-governmental organizations (NGOs). One of the most egregious examples of the return to Mao-era repressive practices is the round-up of hundreds of thousands of Muslims in the Xinjiang Uyghur Autonomous Region and their confinement in camps where they are forced to undergo intensive "re-education" aimed at weakening their religious convictions and strengthening their loyalty to the Chinese party-state. Across China, independent Christian churches have been shut down. Civil rights lawyers, feminists, environmental activists, and citizen petitioners have been imprisoned or put under police supervision. The media and the Internet are under ever more rigid state controls, while faculties, students, and scholars at universities are now required to receive political instruction in Marxism, and research collaborations with foreigners in the social sciences and humanities are increasingly obstructed.

Party organs such as the Central Propaganda Department and United Front Work Department now also are reaching more aggressively out beyond China's borders in new and more intrusive ways to manipulate and punish overseas journalists, scholars, and NGO staffers at those universities, think tanks, and civil society organizations the party views as overly critical of China, while at the same time rewarding those who act as its cheerleaders with trips, contracts, and honors. United Front party organizations have also stepped up activities to influence other foreign individuals and organizations, to target Chinese nationals and members of the Chinese diaspora community living abroad, and to squelch critical views by playing on patriotic pride and an elaborate but subtle system of retaliation and intimidation.

Guidelines for Effective Management of U.S.-China Relations

Given these new realities, in protecting and advancing U.S. interests and values American policymakers need to be prepared to tolerate more tension in the relationship, even though this tension may create domestic economic and political difficulties. At the same time, wherever China is willing, U.S. policymakers should also be ready to seek opportunities to negotiate resolutions on priority issues and to cooperate in areas of common concern.

We offer the following guidelines to help U.S. policymakers strike the delicate balance needed in an era of “smart competition” as they seek to manage relations with China under increasingly trying circumstances:

First, the United States should publicly call out Chinese practices and firmly stand against China when it conducts itself in ways harmful to U.S. interests, even if responding comes with economic costs to ourselves. However, decisive action against Chinese conduct should always be accompanied by a clear set of achievable demands. And as the United States responds, the measures taken should always be carefully designed to protect specific U.S. interests, not used simply as a form of retaliation or competition for their own sake, or for political grandstanding.

Second, the United States should avoid adopting exclusionary policies that irreversibly delink the two economies and societies. While there will sometimes be a clear national security case for maintaining production capabilities in specific sectors inside the U.S., destroying global production chains and seeking to replace them with two rival economic blocs, at this stage of the relationship, would not only hinder our own economy and innovation ecosystem, but also make China more of a possible security threat by reducing the U.S. economic leverage on it.

Third, in competing with China, we should always strike a judicious balance between protecting national security and preserving our own open society. The United States must avoid overreactions to perceived China threats that could trigger an anti-Chinese “red scare.” We should beware the dangers of repeating the mistakes of the McCarthy era by casting unfair suspicion on all ethnic Chinese and others who have close ties with China.

Fourth, the United States should pursue cooperation with China on those global and regional issues where it is clearly in our national interest to do so and where China is willing. In the past, China has voluntarily collaborated with the United States on such critical areas as climate change, preservation of the oceans, fighting pandemics, developing third-country infrastructure investment, counter-terrorism, and nuclear non-proliferation in North Korea and Iran. Washington should continue to seek to engage Beijing to work with us on both these areas and new ones such as the global refugee crisis.

One area where the Trump administration has been particularly remiss is climate change. During the Obama administration, the U.S. and China had, after many years of trying, finally developed a very constructive collaboration on many aspects of the climate challenge. The Paris Climate Accord involved an historic moment of cooperation to address a major shared global challenge. It also provided an ongoing forum in which the United States could cooperate with China on a critical common problem, a very real threat to our planet. Regrettably, the United States has now withdrawn from the climate accord, abandoning not only the best current effort to mitigate this daunting global challenge, but also dismantling one of the most fruitful areas of joint United States-China collaboration.

Fifth, in seeking to induce positive changes in Chinese behavior, the United States should enhance its coordination with friends and allies rather than act alone. Whenever possible, the United States must operate on the basis of established multilateral agreements and principles that are shared by allies and friends, fortifying them and using them as the focal points for joint action. And because of the political backlash against China’s increasingly assertive posture abroad, there may be new opportunities for concerted action.

Sixth, the United States should neither stop advocating for its own liberal democratic values, nor surrender hope that many Chinese share these values. A deeply rooted liberal tradition exists in China, even if it has been temporarily forced into quiescence by the present resurgence of authoritarian controls. But it is far from dead, and its suffocation by the party leaves many Chinese intellectuals quietly chafing. We should not forget that the

party's dictatorial rule has always waxed and waned and that the tolerance of the urban middle class for repression could well weaken as economic growth slows. Moreover, we would forget at our peril the ways in which China has unpredictably changed in the past and will certainly do so again in the future.

Finally, our best defense will always be to be a better version of our own democratic selves. In this new era of growing competition, the United States must protect and strengthen our own innate advantages. These include both our soft- and hard-power assets. So, even as we maintain our hard-power assets, we must also reaffirm our own commitments to a free and open society, an effective democracy, a dynamic economy, greater investment in education and research, consistent support for a vibrant civil society, and a commitment to rebuilding our nation's infrastructure. These societal strengths will be fundamental to America's international leadership and its national security and will undergird our ability to compete with an increasingly challenging China.

Chapter 1: Economics and Trade

Dramatic changes in the economic relationship between China and the United States demand a broader and more comprehensive set of rules to govern competition. The U.S. should insist China follow through on all prior commitments (for example, those in its WTO accession document) and also that it make new commitments as needed, to achieve genuine fair competition, the building blocks of which are across-the-board national treatment and reciprocity in trade and investment (as defined below). At the same time, the U.S. must work with allies to broaden and strengthen the international economic system and ensure China's compliance with the rules and norms of that system.

What has Changed?

Tensions between the United States and China over trade and industrial policy have been building for years but now have exploded out into the open in ways that compel new responses. Four important recent changes have remade the economic relationship.

First, the economic underpinnings of the U.S.-China relationship have changed. In earlier years, China generally exported labor-intensive products and imported more sophisticated technology- and capital-intensive products from partners, including the U.S. This was true even when the two countries became part of complex production chains: for example, when an iPhone is shipped from China to the U.S., it incorporates high-tech components from the U.S. and many other places with predominantly low-skilled labor inputs from China. But this mode of exchange between economies at different development stages has given way to a new era. Competition in advanced sectors, especially technology, is increasing. This change requires augmented rules to safeguard fairness in international trade and investment, and new measures to ensure that U.S. national security is not compromised by undue loss of technological capacity.

Second, since 2006, China has rolled out a series of ever more ambitious industrial policies with the stated aims of competing aggressively in emerging and high-tech industries, at home as well as worldwide; promoting “indigenous innovation”; and increasing Chinese firms’ control of “core technologies” to boost the domestic and global market shares of Chinese-owned firms. Three aspects of these new industrial policies have been especially disruptive:

- a. China justifies these policies using the language of national strength and national competition while ignoring the crucial role that international collaboration has played in enabling China's development. The “Innovation-Driven Development Strategy” issued jointly by the CCP Central Committee and the State Council in 2016 describes its implementation as a matter of national strength and survival. This is remarkable, because China's successful development has occurred to date in the context of deep integration into the world economy, and close cooperation with American actors in particular. In short, Americans and Chinese are entwined in global production networks, finance of new firms and sectors, and collaborative scientific research. U.S. companies, financial institutions, and universities are all deeply engaged with China, to the benefit of both sides. Yet Chinese industrial policies seldom if ever acknowledge the value and complexity of these relationships. Instead, they now declare an intention to dominate various industries domestically and globally.

- b. The scale and nature of China's industrial policy interventions are staggering and unprecedented. The Chinese state is giving hundreds of billions of U.S. dollars in direct support to Chinese companies in many economic sectors (for example, integrated circuits and electric vehicles). This support includes direct state subsidies, loans, tax breaks, and government procurement contracts for favored firms.
- c. China has used an array of both explicit and non-transparent policy instruments to benefit domestic firms, putting international rivals at a marked disadvantage. Numerous joint venture requirements and equity caps across sectors severely restrict foreign companies' market access. Subsidized credit from state financial entities is available to "national champions" (both state-owned and private). Rules on procurement, taxation, and technical standards also discriminate against foreign firms. And state and state-directed actors put heavy pressure on foreign companies to transfer targeted "core technologies." Finally, while China's industrial policies have long restricted the ability of foreign firms to compete within China, they increasingly impede them outside China as well from competing on an equal footing with both domestic state and private companies.

Third, broader changes in the overall Chinese economic and political model have thrown in doubt the old assumption that China would gradually "converge" with the economic governance norms of market-based developed countries.

The momentum toward market reforms has stalled, and China has begun laying claim to a distinctive state-driven approach "with Chinese characteristics." In his November 2017 report to the Nineteenth Party Congress, Xi Jinping emphasized that the Chinese system now "offers a completely new option for countries and peoples who want to speed up their development while preserving their independence." This system includes strengthened Communist Party guidance of, and financial and regulatory support for, state-owned enterprises; a more prominent economic role for state-owned enterprises; and a centralized engineering of the economy, encompassing both traditional industries and emerging high-tech sectors. These policies insulate state enterprises from normal competitive pressures and

China and the United States now view each other as strategic rivals.

restrict opportunities for foreign firms. The fact that China's stated intent is now to promote an economic governance model that is divergent from market-based norms requires a new U.S. posture in response.

Fourth, China and the United States now view each other as strategic rivals. The U.S. labeled China a "strategic competitor" in the December 2017 National Security Strategy document. China does not officially label the U.S. a rival, but has in effect treated the U.S. as such for nearly a decade. As a result, both nations are now actively reevaluating the linkages of their technological systems and economies. Some de-linkage is already occurring, and more is likely to follow, with the U.S. enacting new laws that increase oversight of investment from China and other countries, and of exports as well, especially in sensitive technologies.

In sum, Chinese companies have become more formidable competitors for firms in advanced industrial countries while at the same time Beijing has tilted ever more toward mercantilist, zero-sum economic policies that emphasize advantaging Chinese firms at the expense of their international competitors. Beijing justifies these policies as necessary to ensure national strength and security. By doing so it has sparked a global backlash that threatens an increase in barriers to cross-border trade, investment, and technological collaboration. The imposition of tariffs by the Trump administration is only one part of the global backlash against abusive Chinese policies.

However, if left unchecked, this backlash risks impairing global welfare by replacing a dynamic, positive-sum system of international exchange with a more sclerotic one in which countries seek to safeguard national advantage behind protectionist walls. A new wave of technological change now looms on the horizon, promising

to increase productivity and disrupt many industries, and most countries expect to take part. Innovative firms, headquartered in the U.S., China, Europe, Japan, Taiwan, Korea, India, and elsewhere that operate across national boundaries will all play prominent roles. They will rightly resist an effort by any country to dominate so many emerging industries through subsidy, government protection, and coercive technology transfer rules—exactly what Beijing’s policies declare as their intention.

Global gains in productivity and welfare will be highest and most sustainable in an environment of fair competition, since countries that view the global system as broadly fair will choose to participate in it, rather than try to protect themselves behind barriers to trade and investment. The lack of reciprocity in the relationship between China and its advanced trading partners is not just an American talking point, but a shared reality that requires acknowledgement and far more concerted action.

It is also important to be clear about what has not changed. The U.S. and China are still deeply intertwined across a broad range of economic and technological activities. Deep engagement between China and the U.S. has benefited both sides, which is why engagement has developed so fast and gone so far. Looking forward, the assumption that both economies would benefit from future integration is in question, and the national security risks associated with integration in dual-use technologies are increasingly evident. It is fantasy, however, to believe that the two economies can be “decoupled” at low cost. Any disengagement should be selective and based on a sensible assessment of risks and benefits.

Global gains in productivity and welfare will be highest and most sustainable in an environment of fair competition.

