



# China

## Summary and Key Talking Points

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### Policy Proposals

1. Defend American economic interests from the many threats posed by China, such as intellectual property theft and espionage.
2. Uphold the strength and credibility of our alliances in the region.
3. Work with our allies and trading partners to build collective action addressing economic challenges.
4. Support Hong Kong and Taiwan against Communist China's threats to their economic and political freedom.

### Quick Facts

1. China is one of the world's worst human rights violators, persecuting and imprisoning a massive number of religious citizens and ethnic minorities.
2. China has the world's largest military, benefiting from a two-decade long modernization program and double-digit budget increases.
3. American companies have \$107 billion invested in China, while China has invested some \$40 billion in the United States.

### Power Phrases

#### Disciplined Economic Partnership

- The fact that the U.S. and China have closely linked economies should not obscure the differences between our free economy and China's state-controlled system.
- The current economic relationship must be managed to prevent damage to U.S. security interests and the privacy of our citizens.

#### The Real China

- We need to honestly evaluate Chinese "cooperation." Progress in one area does not excuse China's misdeeds in others.
- The Chinese government is actively working to dominate East Asia, as well as outer space and cyber space. Beijing also engages in economic espionage and human rights abuses.

#### Engage and Protect

- We should be clear-sighted about when our interests coincide with those of China and when they do not. We should always be prepared to protect our rights and interests and those of our allies when they are threatened by China.

## The Issue

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In thinking about challenges related to China, it is essential to recognize that the American relationship with the People's Republic of China (PRC) differs greatly from the American relationship with the Soviet Union during the four decades-long Cold War, which involved a zero-sum, mainly military confrontation with a largely implacable adversary, and ideological and military efforts around the world to counter that adversary.

While the United States and the PRC have major differences—including significant points of politico-military confrontation—the two countries are closely linked economically and therefore have a level of shared interest that had no equivalent in Washington's relations with Cold War-era Moscow.

The 2020 COVID-19 crisis has brought out the potential downsides of this economic integration with China.

The two countries' supply chains are tightly intertwined and connected throughout the region. More than simply a matter of American companies being dependent on Chinese products and vice versa, both sides are mutually joined (relative, of course, to the individual industry and company). In addition, tourism, business, and education bring a significant number of visitors from each country to the other, including thousands of Chinese students who attend American universities and conduct valuable research there in partnership with American counterparts.

This integration must be managed in ways that prevent damage to U.S. security interests and the privacy of its own citizens. Since 2018, the U.S. has done that through comprehensive rewrites of export and foreign investment rules and restrictions on Chinese involvement in the buildout of the U.S. 5G network.

Neither should the advantages the U.S. enjoys for its economic connections be permitted to obscure the other fundamental points of friction between the two countries.

In East Asia, China's extravagant claims to vast swathes of the region's littoral waters put it directly at odds with the American view of freedom of the seas. In pursuing its claims, China has gone so far as to build large islands atop submerged features and claim territorial seas based on these artificial islands. These efforts not only jeopardize free transit across the world's oceans, but also reflect a Chinese effort to expand territorial claims at the expense of neighboring countries, many of which are long-standing American allies.

Additionally, there is the long-standing issue of Taiwan. China insists that it has the right to deal with the "renegade province" in its own way, including the use of force. For the United States, the decision to recognize the People's Republic of China (PRC) was matched with the Taiwan Relations Act, which continued unofficial relations with Taiwan and committed the U.S. to making defensive weapons available to Taiwan.

Similarly, in outer space and cyberspace, China is increasingly seeking to extend its sovereignty over what had previously been international common spaces. It has tested anti-satellite weapons and, with its military-dominated space program, appears to be increasingly intent upon establishing "space dominance." Concerns about cyber security have highlighted the growing centrality of information technology to the U.S.-PRC rivalry. Whereas the Soviet Union's centralized planning system utterly failed to prepare for the microchip revolution, the PRC's "socialist market" economy is much more flexible and responsive. Its global competitiveness and behavior in areas from communications and data networks to artificial intelligence and the ability to apply "big data" will have direct bearing on U.S. alliances and interests abroad.

Under Xi Jinping, human rights in China have deteriorated substantially. In February 2018, the government instituted new regulations on religious affairs that placed onerous burdens on persons of faith: Hundreds of thousands, possibly over a million, Uighur Muslims are detained in political reeducation facilities today; three

major Protestant churches were shuttered between September and December 2018 alone; and Tibetans face continuing restrictions on their freedom of movement and expression.

The direct and indirect influence that the Chinese government and the Chinese Communist party have on all of China's economic activity has increasingly become of concern. While China liberalized its economic activity significantly after joining the World Trade Organization (WTO) in the 1990s, this began to change around 2004. Economic liberalization has largely halted since the 2008 global financial crisis. The private sector in China, thanks to free market practices, has flourished to become the major source of economic growth and job creation in the PRC. However, the state's role in China's economic activity is increasing, whether through initiatives directed at developing and obtaining new technologies or state-directed investment, both domestically and abroad.

This is reinforced by apparent economic espionage conducted by the Chinese government, benefiting Chinese companies. While espionage is a fact of life, there is a difference between trying to obtain war plans versus obtaining the intellectual property (IP) behind commercial computer technology, new plastics, or pharmaceuticals. Some theft of intellectual property is conducted through cyber means (there are charges that the Chinese military has conducted such actions), while other espionage has involved physical efforts, such as the attempt by Chinese professors to smuggle seedlings from test beds in Iowa.<sup>1</sup>

Finally, there is growing unease about the Chinese "Belt and Road Initiative" (BRI), which is a major Chinese investment effort that encompasses both a land route to Europe via Central Asia and the Caucasus, and a sea route from China's East Coast through the South China Sea and the Indian Ocean, including port construction in Sri Lanka, Pakistan, and Djibouti. The regions encompassed by this initiative desperately need more infrastructure, but there are concerns that Chinese financing for these projects will lead to debt traps permanently ensnaring these states. Just as important, the BRI effort may lead to Chinese-influenced industrial standards and technological dependencies that would effectively shut American (and other Western) businesses out of these markets. The lack of Chinese transparency only exacerbates many of these concerns.