While China will not grow nearly as fast in the future as it has in the past, another factor unlikely to change is China’s increasing economic strength. This strength stems partly from skillful macro-economic management and effective investments in infrastructure, education and research, and development; partly from deep integration with the global economy, which has enabled China to benefit from international markets and technology; and partly from abusive practices that distort markets and impede competition. We should recognize that, regardless of U.S. actions, China is likely to increase in economic strength in the coming years. We should also recognize that China’s economic integration with the rest of the world will continue, and therefore any systematic decoupling of the U.S. and Chinese economies could undermine the United States’ own national interests. If properly managed, a high level of economic integration would enhance the ability of the U.S. and partner countries to pressure China to conform to international norms (since China’s prosperity depends in part on this very integration). Maintained integration would also increase the incentives to resolve security and political conflicts without resort to arms.

What is to be Done?

The preceding discussion shows that it is essential for the U.S. to respond robustly to the challenge of a China whose companies now compete more directly with American firms across a range of technology sectors that its government actively promotes and lavishly finances. Policies and practices designed to discriminate against foreign companies and compel the transfer of technology as the price of access to the Chinese market are not in the American interest.

The Trump administration has correctly identified the need for a more forceful response. However, its approach is defective in several respects. First, the principal focus should be on fair competition, not trade deficits. Fair

competition demands across-the-board national treatment and reciprocity. National treatment—a core tenet of the global trading system—means that countries should treat foreign goods, services, service suppliers, and intellectual property no less favorably than their own. Reciprocity means Country A should treat the companies of Country B as well as Country B treats the companies of Country A. National treatment and reciprocity produce the best economic outcomes. The central challenge today is to make the global economy an arena for fair, market-based competition, rather than a zero-sum struggle for national advantage. Next, national security constraints on economic engagement should be selective, not a broad effort to unravel the vast web of economic relations which are in the main mutually beneficial. And finally, wherever possible the U.S. should work with partner countries to strengthen rules that will constrain China's behavior in the long run, rather than relying on sporadic jawboning and unilateral tariffs to extract concessions.

In the economic realm, the principal aims of U.S. policy should be to

- a) pressure China into adopting trade and investment policies that give international firms the same access and competitive conditions that Chinese firms routinely enjoy in other developed-country markets;
- b) increase the cost to China of its anti-competitive and market-distorting industrial policies;
- c) work with other countries to reinforce strong international rules and norms around fair, market-based competition, by creating stronger incentives for China to adhere to these rules and norms; and
- d) ensure that the U.S. maintains the technological capacities required for economic progress and national security by providing the requisite support for education and research.

To achieve these aims, we suggest the following five broad approaches. A list of specific policy recommendations follows in the next section.

1. Insist that China fulfill and expand its existing international commitments.

At a minimum, China must fulfill its existing World Trade Organization (WTO) requirements, some of which remain unmet seventeen years after China's accession to that body. WTO membership involves a wide range of commitments related to non-discrimination and fairness with respect to trade in goods, services, intellectual property, technical barriers to trade, and more. Furthermore, China's WTO accession agreement incorporates rules on state-owned enterprises, technology transfer, and other issues specific to China. However, China's record in upholding these rules is inadequate. The U.S. and other nations should demand that China abide by the

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commitments it has already made. The U.S. should also take concrete actions to enforce China's existing commitments, including a broad-based WTO case challenging unfair Chinese practices, and an array of trade defense measures, as discussed below.

In addition, the U.S. should press China to make new commitments to ensure that it treats foreign companies fairly and with reciprocity even in areas not directly covered by WTO rules, such as investment and digital trade. These new commitments should include strong enforcement mechanisms to ensure that they translate into real change on the ground.

2. Present a set of specific high-priority measures that China must take in order to restore constructive relations with the U.S. As discussed above, when China joined the WTO in 2001 it committed to a range of obligations, some of which apply to all WTO members and some of which are specific to China.

The generally applicable rules require China to, for example, respect all forms of intellectual property, including trade secrets. China-specific rules include (among other things) requirements to

- not condition market access or investment access on technology transfer;
- allow state-owned enterprises to make purchase and sale decisions “based solely on commercial considerations”;
- not permit state-owned enterprises’ commercial decisions to be directly or indirectly influenced by the government or the CCP;
- guarantee market access and national treatment for various foreign service industries and service suppliers, including not requiring joint ventures as a condition for market access;
- make policy-making more transparent, for instance by publishing all trade-related matters in the Ministry of Commerce gazette.

Does China still stand by these commitments? In many cases, actual practice continues to diverge markedly from the promises made in 2001. The U.S. must insist that China now take concrete steps to fulfill the commitments that it has already made.

3. Work with partner countries to strengthen global economic rules. On balance, China has undermined the global, rules-based trading system by failing to uphold its WTO commitments, and through opacity, selective enforcement, and foot-dragging. The U.S. must strengthen the existing international economic system by pursuing high quality trade and service agreements, such as the Trans-Pacific Partnership (TPP). These agreements include rules that reflect the interest of market-based countries like the United States for protecting commercial investments in technology, ensuring a free and open digital commerce environment, transparent regulation of services, investment protection, provisions on intellectual property rights protection, and principles for the operation of state-owned enterprises. These are precisely the issues on which the need to reach a new understanding with China is most pressing.

Agreements of this type have a double benefit: they increase the incentives for China to play within the rules by joining the agreement, and they increase the costs to China of staying out. The Trump administration withdrew from TPP in its first week, but since that time has ratified many of the positive provisions of the TPP in the revised U.S.-Mexico-Canada Agreement (USMCA). TPP is proceeding without the United States via the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, ratified by the other eleven TPP nations and made effective in December 2018. The door remains open for renewed U.S. participation, albeit likely with new conditions. The U.S. should seize this opportunity, join CPTPP, and expand its reach to Europe to increase its economic heft and leverage. The time is ripe because many other countries are now just as concerned with China’s practices as is the U.S.

The U.S. should also work with like-minded countries in a multilateral effort to change WTO rules that have proven inadequate to address China’s problematic practices and the issues created by new technologies and technology-enabled services. Examples include the need for explicit rules (currently lacking) to forbid sector-wide domestic subsidies whose harm to other countries only manifests itself after many years; and to prohibit data localization requirements, source code disclosure requirements, and other restraints on cross-border digital commerce (which CPTPP also addresses). The U.S. should step up efforts to coordinate with the E.U., Japan, and others to update WTO disciplines, review China’s compliance, and ultimately propose a new set of agreements based on genuine reciprocity.

4. Focus on both outcomes and the processes will make those outcomes durable. The ultimate goal of U.S. international economic policy should be an updated rules-based system governing trade in goods and services, investment, and digital commerce, with more effective prohibitions against discriminatory practices, subject to a very limited number of legitimate national security carve-outs. If and when China resumes systemic, market-oriented reforms, and can credibly commit to abiding by the rules of this system, it should be welcomed into it.

The crucial point is that the desired outcome—fair trade and investment—can only be achieved and sustained if it becomes embedded in a system of durable, explicit rules that are enforced strictly and promptly. Ad hoc management of trade issues through sporadic pressure and retaliatory initiatives, such as those employed by the Trump administration, will not create a sustainable solution to imbalances in the economic relationship between the United States and China.

5. Invest at home to ensure competitiveness abroad. Rules of fair competition in the global economy are important, but to ensure that our firms can continue to compete successfully in the global arena the United States must increase investments in domestic education, innovation, and basic science and technology research, as well as compete for the best foreign talent, including from China. Purely defensive actions against China—trade and investment curbs, antidumping and countervailing duty enforcement actions, export controls, and potential restrictions on Chinese nationals coming to the U.S. for study or work—have their place. However, they impose significant costs on U.S. industries, workers, and consumers, and they will prove insufficient to alter China's trajectory unless accompanied by these other kinds of domestic improvements. In short, U.S. prosperity, technological capacity, and national security require not just protective responses to Chinese abuses of the global trading system, but active self-strengthening efforts at home.

Specific Recommendations

First, in its effort to counter China's trading practices, the Trump administration has relied heavily on the threat or imposition of tariffs in the belief that, given the large bilateral trade imbalance, these actions give the U.S. leverage. With serious discussions now under way, effort is needed to shift the discussion from trade balances to China's even more egregious industrial policy measures. If and when China makes significant and verifiable changes to these structural conditions, the U.S. should be prepared to rescind tariffs promptly.

Effort is needed to shift the discussion from trade balances to China's even more egregious industrial policy measures.

Second, the U.S. should intensify ongoing discussions with allies about a unified negotiating position with respect to China, again with the focus on industrial policy reform. The U.S. should join CPTPP, seek to enlarge regional pacts, and look to link

those Asian efforts with a prospective free trade agreement with Europe. This will create pressures for the World Trade Organization to address more of the digital trade and other cutting-edge trade issues covered by the most recent U.S. free trade agreements and will put sixty percent of global GDP on a footing different from current rules. China will then have to either adapt through real policy changes or face sharp disadvantage in many of its major markets.

Third, it is essential that China adapt its trade and investment policies to be compatible with global norms. Instead, China's industrial policies are today implemented through massive industry-wide subsidies;

coerced technology transfer; discriminatory regulatory and financial treatment; and the provision of protected domestic market sanctuaries to Chinese “national champion” firms. The U.S. should use the WTO dispute settlement process intensively, bringing new cases where there are clear violations of WTO rules.

In addition, the U.S. should demand that China sign on to principles enshrined in more recent trade agreements such as CPTPP and USMCA. If actually observed, these rules would protect foreign firms from discrimination and move China closer to an economic regime that treats domestic state and private firms and foreign firms more equally and impartially, while protecting foreign firms from discrimination.

Fourth, China should govern foreign investment on terms of reciprocity: that is, it should accord foreign firms operating in China broadly comparable access to that which Chinese firms are afforded by other advanced economies. Today, China is an extreme outlier, with investment restrictions more severe than other major developing countries (such as Brazil, Russia, and India), let alone Organisation for Economic Co-operation and Development (OECD) countries. Important investment issues include

- removing joint venture requirements and ownership caps from foreign firms;
- eliminating explicit and implicit requirements for technology transfer as a condition of obtaining business licenses or accessing China’s market;
- creating and implementing a strictly limited “negative list” that fully opens most service sectors to foreign and domestic private firms, with restrictions confined to the small number of sectors on the negative list; and
- increasing the transparency of regulatory regimes.

Many of these measures have been discussed for years, and Beijing has moved tentatively to publish a negative list applying to both foreign and domestic private firms. These discussions must now be followed by practical and verifiable implementation on a clear and reasonably short timetable. There is no need for further delays.

To achieve these objectives, the United States and China should resume bilateral investment treaty negotiations. The U.S. should also coordinate with the E.U. in this regard, as it has done in the past, and China should be prepared to commit to broad, high-quality outcomes, which will inevitably necessitate significant concessions and domestic economic reforms.

The U.S. should join CPTPP, seek to enlarge regional pacts, and look to link those Asian efforts with a prospective free trade agreement with Europe.

Fifth, if China fails to make necessary changes to its trade and investment regimes, the U.S. should be prepared to maintain economic pressure, in concert with like-minded partner countries, even at significant cost. This should include enforcing existing rules that target unfairly traded products through both WTO and domestic trade remedies. The U.S. must also consider augmenting laws to address the lack of access for U.S. products, services, and companies in China (e.g., conditioning or restricting digital trade.)

Sixth, the United States should continue to forcefully address intellectual property theft and forced technology transfer by strengthening existing legal provisions on sanctions for cyber-espionage, and on exclusion of imports that benefit from such unfair practices.

Seventh, the U.S. should attempt to reach an agreement with China on digital trade, using the appropriate provisions of CPTPP and USMCA as a starting point. This would generally prohibit, among other things,

- data localization requirements and local data storage requirements;
- cyber-espionage for commercial purposes (which China agreed to discontinue in a 2015 agreement that it has since violated); and
- source code and encryption key disclosure requirements.

Eighth, the U.S. should carefully implement the newly revised laws on inbound investment screening (under the Foreign Investment Risk Review Modernization Act, FIRRMA) and export controls (under the Export Control Reform Act, ECRA). These laws subject inbound investment by China (and other countries) in the U.S. to stricter scrutiny and widen the ability of the U.S. government to curb exports, licensing, or other sharing of “critical, emerging and foundational technologies” with foreign persons. Depending on how “critical technologies” are defined, the scope of these new laws could be potentially very broad. Therefore, implementation of the laws should aim to fully safeguard national security while maintaining the highest level of trade and investment openness consistent with the national security aim. Specifically,

- a. Technology controls should employ the narrowest possible definitions consonant with national security. The objective should be to create a “small yard, high fence” approach to controlling truly critical technologies. The assessment of national security should address evolving implications of key technologies, but this expansion should be limited and defined. Inherently vague notions of “economic security” and “innovation ecosystem health” should not be conflated with national security and should be avoided.
- b. FIRRMA contains ambiguities that should be addressed through implementing regulations to reduce uncertainty and maintain the traditional openness on which the American innovation system has long depended. Many potential investors are uncertain about whether they are subject to Committee on Foreign Investment in the United States (CFIUS) jurisdiction. As CFIUS clarifies its standard of scrutiny, regulators should demonstrate their overarching goal of preserving space for the great bulk of non-concerning activity.
- c. The U.S. should embrace this revision of investment rules as an opportunity to foster multilateral discussion of shared investment screening objectives with our allies and partners. The bulk of FIRRMA compliance cost is likely to fall on fellow-OECD nation firms and investors, because of their prominent role in the U.S. economy and innovation system. At the same time, regulators in other OECD countries also are moving toward more thorough screening of inbound investment. Alignment among advanced economies is emerging on the correct balance between investment screening and the benefits of cross-border investment. By demonstrating a commitment to managing inherently global technology and investment issues in partnership rather than unilaterally, Washington can restore a sense of direction on these complex policy issues and avoid an “every-nation-for-itself” response. As an additional benefit, a consensus on best practices could provide additional impetus for China to reform its policy toward incoming investment.

Ninth, restrictions on Chinese citizens seeking to study or work in technology fields in the U.S. should be applied sparingly and only in exceptional circumstances. The innovation system of the U.S. depends crucially on its openness to talent from around the world. That system will be harmed if the world’s most talented individuals are discouraged from studying, working, researching, and designing in the United States.

Talent from China has become a rich part of the U.S.—indeed, the global—innovation ecosystem. Our objective should be to strengthen global innovation by eliminating abuses, not to weaken it by preventing Chinese researchers from being welcomed to study and work in the U.S. or by unnecessarily fragmenting national systems of innovation.

Tenth, if negotiations with China on the above issues fail to produce substantial progress, the U.S. should consider bringing a broad-based WTO case against China’s problematic practices, invoking not only specific WTO rules that China has violated, but also the WTO provisions on “nullification and impairment.”

These provisions enable WTO members to challenge any measure—whether it violates WTO rules or not—that nullifies or impairs a market access benefit that was legitimately expected at the time the benefit was negotiated. The U.S. and other WTO members legitimately expected significant, across-the-board market access benefits when China acceded to the WTO in 2001. An array of Chinese measures related to subsidies, state-owned enterprises, forced technology transfer, and so on have nullified or impaired these expected benefits. The U.S. should use all available WTO legal tools to force greater openness and fairness in the Chinese market. The U.S. should, if possible, bring such WTO cases against China jointly with the E.U., Japan, and possibly others, to underscore the divergence of China’s regulatory regime from market-based standards.

Concluding Thoughts

When China completed negotiations to join the WTO in 1999, its per capita GDP was \$870 (converted at exchange rates then). By 2017, that number had grown almost exactly ten times, to \$8,848. China has thrived in the global economic system. China has responded to this economic success by asserting its intention to compete aggressively and feature itself prominently as a leader in an enormous range of the most sophisticated sectors.

It is still possible for China to pursue its ambitious agenda while playing by rules of fair competition.

China’s aspirations to compete in higher-value sectors are a natural outgrowth of its success. But the way in which it seeks to realize these aspirations is profoundly disruptive in two respects. First, it gives rise to new violations of rules to which China had previously agreed, such as those of the WTO and China’s accession agreement. Second, in terms of reciprocity it has allowed a gulf to open between the relatively unfettered access that Chinese firms enjoy in the rest of the world and the tightly constrained environment that foreign firms face in China. These violations and this lack of reciprocity destroy any justification for a middle-income China to demand or be accorded special treatment in any future negotiations. The U.S. should insist that China get on a fast track to convergence with global norms, and work to supplement those norms in emerging areas not covered by existing rules.

In all of these endeavors, the U.S. should focus its greatest energies on those aspects of trade that will be increasingly important to Americans in the future, including digital trade and services, intellectual property, and data protection. By establishing a widely accepted, high-standard, technology-friendly set of rules for international trade and investment—such as the one that CPTPP embodies—the U.S. can pressure China to adjust, or otherwise risk facing limitations on access to foreign markets for Chinese goods and services throughout the world. Forcing China to confront this stark choice has the best chance of precipitating a sustainable change in China’s policy orientation.

This does not equate to a demand that China change its political system or abandon its aspirational industrial policies to become a technological superpower. Those are China's decisions. But it is still possible for China to pursue its ambitious agenda while playing by rules of fair competition. This would allow China to continue accessing world markets and deep integration with the global innovation system. Whatever China's choice, the U.S. must act to preserve a rules- and market-based system that is compatible with U.S. economic and national security interests.

Chapter 2: Security

Security competition is not a new feature of the U.S.-China relationship. Starting in the early 1990s, China began investing more heavily in its military capabilities and gradually adopted a more assertive military posture that is now calling into question the established American position of superiority in the Western Pacific. U.S.-China security competition has steadily broadened in scope and increased in intensity. These trends heighten the risk of armed conflict and contribute to the broader shift toward a relationship of long-term rivalry.

The dynamics of U.S.-China security relations resemble what international relations scholars call a “security dilemma”: cycles of intensifying mistrust driven by each side’s efforts to strengthen its defensive position against the other. Conflicting interests, differing threat perceptions, poor communication, and divergent values and political systems are raising tensions, generating frictions, and driving military build-ups on both sides. All of this takes place against the background of China’s neighbors also strengthening their military postures to respond to China’s growing assertiveness.

To be sure, U.S.-China security dynamics have always been characterized more by competition than cooperation. But until recently, the U.S.-China security dilemma has been relatively manageable, allowing space for cooperation on both hard and non-traditional security issues as well for military-to-military interactions, albeit often of limited value to either side. The changing distribution of power in Asia—in which China’s economic and military capabilities have been gaining on those of the United States—has accentuated both U.S. concerns about Chinese intentions and Chinese confidence in their own leverage; this further fuels the negative mutual perceptions characteristic of a security dilemma. Competition now dominates the bilateral security relationship.

What Has Changed?

Several factors have contributed to this shift.

First, China’s accelerated modernization of its weapons systems, military training, and doctrine; its reorganization of the military to reduce domestic security missions and increase the ability to operate beyond China’s borders; its expanding force posture in Asia—especially the greatly increased deployment of naval assets in the South China Sea, East China Sea, and Western Pacific—and its willingness to use military and paramilitary coercion as a tool of diplomacy have heightened perceptions of China as a security threat, both among China’s neighboring countries and among American policymakers. China’s military modernization efforts have focused on the improvement of air and maritime forces and the development of more efficient command and control/decision-making mechanisms. These efforts have dangerously narrowed the gap with the United States in military capabilities in the region.

The Chinese capabilities of greatest concern include the ability to accurately determine the position of, and be able to rapidly fire on, U.S. forces; long-range anti-ship and land attack ballistic missiles that place mobile and fixed assets at risk; anti-ship cruise missiles as well as the ships, bombers, and submarines developed to launch them; long-range air-to-air missiles and the fifth-generation fighters to employ them; and large numbers of patrol frigates, coast guard ships, and maritime militia units. All indications are that not only have these capabilities

improved but that China has caught up with or even surpassed the United States in some of the most critical elements of future maritime and air warfare, such as counter-space and hypersonic missile capabilities. Military reforms launched at the end of 2015 emphasize improving China's naval, air, missile, and cyber forces in order to be able to conduct joint operations in the region and especially the "near seas" adjacent to China and against U.S. allies. With these Chinese capabilities in use, U.S. surface navy and air force assets would no longer be able to operate safely within the first island chain (the line of islands running from Japan through Taiwan to the Philippines) during a military conflict with China, and would be forced to take capability-limiting defensive measures even in the wider area between the first and second island chains (delineated by a string of islands in the mid-Pacific). The idea of an operational sanctuary for U.S. forces in Asia is gone.

The United States has responded with a gradual augmentation of its force posture in Asia, predating the Obama administration but expanded and accelerated by that administration's "pivot to Asia" (later relabeled a "rebalance to Asia"). As a result, the U.S. and Chinese militaries are coming into contact more frequently and threatening each other more seriously than before, requiring U.S. and allied military planners to factor the greater risks posed by the Chinese military into their planning. The United States has also placed an intensive focus on modernizing its alliance relationships in Asia, including capabilities, plans, and operations. This in turn has increased Chinese security concerns.

Second, tensions have increased between mainland China and Taiwan. The Taiwan government under President Tsai Ing-wen, who took office in 2016, has not tried to move forward on the issue of Taiwan independence, insisting that her presidency is rooted in the Republic of China's Constitution, which includes Taiwan as part of China. But Tsai has refused to recognize the so-called 1992 Consensus, a formula that was accepted by the preceding Taiwan president, Ma Ying-jeou, which said that Taiwan and the mainland agree that there is one China, but that each side has its own understanding of what one China means. Beijing regards Tsai's refusal to accept this formula as a challenge to its strategy of peaceful reunification with Taiwan. In response, it has further isolated Taiwan on the international stage by establishing diplomatic relations with five countries, which had to break relations with Taiwan. It has refused meaningful contact with the Tsai government. It has exerted economic pressure by reducing the flow of tourists to Taiwan and in other ways, and it has exerted political pressure through Taiwanese businesses on the mainland and through Taiwan media owned by entrepreneurs beholden to China. Beijing has conducted military exercises designed to threaten Taiwan and to deter the United States from defending it. As Beijing increases pressure on Taiwan, Xi Jinping has rhetorically highlighted the importance of reunification by linking the resolution of the Taiwan issue to the great project of the rejuvenation of China. Since the United States is committed to "peaceful resolution of the Taiwan issue" by virtue of the 1972 Shanghai Communiqué and the 1979 Taiwan Relations Act, rising tensions across the Strait and the emergence of a harder line in Beijing raise the risk of a confrontation between American and Chinese forces.

Third, new foci of security competition have emerged in the U.S.-China relationship. China has all but explicitly asserted a maritime claim, based on historic rights, to the entire South China Sea, thereby seeking to override the maritime rights under the UN Convention on the Law of the Sea of other countries that surround the sea. The United States regards much of China's claims as inconsistent with international law, a position supported by a 2016 ruling of the International Tribunal on the Law of the Sea. China has tried to enforce its claim by building up and militarizing seven man-made islands in the South China Sea and by increasing patrols by its navy, coast guard, and maritime militia. China's use of land reclamation, its coast guard, fishing vessels under militia control, and its civilian fishing fleet to advance its maritime claims frustrates U.S. and Asian policymakers who seek to prevent China from using force rather than negotiation to assert its claims. China's use of these so-called "gray-zone" activities is a new area of U.S.-China security competition that exacerbates the challenge to U.S. decision makers. The U.S. and French, British, Japanese, Indian, and Australian forces in

turn have tried to ensure their access to the sea under the principle of “freedom of navigation,” leading to more frequent and more dangerous close encounters between Chinese and other naval forces. Not only is the situation dangerous in itself, but it has generated questions on each side about the other side’s conception of the security order in Asia. Maritime claims have become a key driver of naval competition.

Fourth, Xi Jinping’s open declaration of his ambitions for “national rejuvenation,” encompassing not only regional but also global great power status, has intensified the security concerns of China’s Asian neighbors, the United States, and U.S. allies in Asia and beyond. As reflected in China’s current actions, its medium-term strategic goals seem to be to increase control over the South China Sea, pressure Taiwan’s government toward reunification, deter or delay U.S. intervention in a conflict over Taiwan, shift the military balance with Japan in the East China Sea, and weaken the credibility of American assurances to allies and partners throughout the region. Longer term, Xi’s intentions are less clear. But his words and actions suggest a growing tolerance for risk and friction in China’s diplomatic and military affairs in order to advance Chinese security goals.