## Recommendations

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**Engage China economically, but defend American interests at home and abroad.** Trade with China has measurably improved the lives of millions of Americans. Not only have American farmers and workers benefited from selling to China, but their ability to access inexpensive, quality goods, from clothes to consumer electronics, means that hard-earned dollars go further. This is no reason to accept Chinese violations of intellectual property and other abuses of the system, however. Chinese IP theft not only denies Americans their fair return, but it also ultimately weakens the United States, as Chinese companies profit from American research and development. The U.S. needs to make clear that it will not tolerate illegal trade practices, even as it welcomes free trade with rules-observing partners.

**Uphold the credibility of our alliances.** The United States has historically been intent on ensuring that no other nation dominates East Asia—a goal that dates back to the 19th century. Given Asia's importance as a market for American goods and a source of technology and innovation, as well as the fact that the region includes fellow democracies, there are both realpolitik and principled reasons for upholding American commitments to the region. Unfortunately, while the U.S. has few direct points of friction with China (e.g., there are no outstanding territorial disputes), many of China's neighbors are also American allies. Consequently, Beijing's problems with them become an American concern.

**Work with our allies and trading partners.** The surest way to address the economic challenges China presents to the U.S. and our allies is for the U.S. to work with the international community. Unilaterally attempting to change Chinese practices could ultimately mean American businesses lose while foreign companies benefit

from competition between the U.S. and China. The U.S. is China's largest trading partner but not its only trading partner. The U.S. should build collective action abroad to deal with concerns of intellectual property theft, state subsidies, and foreign investment.

**Maintain a strong American presence in the region.** Maintaining a strong American presence is not solely a matter of ensuring that the American military commitment remains credible. The U.S. should also maintain a strong diplomatic presence, both in the various countries and at international organizations. Promoting human rights is a long-standing feature of U.S. engagement in Asia. The universal values of respecting human rights should continue to be an important component of U.S. diplomacy in the region. Similarly, America's businesses are one of the most important means of demonstrating American commitment, presence, and interests to the region. A carrier battlegroup is present for a few days or a few weeks, while a factory employs hundreds or thousands and stays for years.

The COVID-19 crisis has cast U.S.–China relations in a new harsh light. It is forcing a reevaluation of American ties. This is reasonable and, in many ways, long-overdue. In conducting its now recognized global competition with China, however, the U.S. must stay focused on securing U.S. interests. More often than not, that will mean confronting China. Sometimes, it will mean cooperation.

## Facts and Figures

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**FACT: The PRC has the world's second largest gross domestic product, at about \$12.24 trillion.**

- This compares with the American GDP of approximately \$19.4 trillion.

**FACT: The Chinese People's Liberation Army (PLA) is the world's largest military. It has become increasingly sophisticated because of its two decades-long modernization program, and has enjoyed double-digit budget increases for most of that time. Key capabilities include the:**

- PLA Army, one of the world's largest ground forces, with over 975,000 troops. (For comparison, the entire U.S. military has about one million active duty personnel).
- PLA Navy, with three aircraft carriers (one in service, one undergoing sea trials, one under construction) and over 80 destroyers and frigates. It also has over 60 submarines.
- PLA Air Force, with over a thousand combat aircraft.
- PLA Rocket Force. Responsible for China's nuclear forces, the PLA Rocket Force has about 100 ICBMs and submarine launched ballistic missiles and several hundred nuclear-armed intermediate range missiles. It also controls several thousand short- and medium-range ballistic missiles; and
- PLA Strategic Support Force, China's information warfare force, which controls China's military space systems, electronic warfare units, and cyber warfare capabilities.

**FACT: The PRC is America's second biggest trading partner in goods, making up more than 16 percent of all its foreign trade.**

- It is also the third largest market for U.S. goods exports,<sup>2</sup> and services.<sup>3</sup>
- As for investment, American companies have \$107 billion invested in China, while Chinese investors have invested some \$40 billion in the United States.<sup>4</sup>

**FACT: The PRC is the second-largest foreign owner of U.S. government debt—with debt holdings as of 2020 slightly less than those held by Japan.**

- Japan surpassed China as the largest foreign holder of debt in 2019 with approximately \$1.12 trillion.

**FACT: Chinese government-connected companies are a growing, major presence in the international market**

- Huawei is not a state-owned enterprise, nor is it run by the Chinese PLA, although its founder did serve in the PLA. In fact, it has a relatively complicated ownership structure involving its trade union.<sup>5</sup> It is the world's largest telecommunications equipment supplier.<sup>6</sup>
- Huawei is the world's second-largest producer of cell phones (as of July 2018), after Samsung and ahead of Apple.<sup>7</sup> Huawei is the only company, as of May 2019, that is capable of producing all the elements associated with a 5G network, including handsets and cell phones, servers, routers, repeaters, and base stations.
- ZTE is another major Chinese telecommunications company. While not a state-owned enterprise, over half its shares are owned by entities that in turn are owned by the Chinese government. It is one of the world's largest manufacturers of communications equipment.

## Additional Resources

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ENDNOTES

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