Finally, a growing number of economic questions have assumed a national security dimension, leading to what can be termed the “securitization” of economic competition in the U.S.-China relationship. China has engaged in large-scale industrial espionage and cyber theft against the United States, built up its human capital in the STEM disciplines in part by its access to America’s open education system, and invested heavily at home and abroad in cutting-edge technologies with national security implications, such as artificial intelligence, augmented and virtual reality, cloud computing, drones, and robotics. Chinese advances in these areas could erode America’s technological lead and undermine not only America’s economic advantages but its ability to achieve military superiority. Whereas up until the mid-1990s most of the technologies that gave the U.S. armed forces their competitive edge (e.g., stealth, global navigation systems, etc.) were proprietary and controlled by the government, now many are conceived in the private sector with an eye not on lucrative low-risk long-term federal contracts, but on quick returns in dynamic global commercial markets. An ever-increasing portion of international trade and investment in commercial goods and services has dual-use national security consequences.

The securitization of economic competition also extends to China’s growing global activism as a foreign investor and aid donor on every continent. The Belt and Road Initiative (BRI), Xi Jinping’s campaign to extend China’s global reach by offering infrastructure loans and investments, has led many in the United States and elsewhere to believe that China is using the tools of economic and diplomatic statecraft to gain a military foothold beyond Asia. Chinese investments in ports in Burma, Sri Lanka, and Pakistan, and in a naval base in Djibouti, as well as large infrastructure investment projects in Africa, Latin America, Europe, and the Pacific Island nations, appear to be parts of a long-term plan to extend Chinese military access beyond Asia to the rest of the world.

These trends increase the intensity of U.S.-China security competition. The growing sense of mutual threat increases the danger that a series of decisions on either or both sides could lead, either intentionally or by miscalculation, to an openly antagonistic relationship—or even to outright military conflict.

As reflected in China’s current actions, its medium-term strategic goals seem to be to increase control over the South China Sea, pressure Taiwan’s government toward reunification, deter or delay U.S. intervention in a conflict over Taiwan, shift the military balance with Japan in the East China Sea, and weaken the credibility of American assurances to allies and partners throughout the region

What Is To Be Done?

In the next few years, the United States needs to respond to the Chinese security challenge in four domains.

Chinese Military Modernization

In response to the Chinese military modernization described above, the United States has improved its military capability in the Western Pacific. These improvements include modernization of forward-stationed aircraft and ships in Japan, persistent deployments of a bomber squadron to Guam, and investments in advanced sensors and weapon systems needed in a high-end fight, such as E-2D early warning planes, the Long-Range Anti-Ship Missile (LRASM), and the SM-6 air defense missile. However, these measures have not been sufficient to maintain the gap between U.S. and Chinese capabilities that would be necessary to assure the security of the American position in Asia and the security of U.S. allies in perpetuity. If the United States wants to maintain its role as the security partner of choice in Asia, restore the credibility of its deterrence against Chinese military action in the region, and improve crisis stability, the U.S. military needs to prioritize the Asia-Pacific, focus the defense budget on China, deepen our alliance relationships in Asia, and enhance operational integration with allies.

The U.S. military needs to update the way it operates in Asia if it is to reassure partners and deter China. Freedom of Navigation Operations are a useful legal tool, but do not demonstrate the United States' unique military capabilities. Conducting exercises in the South China Sea and East China Sea that exhibit discrete but convincing elements of U.S. operational plans would serve to remind China, as well as U.S. allies, that the U.S. military has unique joint warfighting capabilities, and that the U.S. leadership has the necessary will to use them to overcome aggression.

Second, the United States must focus its future budgets on systems that counter China as well as Russia. Too much of the 2019 budget resembled plus-ups to the Department of Defense's existing programs. If China is truly the "pacing threat" that the Department of Defense claims it is, and if the military challenge posed by China is principally in the air and maritime domains, then U.S. policymakers must be prepared to make defense investment decisions in a fiscally-constrained environment that would reduce the Army's overall share of the defense budget. The Department of Defense must adequately prioritize investments to reduce the vulnerabilities of U.S. forces operating forward in the Western Pacific, including cruise missile defense and more distributed and resilient basing. Finally, it needs to continue investments in current and future technologies that emphasize U.S. strengths and which would hold Chinese capabilities at risk, such as attack submarines, long-range strike weapons, LRASM, and hypersonic missiles.

Third, the United States should enhance operational integration with key Asian allies by requesting specific defensive support capabilities, such as expeditionary air and maritime logistics sites and enhanced air-/maritime-/ground-based long-range strike capabilities. Allies should be encouraged to develop cruise and ballistic missile capabilities to defend U.S. air bases located in host nations. To encourage such enhanced cooperation, the United States needs to convince the political leadership of key allies and partners in Asia that the U.S. strategy is viable and that the United States is politically committed to it.

Fourth, we reiterate the support we expressed in our 2017 report for a strategy of "active denial," which would entail maintaining a forward presence in the region that is designed to deny an opponent the prospect of a quick victory, while also developing a resilient force posture that takes advantage of the size and depth of the Asian region to distribute units in more locations, thereby increasing the number of targets an adversary would need to attack to achieve victory. Such resiliency will enable U.S. forces to absorb an initial attack while maintaining the ability to counterattack.

Taiwan

The long-standing United States policy of insisting on peaceful resolution of the Taiwan issue remains a vital American interest. This policy serves to protect the principle of peaceful resolution of disputes in the international system, and to preserve a vibrant Asian democracy. Peaceful resolution will require the agreement of Beijing and the assent of the residents of Taiwan, expressed through their democratic processes. Pending such resolution, the United States must stand ready to deter unprovoked military aggression by Beijing against Taiwan. Washington must maintain a strong and credible military presence in the Western Pacific to convince Beijing that the United States still has serious military options, despite the improvements described above in Chinese military capabilities.

At the same time, the United States should assist Taiwan in developing asymmetric capabilities to hold off the massively superior mainland military until the United States can bring forces to bear. Robust shore batteries, improved air defenses, mobile response units, and sea mines to counter landing craft can all pose major problems for an invading People's Liberation Army (PLA) force. PLA blockades pose arguably the most difficult challenge to Taiwan and the United States, a reminder that the United States should encourage Taiwan to develop deeper strategic reserves of key materials and to create better logistic linkages between smaller ports and population centers.

To avoid exacerbating cross-Strait tensions or potentially even triggering a mainland attack, Washington should not alter its "one China policy," which was established by the 1972 Shanghai Communiqué and reinforced in subsequent U.S.-China communiqués, and which has served well the cause of strategic stability in the Taiwan Strait. While not challenging the claim that there is one China and that Taiwan is part of China, this policy does not take a position in favor of unification, and seeks to maintain stability in the Strait by insisting on peaceful resolution of the Taiwan issue. Taking symbolic or substantive actions that call into question the U.S. commitment to its historic policy will aggravate the mainland threat to Taiwan and cause unproductive friction in Washington-Beijing relations without accomplishing any useful purpose. Clarity and continuity in U.S. policy will be particularly important during Taiwan's 2020 presidential election campaign, which could increase cross-Strait tensions. While adhering to its "one China policy," the United States should provide stronger support for Taiwan by expressing its concern about China's increased diplomatic, economic, and military pressure on Taiwan; calling for a resumption of dialogue across the Strait; permitting appropriate high-level official visits between the United States and Taiwan; exploring further trade and investment liberalization with Taiwan; and continuing to push for increased participation for Taiwan in international organizations and activities for which statehood is not a requirement.

The long-standing United States policy of insisting on peaceful resolution of the Taiwan issue remains a vital American interest.

The South and East China Seas

Since our last report in 2017, China has continued to assert and consolidate its territorial and jurisdictional claims in East Asia's maritime disputes. These actions directly challenge U.S. security interests. In the East China Sea, despite the warming of China-Japan relations in 2018, China continues to conduct regular coast guard patrols inside the territorial waters of the Japanese-controlled Senkaku Islands (called the Diaoyu Islands by the Chinese) and maintains a frequent presence in waters just outside the islands' twelve nautical mile limit. The United States is a treaty ally of Japan and, although it does not take a position on the territorial dispute over the Senkakus, it is pledged to help Japan defend all territories under its administration. This treaty commitment must be kept credible by appropriate U.S. cooperation with Japan.

On three of its seven artificial islands in the South China Sea, China has built the infrastructure to support forward-operating air and naval bases, each with military-grade runways, large harbors, and hardened shelters for squadrons of fighter aircraft, bombers, and missile systems. Reports in May 2018 indicate that China deployed anti-ship and anti-air missile systems on these islands, though the scope and extent remain unverified. Although China has not yet permanently deployed military aircraft and naval vessels to these bases, the new islands give China a platform it can use to project military power over much of the southern portion of the South China Sea. Even though the United States is not a claimant in the South China Sea, these capabilities can be used to challenge the principle of freedom of navigation, which is crucial to American security interests on a global basis; hamper the American ability to support its Asian allies and partners as they seek to defend their legitimate maritime claims and economic activities in their EEZs in the South China Sea; hamper U.S. intelligence and surveillance activities that are important for deterrence of a mainland attack on Taiwan; and would add difficulty to U.S. military operations in case the Taiwan situation reached a crisis stage.

At home, the U.S. government must invest more in scientific and technological research and in our institutions of higher education, where the groundwork is laid for both public and private advances in technology.

The United States must maintain its existing diplomatic positions on the South China Sea issue: namely, American neutrality on competing claims to territorial sovereignty; insistence that territorial disputes should be settled peacefully in accordance with customary international law and the UN Convention on the Law of the Sea; insistence on the right of the international community to exercise freedom of navigation in international waters; and encouragement for China

and the Association of Southeast Asian Nations (ASEAN) to conclude a code of conduct to regulate interstate relations concerning the South China Sea. To promote adherence to these positions, the United States should provide assistance to willing non-Chinese claimants to acquire maritime domain awareness, enhanced maritime presence in waters they claim, especially their coastal exclusive economic zones (EEZs), and asymmetrical military capabilities to deter or counter Chinese bullying.

The United States must maintain an active military presence in the South China Sea through overflights, transits, port calls, joint military exercises, training, and other activities, and encourage other countries, including those from outside the region, to conduct similar activities in order to demonstrate a common determination to maintain the openness of the international waters. This presence should include frequent, regular freedom of navigation operations (FONOPS) to challenge attempts by any state to treat international waters as territorial seas. Such operations should be conducted on a nearly routine basis and normally need not be publicized in order to avoid pushing Beijing to challenge them aggressively.

Economics and National Security

China's race to catch up and in some cases surpass the United States in key technologies with national security implications has significantly increased the risk of a reduction in America's comparative military standing. The Trump administration is to be credited for emphasizing in its 2017 National Security Strategy the security and military dimensions of U.S.-China economic relations, and the need to defend and strengthen America's National Security Innovation Base (NSIB).

However, more must be done. There are no easy solutions that can completely avoid some disruption to beneficial economic interdependence with China or some harm to America's own innovation ecosystem. The uncertainty related to the future nature of warfare itself makes policymaking and prioritization difficult. To strengthen our response to this challenge, the government should adopt a whole-of government approach, solicit public-private

cooperation, and garner bipartisan support for a smart competitive approach that strikes the right balance between preserving national security and maintaining our own economic and technological dynamism. At home, the U.S. government must invest more in scientific and technological research and in our institutions of higher education, where the groundwork is laid for both public and private advances in technology. Recommendations made in the economics and trade section of this report that are aimed at protecting U.S. technological secrets and at creating a more favorable competitive environment for American enterprises in China are important not only for economic reasons but also to maintain the right balance in security relations between the United States and China.

Chapter 3: Global Governance

As an emerging global power, China presents a mix of opportunities and challenges for the United States. For many years the U.S. has called on China to increase its contributions to global governance to make them commensurate with its size, wealth, and role as a world power. Today, under Xi Jinping we see China showing greater activism and assertiveness in its general foreign relations, as well as some increased positive contributions to global public goods.

On the positive side, in some issue areas where Beijing's interests overlap well with those of the United States and other nations, China has increasingly addressed global challenges in ways that benefit the broader global community. Climate change, the Iranian nuclear deal, and peacekeeping are three prominent examples. But also important are China's contributions to anti-piracy operations, counter-terrorism efforts, public health and pandemic prevention, and overseas development assistance.

On the negative side, China is also leveraging its capabilities to pursue some narrow objectives that the United States does not share and that, in some cases, directly undermine U.S. and broader global security interests and the health of the global economy. Overall, the downside risks associated with China's growing global influence outweigh China's positive contributions. For example, China too often seeks to weaken existing international regimes—such as international human rights regimes—and to shape emerging ones, such as those related to Internet governance, the Arctic and Antarctic, and outer space, in ways that serve Chinese interests at the expense of other nations'. Most Chinese initiatives fall into either the positive or negative category, but some occupy a murkier middle ground. Many Belt and Road Initiative (BRI) projects, for instance, provide considerable economic development benefits, while others are undertaken with only weak environmental, labor, and financial standards. Still others may boost Chinese political and diplomatic objectives in ways that undermine regional stability.

From an American perspective, the challenge is to strike the right balance between encouraging China to play a broader role in confronting common global challenges by working with it where our interests intersect, while at the same time pushing back against it on those efforts that undermine rather than buttress global stability and liberal norms. The end goal should be for China to contribute at a global level in ways that benefit the global community as well as itself. Opposing rising Chinese power across the board is not, and should not be, our objective. It is natural and legitimate for China's global role to grow as its economy, interests, and diplomatic capabilities grow. At the same time, it is also imperative that the United States and other nations object to and counter China when it uses its growing global presence in problematic ways.

The United States must maintain a strong global presence as the international leader in upholding established norms.

In order to succeed on both fronts—encouraging China to do more in some areas while countering problematic Chinese initiatives in others—the United States must maintain a strong global presence as the international leader in upholding established norms. To do that the United States needs to be at the table raising the bar for Chinese action in areas where we share common interests while contesting Chinese attempts to shape international regimes in ways that undermine our own interests.

Unfortunately, the United States is currently falling short on both of these fronts. At the very moment when Xi Jinping is leaning in at the global level, the United States has been pulling back. In areas where collective action matters most, other nations—such as our European allies, who are particularly concerned about the Trump administration’s policies on climate change, trade, and the Iranian nuclear deal—increasingly perceive the United States as being as much a spoiler as China. Moreover, U.S. withdrawal from the global arena gives China wide leeway to frame itself as the more positive international leader, despite the fact that Beijing’s rhetoric is often deceptive—such as proclaiming itself the standard-bearer of “open” economies as it did in Davos in 2018. But if the U.S. remains largely absent—at times even playing a destructive role—Beijing will have wider maneuvering room to exert global influence in ways that challenge U.S. interests, diminish U.S. influence, and erode values that Americans view as conducive to global stability, peace, and security.

What has Changed?

Five trends are contributing to an era of upheaval in the global system.

First, Beijing is now not only participating in the full range of existing multilateral institutions but also has begun to create many new ones—allowing it to play a greater international role than ever before—and sometimes making positive contributions. But Beijing also sometimes cheats, other times ignores, and occasionally outright opposes international law rulings and standards to leverage its participation in global governance forums to push international norms in directions that benefit authoritarian regimes at the expense of liberal democratic systems and values.

Second, under the Trump administration the United States is now too often playing a significantly weaker role in the international system than previously, and in some cases has been undermining the existing global order. Such actions include announcing its intent to withdraw the United States from the Paris Climate Accord and officially withdrawing from the Joint Comprehensive Plan of Action to address Iran’s nuclear program, the UN Human Rights Council, and the Trans-Pacific Partnership (TPP). Since U.S. leadership has been the backbone of the global system since the end of World War II, this metamorphosis has undermined the functioning of the whole international system.

Third, there is a growing disconnect between the prevailing international system and shifting power balances. China, India, Brazil, and other middle powers and emerging nations are pushing for greater representation in institutions that they see as biased in favor of larger Western countries and their value systems. As these emerging nations gain a stronger voice, they can, in turn, weaken or shift the norms those institutions were built to uphold. It is becoming increasingly clear that without reform, the international system will be hard-pressed to reflect the shifting power of newly industrializing countries and regional powers without destabilizing changes. The challenge is to reform institutions to give more voice to China and emerging nations without abandoning the liberal democratic values that were originally imbedded in them.

Beijing is playing a two-step game: investing in physical infrastructure in other nations and then leveraging those investments as epicenters of influence projection to shape global governance institutions and practices in its recipient countries.

Fourth, the flood of outbound investment from China, often under the umbrella of the Belt and Road Initiative, is giving China the opportunity to expand its global footprint and enhance its ability to shape global norms. Beijing is playing a two-step game: investing in physical infrastructure in other nations and then leveraging those investments as epicenters of influence projection to shape global governance institutions and practices in its recipient countries. But in some cases the physical infrastructure investments themselves create direct new security risks for the U.S. For example, Beijing is building port projects throughout the Indian Ocean region—including a military base in Djibouti and Chinese-controlled commercial ports in Tanzania, Sri Lanka, and Pakistan—that expand China’s naval access in ways that could challenge future U.S. naval operations in the region. In other cases, China is leveraging physical infrastructure to shape global norms in other more subtle but equally problematic ways.¹

Fifth, as China becomes more active globally, a growing number of countries are complaining about Chinese projects even as they remain eager for funding from China. The reasons include the terms of Chinese financing schemes that create debt dependencies, failure to contract with local firms or hire local labor, inattention to local environmental concerns, and sometimes shoddy construction practices. Criticisms of China are already evident in Southeast Asia, South Asia, the South Pacific, Africa, and Europe, and we can anticipate more cases in the future.

What is to be Done?

First and foremost, the United States has to show up at international forums and be a fully engaged leader in global governance. We can only preempt untoward Chinese influence by having influence ourselves, by insisting on China’s constructive participation in the existing global rules-based system, and by presenting financial, political, and normative alternatives to those offered by Beijing. Currently, the United States is stumbling on all of these fronts.

Going forward, the nature of U.S. leadership around the world may have to change—more often our leadership may need to take the role of convening, organizing, and guiding international and multilateral efforts rather than commanding or directing them—a change that was already becoming necessary during the Obama administration. One thing is clear: the world will not exclusively organize itself around the U.S., and American leadership will not remain essential, if new structures are not congruent with American interests and values. To succeed, the United States must focus more broadly and get more directly involved in guiding and reforming global governance systems. That can include joining some of China’s new global initiatives. The United States should judge such initiatives based on careful analysis of their intentions and results. When those initiatives do not contravene U.S. principles, the U.S. should join them and thus have both an influential seat at the table and an opportunity to press them to move in better directions.

¹ This is a particular concern on global Internet issues. China is building information communication infrastructure in many developing nations that poses three distinct threats. First, it is strengthening authoritarian regimes around the world by providing them with ready-made tools for greater Internet control. Second, it may be inserting backdoors into recipient nation backbone networks that make their communications vulnerable to Chinese surveillance. Third, it is seeking to recruit recipient nations to support China’s broader initiatives regarding global Internet governance.

For example, China is exporting facial recognition technology and other surveillance tools to nations such as Zimbabwe and the United Arab Emirates, which use them to monitor and control their citizens. Tanzania and Nigeria—two Chinese infrastructure recipients—are adopting new domestic Internet and cross-border data restrictions packages modeled on the Chinese system. The BRI has a “Digital Silk Road” component that aims to build broader global support for China’s notion of “internet sovereignty,” a concept that legitimizes Internet censorship and control within the boundaries of a given nation. China is hosting “cyberspace management” seminars to train representatives from Belt and Road nations in China’s Internet regulatory practices. If the United States does not put forward alternative information communication infrastructure options, there is a growing risk that Beijing will build out the next wave of digital 5G infrastructure and bundle authoritarian governance principles along with it.

When seeking to shape and compete with Chinese influence at the global level, the United States should play to its own strengths. In the development realm, that includes the ability to support projects with high environmental, technical, financial, and social standards. The United States can support and promote global development and governance standards that benefit broad global communities that China disregards or undermines by buying off special interests to gain project approval and then refusing to publicly disclose critical details regarding a project's true financial, social, and environmental costs. On global governance issues—such as Internet governance and human rights—Beijing too often seeks to water down protections designed to benefit broad public interests.

There is an ideological competition brewing in the world between liberal democracy and authoritarianism, with China as the wealthiest and most powerful potential leader on the authoritarian side. Competition over standards, however, does not need to be ideological. It is simply an issue of which approach provides the most significance and most benefits to the largest number of people. To be sure, liberal democratic values give the United States an edge, but the United States should seek to maximize that edge by being more actively engaged.

The United States can best achieve such goals by moving on three fronts: improving transparency, putting development alternatives on the table, and advancing cooperative public goods initiatives with China.

First, on the transparency front, the United States should more actively join forces with other nations to push for binding rules on global infrastructure investment that set a high standard for transparency and ensure that infrastructure investment is consistent with commercial considerations. This could include the creation of a database that pools investment project performance data in one place, thus making it easier for recipient nations to assess how other similar projects are performing. Currently, the general lack of transparency into existing investments makes it difficult to project the likely impacts of new ones. That, in turn, makes it easy for Beijing to claim that all its deals have been great for other nations, even when they have entailed negative repercussions. From the standpoint of recipient developing nations, improved transparency will strengthen their ability to seek better deals from the international community as a whole.

Second, the United States must become a more active player in the overseas development assistance (ODA) process. We cannot match China dollar-for-dollar in funding for infrastructure projects—nor would it be wise to do so—but together with other nations (such as Japan or European states) we can offer alternative sources of aid and investment for developing countries that pay greater attention to transparency, social and human rights, and environmental and fiscal impacts. If the United States does not put new alternatives on the table, developing nations face a choice between China or nothing.

The United States already provides around 33 percent of the world's development assistance, and that assistance can be leveraged to compete more directly with China's development programs. The goal is not to supplant what China is doing, but rather to push China to meet higher project standards and support rather than undermine existing international norms. The Trump administration's "clear choice" approach to development aid, which aims to build self-reliance by providing capacity-building for developing country officials around issues of infrastructure financing, environmental protection, and social impact assessments—and, by doing so, provide a clear contrast to China's more extractive model—is a good start.² So too is the newly launched U.S. International Development Finance Corporation, which will provide \$60 billion in loans, loan guarantees, and insurance to American companies willing to do business in developing nations. The U.S. partnership with Japan and Australia on infrastructure development in the Indo-Pacific is also important. The U.S. is already a massive

² U.S. Department of State U.S. Agency for International Development, *Joint Strategic Plan FY 2018-2022* (February 2018). https://www.usaid.gov/sites/default/files/documents/1870/JSP_FY_2018_-_2022_FINAL.pdf

investor across Southeast Asia—the total stock of \$226 billion is greater than China, Japan, and South Korea combined. However, these investments are dispersed and do not have the strategic coherence of projects like China’s high-profile Belt and Road Initiative. At a minimum, the United States must do more to highlight what it is doing and how pivotal its presence is, and then leverage those activities to put alternative options on the table.

As a next step, the United States should make information and communication technology a priority area for its overseas development assistance. Digital infrastructure—including 5G systems, satellite systems, fiber optic cables, and e-commerce—will constitute the infrastructure of the 21st century. China is becoming the primary digital infrastructure investor across Asia, Africa, and Latin America, and that growing digital footprint is the biggest long-term threat associated with Beijing’s expansive development aid. The United States should not stand by and allow China to write the rules that will govern global technology sectors over the coming decades. But at

The United States should make information and communication technology a priority area for its overseas development assistance.

the same time, the United States cannot simply call on other nations to reject closed China-funded information systems without putting on the table concrete alternatives that support an open global Internet. This is a major global challenge and the United States should make it a high-priority objective. For example, the Trump administration should focus on the BUILD Act,

a bipartisan bill that just created a new U.S. development agency—the U.S. International Development Finance Corporation (USIDFC), one of the most important pieces of U.S. soft power legislation in more than a decade. The U.S. should seek to partner with Japan and India to launch a digital infrastructure initiative throughout the Indo-Pacific and the Asia Africa Growth Corridor that will put forward a higher-standard Internet alternative to the digital agenda China is pushing through the Belt and Road.

Third, the United States should continue to work collaboratively with China to address global public goods issues. Global public health is one such area ripe for more collaborative action. It is important to remember that there are many global problems where the two nations have more to gain from working in concert than by working apart. For example, because pandemic diseases easily cross borders, they are shared challenges that neither nation can effectively address alone. The United States and China are already making some progress collaborating in this domain. For instance, in Liberia they established a Center for Disease Control and Cooperation and together launched the U.S.-China Collaborative Program on Emerging and Reemerging Infectious Diseases. The United States should work collaboratively with China to launch more such programs in other regions, while at the same time encouraging Beijing to provide more information to the global community about disease outbreaks within its own borders. Due to its large population, there is a significant risk that the next epidemic will originate in China, and Beijing, with a track record of failing to report outbreaks promptly, must be made fully accountable for sharing such information in a timely manner.

Chapter 4: Human Rights

WHAT HAS CHANGED?

The fact that the human rights situation in China has drastically worsened under Xi Jinping must be a concern for United States policymakers, both as a matter of principle and because of the way human rights practices influence China's behavior both at home and abroad. At the same time as China's human rights abuses have increased, U.S. and other Western efforts to promote rights in China have become less effective. Overseas governments and civil society organizations must renew their resolve to think creatively about ways to support human rights in China under these new and far more challenging circumstances.

Under Xi Jinping's leadership, China has continued to see gradual progress in protecting many kinds of economic and social rights, including the rights to health care, education, and a retirement income. In addition, courts have been given more independence in non-political cases and government agencies have adopted more progressive policies on such issues as domestic violence, discrimination against women, and LGBT rights. This progress should be acknowledged and, where feasible, assisted.

Overseas governments and civil society organizations must renew their resolve to think creatively about ways to support human rights in China under these new and far more challenging circumstances.

Yet at the same time, protection of most civil and political rights has deteriorated severely. The political police have become more active in repressing free speech, independent journalism, academic freedom, the activities of rights-defense lawyers, and independent forms of religious worship. Political oversight has been strengthened in universities, the media, courts, state agencies, and private business enterprises. These reversals have been paralleled by a dramatic centralization of power and strengthening of Communist Party control mechanisms, social surveillance, and other internal security apparatus.

The following are examples from among numerous recent instances of intensified political repression:

In 2012 an extra-judicial anti-corruption campaign was launched as hundreds of thousands of Chinese Communist Party officials were interrogated without due process protections under physical and mental pressures often amounting to torture. Last year, six years after the campaign began, its scope was broadened to encompass the investigation of non-Party member civil servants, under the newly created National Supervision Commission.

Starting in 2014, the provincial government in the Xinjiang Uyghur Autonomous Region initiated a policy that has led to the involuntary internment of up to a million Uyghurs, Kazakhs, and members of other minority groups in so-called re-education camps, where they have been subjected to open-ended terms of detention and forced education directed at making them denounce their religion and express loyalty to the regime.

In 2015, the Chinese government detained more than 300 lawyers who had tried to defend human rights victims. Some were released with warnings, while others were sentenced to prison terms, effectively crushing the "rights-protection" movement. Five prominent feminist advocates were also detained, dealing a severe blow to the nascent feminist movement.

Also in 2015, authorities in many localities began tearing down crosses from Christian places of worship and closing independent “house churches.” In 2018, after years of harassment, two of China’s largest independent congregations—the Zion Church in Beijing and the Early Rain Covenant Church in Chengdu, Sichuan—were forcibly disbanded.

In 2016, authorities began dismantling the facilities at Tibet’s largest Buddhist institute, at Larung Gar, one more step in a process of limiting the practice of Tibetan Buddhism. The same year, the Beijing government progressively tightened its control of the Internet and other media, deleting criticism on domestic websites and blocking access to foreign sites that might contain information on sensitive topics. And as an active member of the United Nations Human Rights Council, China lobbied to weaken the council’s “special procedures” (also known as thematic and country mandates) and to reduce to a pro forma level its cooperation with the Council’s Universal Periodic Review procedure and with human rights agencies such as the Office of the High Commissioner for Human Rights and the United Nations treaty bodies.

In 2017, Nobel Peace Prize winner Liu Xiaobo died in police custody after serving eight years of an 11-year prison sentence for subversion, imposed because of his public advocacy for peaceful change and respect for the constitution. Only in 2018 was Liu’s widow, Liu Xia, who had been kept under extra-legal house arrest throughout and after Liu’s imprisonment, allowed to leave China and go to Germany.

In 2018, students supporting a workers’ strike at the Jasic Technology factory in Shenzhen were detained in one of a growing number of instances of repression of independent labor activity. At the same time, it has become more and more difficult for international human rights groups to work in China as they do elsewhere around the world.

In the face of such intensified repression, traditional Western methods of promoting human rights in China have been less and less effective. Not only is it more difficult to do in-country research on rights abuses, but the classic advocacy technique of “naming and shaming” abroad no longer elicits much of a response from China’s authorities. The country’s leadership has squeezed out virtually all foreign human rights-related funding to Chinese rights advocates by adopting a foreign NGO law that requires that approval be obtained from the Ministry of Public Security for any foreign funding of Chinese NGOs and for any direct foreign NGO operations in China. And despite the long-delayed release of Liu Xia under intense pressure from the German government, Beijing is now much less willing to allow Chinese human rights defenders to go abroad as a way of blunting international human rights criticism.

Despite these setbacks, many people in China yearn for basic rights, making it incumbent on the United States government and American civil society organizations to think innovatively about how to best support them. Available channels include the Internet; the international media; access to the more than 360,000 Chinese students and scholars in the United States (and another 300,000 in other countries outside China); the still numerous international academic exchange programs; interactions between the foreign and Chinese business communities; and state summits and other high-level government-to-government meetings.

WHAT IS TO BE DONE?

With China and the United States competing ever more openly, the U.S. has more at stake than ever in helping to facilitate a law-abiding and rights-respecting regime in Beijing. A more repressive Chinese regime is more dangerous to the international community. When it is exempt from effective oversight by its own public, it is

more likely to engage in external adventurism without concern for the cost to the Chinese people or to the world. It is also more likely to promote authoritarian values in countries where it has influence, and to train elites in those countries in methods of information control and repression. A regime that violates international human rights law is more likely to violate other international laws, including in trade, finance, and territorial disputes. Within its borders, a repressive authoritarian regime is more likely to deny fair treatment not only to its own citizens, but also to foreign citizens and foreign enterprises. The politicization of the courts is a major reason why it is so difficult for foreign enterprises to compete on a fair basis in China. In U.S.-China relations, gross rights violations within China—such as those against Tibetan Buddhists, ethnic Uyghurs and Kazakhs, and independent Christian churches—make it difficult to sustain political support in the United States for a balanced China policy that pursues the right mixture of competition and cooperation. Failing to address human rights violations allows value differences to intensify and drives the bilateral relationship toward unnecessary polarization. And finally, Americans' respect for our own values requires us to speak up as forcefully in the face of pervasive, systemic, and worsening repression in China as elsewhere. Liberal democratic values support American interests by helping to create a world that is more rules-based and safer for everyone. At a time when the government of the United States itself is often violating basic constitutional and human rights, it becomes more incumbent than ever for American civil society actors to speak up and help fill the gap.

We make the following recommendations for how the United States—both government and civil society—can promote human rights in China more effectively given new, more difficult circumstances.

First, while respecting the independence of civil society organizations, the relevant agencies of the U.S. government should consider providing more financial and technical assistance to U.S. human rights, religious, educational, media, and other organizations that are working to promote human rights in China.

Second, despite the Chinese government's distaste for discussing human rights questions, these issues must be consistently and prominently placed on the agendas of U.S.-China leadership interactions, as well as be consistently pursued at the working level.

Third, the U.S. must use the annual State Department human rights reports, memorial statements on such anniversaries as June Fourth, statements in the UN Human Rights Council, and other appropriate occasions, to draw sustained public attention to China's rights abuses. Shining a public spotlight on abuses is an indispensable tool, even as state leaders and diplomats continue to raise human rights issues in private settings. Even if China's government does not respond, people around the world (including inside China) pay attention, and those whose rights have been abused will gain hope.

Fourth, attention in U.S. interactions and statements should expand from the usual focus on individual cases and on specific religious rights abuses to take note of violations that affect larger groups of ordinary Chinese people in their daily lives. More attention should also be paid to violations of those rights that the Chinese government itself has putatively guaranteed in its own constitution and laws or by virtue of its accession to international treaties. These issues include the denial of equal citizenship rights to rural residents; land seizures; heavy-handed censorship of the Internet; lack of access to independent courts for civil suits; due process in criminal cases; and many others.

Fifth, abuse of worker rights is one of the most widespread and strategically crucial areas of human rights violations in China today and one that is directly connected to American consumers, who benefit from these violations through the low cost of Chinese labor. American manufacturers suffer a disadvantage from the unfair competition of low labor costs due to rights abuses. Labor rights should figure prominently in U.S. human rights diplomacy.

Sixth, the United States should rejoin the United Nations Human Rights Council to fight for the integrity of that institution against the efforts of China and its allies to weaken it. The U.S. should diplomatically and financially support the work of the council's Special Procedures (independent human rights experts who report and advise the Council on thematic and country-specific issues) when they address human rights issues in China. Western NGOs should be more systematic in providing information to UN treaty bodies that review China's compliance with its human rights treaty obligations.

Seventh, the United States should multilateralize its efforts to promote human rights in China by working with like-minded countries and entities like Australia, New Zealand, Canada, the Scandinavian countries, and the European Commission.

Eighth, American human rights diplomacy should tap into Asian solidarity whenever possible by coordinating more closely with democratic Asian governments and NGOs. Many of the region's governments have generally good relations with the PRC, yet these governments also have their own concerns about China's arbitrary behavior. In many bordering countries, China supports highly repressive regimes, including through military assistance. Some of these states, most notably Burma and North Korea, create significant problems for their neighbors. Although few dare say so publicly, many government officials and academics in these countries see China as a bully in the region. With respectful American leadership, there is significant potential for a more active approach to Chinese human rights issues on the part of Asian governments.

Ninth, the U.S. government should sustain and increase funding for Chinese organizations and individuals, both inside China and in exile, who are working to promote internationally recognized human rights in the country. Such allocations should include funding for capacity-building initiatives that could be offered for Chinese lawyers, media workers, and other human rights activists in settings outside China. Such funding could be directed through the State Department Bureau of Democracy, Rights, and Labor; the Agency for International Development; and the National Endowment for Democracy (NED) and its four core institutes. (Because of its demand-driven, small-grants model, the NED is particularly successful in supporting rights promotion with high effectiveness and low cost.)

Tenth, the U.S. should consider funding civil society organizations to offer programs on international human rights and on China's contemporary historical experiences that Chinese visiting students and scholars could attend here in the U.S.

Eleventh, the U.S. should continue to fund research into digital technologies that could help Chinese Netizens surmount the "Great Firewall" and gain access to the free international World Wide Web. Above all the U.S. government and human rights organizations should work with IT companies like Google, Facebook, and others to ensure that they do not end up in any way assisting the Chinese government with censorship and surveillance.

Chapter 5: Overseas Influence

What Has Changed?

A new issue on the agenda of U.S.-China relations is the intensification of Chinese government efforts to influence American views on China by promoting official Chinese views and discouraging the expression of contrary ones. While Americans are well acquainted with China's quest for influence through the projection of economic and military power, they are much less aware of the myriad ways Beijing has begun to seek influence over American public opinion and government policies in the last few years.

The Chinese government's primary motivation for undertaking this broad range of "influence activities" is to promote sympathetic views of its government, policies, society, and culture, as part of a worldwide effort to shape international narratives about and policies toward China. Although these global efforts have a long history dating back to the early years of the People's Republic, they have intensified since 2007, when then President Hu Jintao began emphasizing the importance of improving China's global image and soft power. Since then, party, government, military, and private organs have undertaken an increasingly systematic, tightly coordinated, and well-funded global effort to shape international opinion about China. This effort has gained new momentum and become a higher priority since Xi Jinping replaced Hu Jintao as China's leader in 2012.

Through a multipronged effort, China's party-state seeks to control the global narrative about China in order to co-opt people and governments overseas into supporting China's foreign and domestic policy positions. The campaign targets all regions of the world and involves use of informational, institutional, and technological instruments to influence a wide variety of actors in foreign societies. The work is carried out by institutions connected to the CCP's United Front Work Department, International Department, and Propaganda Department, as well as the State Council's Ministry of State Security, Ministry of Foreign Affairs, Ministry of Education, Ministry of Culture, State Council Information Office, National People's Congress, and Chinese People's Political Consultative Congress, as well as the People's Liberation Army, Xinhua News Agency, Voice of China, and other state organs. In addition, many private sector institutions, including think tanks, play a significant role in the enterprise.

Chinese officials and commentators assert that China is locked in what they term a "discourse war" with Western institutions—particularly media outlets, but also governments, academia, think tanks, and civil society—which, in their view, have exercised a worldwide "media hegemony" that has portrayed China unfairly and in a negative manner. The CCP makes clear in its internal communications that its goal is to break this perceived "Western media monopoly" and to change the international narrative about China.

Some of China's influence activities can be considered normal public diplomacy that most countries, including the United States, carry out, such as visitor programs, cultural and educational exchanges, media exchanges, and government lobbying. But other efforts encroach on the core American values of freedom of speech and academic freedom, and in some cases violate U.S. laws. There is also a category of activities that are demonstrably covert, coercive, and corrupting and require proactive counter-actions by non-governmental institutions and government agencies. (See the report recently published by the Hoover Institution Press, "Chinese Influence and American Interests: Promoting Constructive Vigilance," <https://www.hoover.org/research/chinese-influence-american-interests-promoting-constructive-vigilance>.)

Except for Russia, no other country's efforts to influence American politics and society matches the breadth, depth, investment of financial resources, intensity, and ambition of Chinese activity. However, unlike Russia's agenda to undermine American democratic processes and institutions, China's agenda has focused on influencing both public perceptions of China and U.S. government policy.

China's efforts depart from the normal range of influence activities and become interference activities when they go beyond information exchange and persuasion to use censorship and punishment to silence critical voices. American companies have long been reticent to criticize China for fear of commercial retribution, but now U.S. universities, think tanks, and NGOs are also learning that China will punish them, too—by suspending or breaking off exchanges if they sponsor events or issue publications that the Chinese government deems offensive.

Many of China's influence efforts are aimed at American elites who work in the world of policy. Their intention is to influence how these opinion-makers think, write, and speak about China and advise the U.S. government. Beijing's

China's efforts depart from the normal range of influence activities and become interference activities when they go beyond information exchange and persuasion to use censorship and punishment to silence critical voices.

techniques include denial of visas or research access within China. The party also seeks to prevent Chinese students on American campuses from voicing individual views that deviate from government policies; there have been multiple instances of Chinese students "peer monitoring" their Chinese classmates on U.S. campuses and reporting on them to the PRC embassy or consulates. On occasion such actions have led to individuals being pressured or their families harassed back in China.

The strategy of engagement pursued by American administrations for the past four-plus decades has encouraged the building of bridges to China by all levels of government, civil society, and the Chinese-American community. As various organizations and individuals linked officially with the Chinese government have engaged more broadly with these American counterparts, the Chinese propaganda apparatus has gained new opportunities to exert influence. Now it is using these access points to step up influence activities at the state and local levels and among Chinese Americans.

What is to be Done?

Smart competition with China in this sensitive area is different from competing in the domains of diplomacy, commerce, technology, or security; in the domains of influence and information, we are seeking to defend the integrity of our institutions from being undermined by inappropriate interference. This involves protecting our First Amendment rights such as freedom of speech and the associated value of academic freedom.

There exist a number of important instruments and actions that can be effectively used to expose, monitor, and counter illegitimate Chinese influence activities.

1. **Transparency** is of utmost importance. The old adage that "sunshine is the best disinfectant" is apt. Publicly reporting on inappropriate Chinese activities is an effective means of deterring them. When Chinese government entities buy Chinese-language newspapers, purchase air time on American radio stations, insert paid special Chinese state media-produced sections in American newspapers, sponsor public speakers or conferences—then transparency about Beijing's official involvement is essential to

help the American people be informed consumers. Chinese state media operating in the U.S. are now appropriately required to register as foreign agents under the Foreign Agents Registration Act (FARA). Companies linked to China's government that buy American radio stations should also be exposed and prosecuted for contravening FCC ownership regulations. And as opportunities to receive funding from China for universities and think tanks increase, transparency about the origins and conditions of such funding becomes critical.

2. **Education and information exchange mechanisms** should be improved—to better inform students, staff, faculty, and administrators in universities, think tanks, NGOs, and Chinese-American communities about the range and substance of Chinese government influence activities that are occurring across the United States and the identities of the organizations from China with which they are interacting. There remains a high degree of unfamiliarity and naiveté among institutional administrators and stakeholders about the potential dangers of opaque actors working at the behest of the Chinese government. Agencies of the U.S. government can be helpful in briefing private sector institutions about these dangers. Chinese Americans also should increase their awareness of the ways their communities are being targeted by organs that are part of the CCP's United Front apparatus. State and local governments would also benefit from sharing information with each other.
3. **Due diligence and oversight** need to be exercised in vetting Chinese government-related activities in U.S. institutions. Universities have well-established faculty governance and administrative oversight mechanisms that should be vigorously and vigilantly activated to prevent any infringement of academic freedoms. For example, universities must oversee the activities of Confucius Institutes and Chinese Students & Scholars Associations (CSSAs) across American campuses to make sure they do not restrict free debate and discussion. All students, including those from China who come to study in American universities, deserve to participate freely in academic life without fear of being monitored or putting themselves or their families in China at risk. American universities' commitment to open discourse and debate without fear of reprisal should be made clear to all incoming foreign students in university orientation programs.

Greater due diligence must also be exercised in vetting financial gifts from China or grants from China-affiliated foundations, including those based in Hong Kong or Macao. American institutions have long experience with refusing donations that have political strings attached, so they do not need to reinvent the wheel with regard to China. They must simply apply established vetting practices fully.

4. **Reciprocity** needs to be substantially improved. While U.S.-China exchanges have never been fully reciprocal—China has always severely circumscribed the work of American scholars, NGOs, businesspeople, and journalists in China—the asymmetries have grown more pronounced in recent years. American and other foreign scholars are increasingly denied the opportunity to undertake normal academic activities in China that are permitted in most countries. Meanwhile, the United States remains wide open for research by Chinese (and other foreign) scholars and students. These restrictions on Americans in China should be taken up by U.S. government agencies with their Chinese counterparts because they contravene the spirit and the letter of numerous inter-governmental exchange accords agreed to since 1979. But universities, think tanks, NGOs, and foundations should also resist and even consider retaliating when they encounter such restrictions. On the media front, the U.S. should consider increased support for U.S. government-funded media outlets including Voice of America and Radio Free Asia.

To advance greater reciprocity, we urge universities and think tanks to coordinate their efforts by establishing codes of conduct with agreed-upon principles for exchanges with counterparts from China. Such codes should provide, among other things, that U.S. institutions select their own participants in collaborative projects and exchanges with Chinese institutions, and if any member of a U.S. delegation to China is rejected or denied a visa by China, the delegation should cancel the activity. What's more, the Chinese side should not be permitted to unilaterally control conference agendas, pre-vet papers prior to presentation, or censor them prior to publication. If they find China has placed restrictions on their normal academic exchanges, U.S. institutions should consider taking commensurate measures, such as limiting visits and speeches by Chinese officials. Moreover, U.S. universities and think tanks should consider refusing to host long-stay Chinese visiting scholars from institutions that do not offer reciprocal opportunities for American scholars in China.³ Other sectors outside of academia and think tanks should likewise consider forming common principles in dealing with China's influence-seeking within their own specific realms of activity.

- 5. Sharing of experiences and best practices** with other countries should be increased. As a large, powerful country with robust institutions, a long history of democracy, and attendant priorities of transparency, accountability, and the rule of law, the United States can help other countries form appropriate regimens for healthy interaction with China. Many other countries lack the leverage Americans enjoy in responding to the political restrictions that organizations in China sometimes impose on their educational, media, and cultural interactions with foreign counterparts. At the same time, the United States can also learn from other countries' experiences, as China's influence activities are increasing worldwide. Nations such as Australia and New Zealand, and many across Europe, have already encountered multiple instances of more intrusive interference from China and have begun to put in place mechanisms to deal with them. The U.S. should partner with such countries to share lessons learned and form a united front of their own.

Broader Considerations

In our desire to ensure that the Chinese government's efforts to influence American political and social discourse are conducted in ways consonant with American values of openness, transparency, reciprocity, and fairness, we must take care not to manufacture or over-inflate the perceived China threat in a manner that ends up harming our own values and institutions. For example, restricting visas for Chinese students or otherwise inhibiting their ability to take full advantage of the benefits of an American education (except in limited specialties required for national security purposes) would not only compromise these same values, but also limit the U.S.'s opportunity to help shape the perspective of the next generation of Chinese leaders.

We must distinguish between improper interference activities by a foreign government and the legitimate exercise of freedoms of speech and association by American citizens and foreign nationals (including Chinese nationals) inside the United States. Efforts to shape Americans' views about China often involve constitutionally protected speech by citizens and foreign nationals. What is objectionable are Chinese-government coordinated actions that are covert, coercive, or corrupting, even if they involve "speech." As we act to rebuff these wrongful efforts to shape Americans' views about China, we must protect other efforts to influence people's views that are protected by our country's cherished system of free expression embodied in the First Amendment. In protecting our democratic freedoms from Chinese government pressure, we must not undermine our constitutional principles ourselves,

³ At present only Chinese universities, the Chinese Academy of Social Sciences and its provincial branches, and the Shanghai Institute of International Studies permit foreign scholars in residence—while other think tanks do not.

such as free speech rights for citizens and non-citizens alike; the right to receive information and ideas, as well as to communicate them; the academic freedoms of universities, teachers, and students; and the robust and open “marketplace of ideas.”

Moreover, as we defend our country against efforts to inappropriately interfere in our society, we must never forget the gross abuses that historically have occurred in the name of defending America from foreign influence, including the Chinese Exclusion Act of 1882; the internment of Japanese Americans during World War II; and the gross excesses of the McCarthy period that ruined the lives of a large number of innocent patriotic Americans caught up in that “Red Scare.” In retrospect, our country has condemned these past excesses and we must avoid repeating them in the future.

Despite the complexity of the U.S.-China policy agenda, the new problem of China’s interference activities must be dealt with. Unlike many other issue areas, this is a particularly amorphous sphere and range of activities. When China’s interference activities break U.S. laws, they should be handled by law enforcement agencies. But because most are more ambiguous they will require our social and educational institutions to heighten awareness and develop effective responses. Our democratic practices, norms, institutions, and laws will serve us well in rebuffing them.

We must take a careful and variegated approach to countering the inappropriate forms of Chinese interference and influence-seeking in the United States. We should not overreact to those activities that are similar to legitimate lobbying and public diplomacy efforts carried out by many other foreign government entities, and we must always be mindful not to inadvertently violate the equal rights enjoyed by citizens and residents of Chinese origin. But when influence becomes interference and threatens the healthy functioning of U.S. institutions in harmful ways that violate core American freedoms, we must be prepared to act with resolve.

We must distinguish between improper interference activities by a foreign government and the legitimate exercise of freedoms of speech and association by American citizens and foreign nationals (including Chinese nationals) inside the United States.

Afterword

Everyone in our Task Force is alarmed about the sharp deterioration of the U.S.-China relationship. All of us feel a strong sense of responsibility to utilize our knowledge and experience to help prevent a hostile face-off that would be devastating not only to the United States and China, but also to the rest of the world.

Forming a consensus among strong-minded individuals is never easy, but for the two of us the group process has helped illuminate contradictions and ambiguities in our own thinking. Central to all of our discussions over the past three years is the question of whether the present Chinese leadership is still willing and able to adjust its economic and foreign policies so that they become more, rather than less, in line with the rules-based global order on which the United States and other nations have long depended. Put another way, are the increasingly ideological, mercantilist, and internationally assertive policies that Beijing has adopted so intrinsic to communist one-party rule that believing in further hope of convergence is folly?

Within our group there is a spectrum of opinions on these crucial questions. However, we all agree that, because the stakes are so high, even as we push back we must not abandon our quest for a more sustainable approach. While we need to stand up for American interests and values, we also need to continue testing the pragmatic flexibility of the Chinese leadership so as not to close the door on solving specific disputes and cooperating in critical global areas such as climate change, health, nuclear proliferation, and others of common concern.

Another point of consensus is worth highlighting: we advise caution in reacting to the perceived threat from China to avoid self-defeating measures that would too hastily bar flows of high technology investment and talent from China and harm our own innovation ecosystem and economic competitiveness, as well as cast a shadow of suspicion over ethnic Chinese engineers and scientists.

Finally, we'd both like to note what a privilege it has been to work with this group of colleagues, all of whom have spent their careers studying China and working on U.S.-China relations and share a common concern at the way this seminal, but always perilously balanced, relationship has been spiraling downward.

We have always been aware of the vast differences in the development levels, cultures, values, and political systems dividing the two countries. It was China's trajectory of making gradual reforms and America's support for those reforms that enabled the two countries to establish and maintain a relatively peaceful equilibrium. The future course of U.S.-China relations depends on whether the two countries can restore that equilibrium and re-stabilize a relationship that has become more economically, diplomatically, and militarily competitive. We all hope that is possible. It is to this hope that we dedicate this 2019 memorandum of our Task Force on U.S.-China Policy.

Orville Schell and Susan L. Shirk

Co-chairs of the Task Force on U.S.-China Policy

Additional Commentary

I thoroughly support this report in general, and most of the details. At the same time I have several views which I am compelled to elaborate. The most important concerns engagement (or coupling, or linkage, as variously used). Engagement is neither an end in itself nor an all-or-nothing choice, and two nations not convergent on shared norms of economic policy cannot be as engaged as two nations like-minded in this regard. China has lately asserted significant reservations to convergence with market orientation as understood in the United States and other advanced economies. That is China's right. But the erstwhile degree of U.S.-China engagement was contingent on a different set of convictions in Beijing. As Chinese policy intentions evolve, so too must the policy calculations of market-oriented nations. This need not trap us in conflict, but to ensure our response is practical and purposeful we must first concede that some disengagement is inevitable under present trajectories; indeed, that it is already happening. A China that prioritizes politics ahead of markets in the allocation of capital, commercial opportunities, and other economic essentials could be injurious to the United States and other advanced economies. It also means diminishing Chinese growth and less upside for engagers, when accurately measured. Chinese growth is neither doomed nor inevitable: it depends on the quality of policymaking. For the better part of forty years liberalization and marketization bolstered China's performance. Unless our hard-learned insights about the shortcomings of politicizing the marketplace are wrong, we must expect renascent statism to depress China's growth and productivity, impairing the benefits engagement would promise. In light of uncertainty and a strong likelihood of Chinese reversion back to reform, limits on American engagement should be adjustable and reversible; but they cannot be unthinkable.

Daniel Rosen

Task Force Biographies

Task Force participants endorse the overall findings of the report, with individual dissents or additional commentary included at the end of the report. They participated in their individual, not institutional, capacities.

Chairs

Orville Schell is the Arthur Ross Director of the Center on U.S.-China Relations at Asia Society. He is a former professor and dean at the University of California, Berkeley Graduate School of Journalism. Schell is the author of fifteen books, ten of them about China, and a contributor to numerous edited volumes as well as magazines, including *The New Yorker*, *The Atlantic*, *The New York Times*, *The Nation*, and *The New York Review of Books*. His most recent book is *Wealth and Power: China's Long March to the 21st Century*, with John Delury (2013). Schell worked for the Ford Foundation in Indonesia, covered the war in Indochina as a journalist, and has traveled widely in China since the mid-70s. Schell is the recipient of many prizes and fellowships, including a Guggenheim Fellowship, the Overseas Press Club Award, and the Harvard-Stanford Shorenstein Prize in Asian Journalism.

Susan L. Shirk is chair of the 21st Century China Center and research professor at the University of California, San Diego School of Global Policy and Strategy. She previously served as deputy assistant secretary of state from 1997 to 2000, where she was responsible for U.S. policy toward China, Taiwan, Hong Kong, and Mongolia. Shirk founded and continues to lead the Northeast Asia Cooperation Dialogue, an unofficial forum for discussions of security issues. Her book, *China: Fragile Superpower* (2008), helped frame the debate on China policy in the United States and other countries. Her most recent book, *Changing Media, Changing China*, was published in 2010 by Oxford University Press.

Participants

Charlene Barshefsky is a senior international partner at WilmerHale. She joined the firm after serving as the U.S. Trade Representative from 1997 to 2001, and acting as deputy USTR from 1993 to 1996. As the USTR and a member of the president's cabinet, she was responsible for the negotiation of hundreds of complex market access, regulatory, and investment agreements with virtually every major country in the world. Barshefsky is best known internationally as the architect and chief negotiator of China's historic WTO agreement, as well as global agreements in financial services, telecommunications, intellectual property rights, high-technology products, and cyberspace. Her legal career in the field has encompassed international litigation, commercial negotiations, investment and regulatory advice, and dispute resolution, and she has written and lectured extensively both in the United States and abroad.

Kurt M. Campbell is chairman and chief executive officer of The Asia Group, LLC, a strategic advisory and capital management group specializing in the Asia-Pacific region. He also serves as chairman of the board of the Center for a New American Security, as a non-resident fellow at Harvard University's Belfer Center, and as vice chairman of the East-West Center in Hawaii. He was also appointed as the Henry A. Kissinger Fellow at the McCain Institute for 2018. From 2009 to 2013, Campbell served as the assistant secretary of state for East Asian and Pacific Affairs, where he is widely credited as being a key architect of the "pivot to Asia." For advancing a comprehensive U.S. strategy, Secretary Hillary Clinton awarded him the Secretary of State's Distinguished Service Award (2013). He is the author or editor of ten books, most recently *The Pivot: The Future of American Statecraft in Asia* (2016). Campbell received his doctorate in international relations from Brasenose College at Oxford University, where he was a Marshall Scholar.

Thomas J. Christensen is professor of public and international affairs and director of the China and the World Program at Columbia University. He arrived in 2018 from Princeton University, where he was William P. Boswell Professor of World Politics of Peace and War, director of the Princeton-Harvard China and the World Program, and faculty director of the Masters of Public Policy Program and the Truman Scholars Program. From 2006 to 2008 Christensen served as deputy assistant secretary of state for East Asian and Pacific Affairs, with responsibility for relations with China, Taiwan, and Mongolia. His research and teaching focus on China's foreign relations, the international relations of East Asia, and international security. His most recent book, *The China Challenge: Shaping the Choices of a Rising Power* (2015), was an editors' choice at the *New York Times Book Review*, a "Book of the Week" on CNN's *Fareed Zakaria GPS*, and the Arthur Ross Book Award Silver Medalist for 2016 at the Council on Foreign Relations. Christensen has also taught at Cornell University and MIT. He received his M.A. in international relations from the University of Pennsylvania and Ph.D. in political science from Columbia University.

Elizabeth C. Economy is the C.V. Starr Senior Fellow and director for Asia Studies at the Council on Foreign Relations and a distinguished visiting fellow at Stanford University's Hoover Institution. She has published widely on both Chinese domestic and foreign policy. Her most recent book, *The Third Revolution: Xi Jinping and the New Chinese State* (2018), analyzes the contradictory nature of reform under President Xi Jinping. She is the author (with Michael Levi) of *By All Means Necessary: How China's Resource Quest is Changing the World* (2013) and *The River Runs Black: The Environmental Challenge to China's Future* (2004). Economy received her M.A. from Stanford University and Ph.D. from the University of Michigan.

Karl Eikenberry is the director of the U.S.-Asia Security Initiative and faculty member at Stanford University's Shorenstein Asia-Pacific Research Center. He is a faculty member of the Center for International Security and Cooperation and a Professor of Practice at Stanford University. He is also an affiliate with the Freeman Spogli Center for Democracy, Development, and Rule of Law, and The Europe Center. He served as the U.S. ambassador to Afghanistan from May 2009 until July 2011 and had a thirty-five-year career in the United States Army, retiring with the rank of Lieutenant General. His military assignments included postings with mechanized, light, airborne, and ranger infantry units in the continental United States, Hawaii, Korea, Italy, and Afghanistan as the Commander of the American-led Coalition forces from 2005 to 2007. Ambassador Eikenberry is a graduate of the U.S. Military Academy, has master's degrees from Harvard University in East Asian studies and Stanford University in political science, and was a National Security Fellow at the Kennedy School of Government at Harvard.

M. Taylor Fravel is the Arthur and Ruth Sloan Professor of Political Science and member of the Security Studies Program at the Massachusetts Institute of Technology. He studies international relations, with a focus on international security, China, and East Asia. Fravel's first book, *Strong Borders, Secure Nation: Cooperation and Conflict in China's Territorial Disputes*, was published by Princeton University Press in 2008. He is currently completing *Active Defense: China's Military Strategy since 1949* (forthcoming in 2019). He serves on the editorial boards of the *International Studies Quarterly*, *Security Studies*, *Journal of Strategic Studies*, and *The China Quarterly*, and is a member of the board of directors for the National Committee on U.S.-China Relations. He is also the principal investigator of the Maritime Awareness Project. Fravel is a graduate of Middlebury College and Stanford University, where he received his Ph.D.

Paul Gewirtz is the Potter Stewart Professor of Constitutional Law at Yale Law School and the director of Yale's Paul Tsai China Center. He teaches and writes in various legal and policy fields, including constitutional law, U.S. foreign policy and law, U.S.-China relations, Chinese law, law and literature, antidiscrimination law, and comparative law. Yale's Paul Tsai China Center, which Professor Gewirtz founded in 1999 as The China Law Center, focuses on issues of Chinese law and U.S.-China relations. From 1997 to 1998, on leave from Yale, he served in the Clinton Administration as Special Representative for the Presidential Rule of Law Initiative, where he developed and led the U.S.-China initiative to cooperate in the legal field that President Clinton and China's President Jiang Zemin launched at their 1997 Summit meeting. Before joining the Yale faculty, Gewirtz served as a law clerk to Justice Thurgood Marshall of the United States Supreme Court. He received his B.A. degree summa cum laude from Columbia University and his law degree from Yale.

Melanie Hart is a senior fellow and director of China policy at Center for American Progress. She focuses on U.S. foreign policy toward China and works to identify new opportunities for bilateral cooperation, particularly on energy, climate change, and cross-border investment. Her research also covers China's political system, market regulatory reforms, and how China's domestic and foreign policy developments affect the United States. Before joining CAP, she worked as a project consultant for the Aspen Institute International Digital Economy Accords project. She also worked on Qualcomm's China business development team, where she provided technology market and regulatory analysis to guide Qualcomm operations in Greater China. Hart has a Ph.D. in political science from the University of California, San Diego.

Arthur R. Kroeber is head of research at Gavekal, a financial-services firm based in Hong Kong; founder of the China-focused Gavekal Dragonomics research service; and editor of *China Economic Quarterly*. Before founding Dragonomics in 2002, he spent fifteen years as a financial and economic journalist in China and South Asia. He is a senior non-resident fellow of the Brookings-Tsinghua Center, an adjunct professor at the Columbia University School of International and Public Affairs, and a member of the National Committee on U.S.-China Relations. His book, *China's Economy: What Everyone Needs to Know*, was published by Oxford University Press in 2016.

Winston Lord was U.S. ambassador to China from 1985 to 1989 under President Ronald Reagan, and served as assistant secretary of state for East Asian and Pacific Affairs from 1993 to 1997 under President Bill Clinton. In the 1970s, he was special assistant to National Security Advisor Henry Kissinger and then director of the State Department policy planning staff. During this period, he was on every China trip and attended every meeting that Presidents Nixon and Ford and Dr. Kissinger had with Mao Zedong, Zhou Enlai, and Deng Xiaoping, and was one of two American drafters of the Shanghai Communiqué. In the 1960s, Lord served in the Pentagon and the Foreign Service. Outside of government, his service has included president of the Council on Foreign Relations, co-chairman of the International Rescue Committee, and chairman of the National Endowment for Democracy. He has also been a board member or advisor to many NGOs, including the Committee for Human Rights in North Korea, the Trilateral Commission, and the Women's Tennis Association. Among the honors that Ambassador Lord has received are the State Department's Distinguished Honor Award, the Defense Department's Outstanding Performance Award, and several honorary degrees.

Evan S. Medeiros is the Penner Family Chair in Asia Studies in the School of Foreign Service at Georgetown University. His research and teaching focuses on the international politics of East Asia, U.S.-China relations, and China's foreign and national security policies. He previously served for six years on the staff of the National Security Council as director for China, Taiwan and Mongolia, and then as special assistant to the president and senior director for Asia. In recent years, Medeiros advised multinational companies on Asia in his role as managing director for Asia-Pacific at Eurasia Group. Prior to joining the White House, Medeiros worked for seven years as a senior political scientist at the RAND Corporation. From 2007 to 2008, he also served as policy advisor to Secretary Hank Paulson working on the U.S.-China Strategic Economic Dialogue at the Treasury Department. Medeiros holds a Ph.D. in international relations from the London School of Economics and Political Science, in addition to an MPhil degree in international relations from the University of Cambridge, and an M.A. in China studies from the University of London's School of Oriental and African Studies.

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