



CHINA'S NEW DIRECTION: Challenges and Opportunities for U.S. Policy

Task Force on U.S.-China Policy

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ABOUT THE TASK FORCE

The Task Force on U.S.-China Policy is a group of China specialists from around the U.S., convened by Asia Society's Center on U.S.-China Relations and the UC San Diego School of Global Policy and Strategy's 21st Century China Center. It was established in Fall 2015, during an increasingly uncertain time surrounding the U.S.-China relationship.

The Task Force offered a set of recommendations to the incoming Trump Administration in its 2017 report, "[U.S. Policy Toward China: Recommendations for a New Administration](#)." A mid-term report in 2019 followed, entitled "[Course Correction: Toward an Effective and Sustainable China Policy](#)."

In addition to the above, the Task Force formed "working groups" with other organizations to produce three topical reports. In 2018, it published "[China's Influence & American Interests: Promoting Constructive Vigilance](#)," that detailed the CCP's efforts to influence American institutions in improper ways. In 2020, it issued a report, "[Dealing with the Dragon: China as a Transatlantic Challenge](#)," that examined changing European attitudes towards relations with China. A second report, "[Meeting the China Challenge: A New American Strategy for Technology Competition](#)," followed in November 2020 and examined science and technology in the U.S.-China competition.

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The Center on U.S.-China Relations was founded in 2006 and is based at Asia Society's New York headquarters. The center undertakes projects and events which explore areas of common interest and divergent views between the two countries, focusing on policy, culture, business, media, economics, energy, and the environment.

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ABBREVIATIONS

AI	Artificial Intelligence
BRI	Belt and Road Initiative
CCG	Chinese Coast Guard
CCP	Chinese Communist Party
CMM	Chinese Maritime Militia
CONUS	Continental United States
CPTPP	Comprehensive and Progressive Agreement on Trans-Pacific Partnership
ETS	Emissions Trading System
IAD	Integrated Air Defenses
NGO	Non-governmental organization
OECD	Organization for Economic Co-operation and Development
PLA	People's Liberation Army
PRC	People's Republic of China
TPP	Trans-Pacific Partnership
WTO	World Trade Organization

INTRODUCTION

Orville Schell, Susan Shirk and Evan Medeiros

The year 2021 has proven to be a major inflection point in U.S.-China relations, and especially U.S. policy toward China. As China's domestic and foreign policies have become more autocratic at home and confrontational abroad, America and other countries are revising their strategies toward China.

Externally, Xi Jinping is not only more comfortable using power to advance China's interests, but also is expressing a vision that is increasingly antagonistic to U.S. interests. Meanwhile, the Biden Administration has embraced "strategic competition" as the frame for the relationship. Based on that concept, it has sought to build a coherent approach to long-term competition by enhancing America's vitality and its international partnerships.

Many countries, especially liberal democratic states, have hardened their postures against China. This has opened new space for closer U.S.-led international coordination on China policy, much to China's dismay. While most countries, including the U.S., seek to avoid a new "Cold War," they are struggling to find the best ways to respond to myriad new challenges in an international order that is more fluid and unstable than before even while it remains interdependence as a key feature.

In this world, the defining challenge facing the U.S., its allies and its partners is understanding how China under Xi is evolving in the face of changing domestic needs and external pressures. Accordingly, a major policy risk is that the U.S. will misread or misinterpret what is happening in China and will either overestimate or underestimate the threat China now poses. Such misjudgments could be disastrous and could even lead to war.

These concerns motivated this third report by the Task Force on U.S.-China Policy. Formed in 2015, the Task Force was convened by Asia Society's Center on U.S.-China Relations and the University of California San Diego's 21st Century China Center. It brought together a group of China specialists with different backgrounds from across the United States. Earlier Task Force reports in 2017 and 2019 reviewed U.S. China policy. In addition, it has issued three working group reports on China's influence operation, science and technology in the U.S.-China relations, and China as a trans-Atlantic

challenge. But the present moment may be the most challenging time in decades, making now a critically important time for the U.S. to understand what is going on within China in order to respond effectively. The old U.S.-China policy playbook urgently needs rewriting. To do that, we need a clearer understanding of the forces behind the actions by Xi, the Chinese Communist Party (CCP) and the Chinese government.

Why, for instance, did the Chinese leader not seek to ease tensions with the U.S. when the Biden Administration first took office? Why, instead, was there a ramping up of military pressure on Taiwan, Japan and India, economic pressure on Australia, cyber-attacks on the U.S. and other Western powers, and intensified repressive control over Xinjiang and Hong Kong that are bound to have international repercussions? In Xi's recent speech celebrating the centennial of the Chinese Communist Party (CCP), he stressed the "historical inevitability" of China's rise and warned that those who imagine they can continue to bully, oppress or subjugate China will "find their heads bashed bloody against a great wall of steel forged by over 1.4 billion Chinese people." Such violent rhetoric, along with autocratic governance at home and bellicose "Wolf Warrior diplomacy" abroad has plunged public opinion toward China in the U.S. and other liberal democratic countries to historic lows. It has also made engaging with China more difficult than at any time since 1989.

That said, any approach aimed at influencing China's behavior must recognize that China is not monolithic. China has many social groups, with diverse interests and disparate political views that, given the nature of China's political system, are sometimes forced to fall silent. While Xi Jinping's voice may be dominant, he is not the only voice or player in the Chinese system.

The members of our Task Force have been researching Chinese economics, politics, society, military, and foreign policy, and interacting with Chinese counterparts, for many years. Peter Cowhey is not a formal member of the Task Force, but as a technology policy expert, he has led our effort on science and technology in U.S.-China relations. In these pages, the authors of each memo highlight some of the most significant trends underway within China and suggest how they think this "inside-out" understanding of China might guide us toward more effective U.S. foreign policy prescriptions and proscriptions.¹

¹ This report is not a consensus document, but rather an effort to allow a variety of views represented by Task Force members to be expressed. With this conceit in mind, we have asked different small groups to draft different sections: each "memo" reflects their views alone, and in no way is membership in the Task Force an endorsement of any section or the thrust of the report as a whole.

EXECUTIVE SUMMARY

The report is divided into eight sections. Each includes a thumbnail analysis of the evolving trends inside China, and recommendations for how the Biden Administration might incorporate such understandings into the next phase of its China strategy. Below are some of the most significant insights identified by Task Force members:

1. POLITICS

China's effective control of the pandemic and nationalistic rallying of popular opinion against Western powers' blaming of China for its outbreak have strengthened Xi's position in the Party and his popularity among the public. We can expect rules and norms to be finessed to extend Xi's tenure for a third term at the 20th Party Congress next year. Xi's dictatorial system creates pressures for officials to show loyalty and distorts information feedback loops, two kinds of policymaking dynamics that lead to domestic and international overreaching.

2. SOCIETY

The CCP has tightened supervision over universities, curtailed press freedom and placed civil society groups under strict control. Still, there is great dynamism and diversity in China's economic and social life. That said, Chinese people rarely make explicit political demands, and their support for the Chinese Communist Party appears to have grown in recent years alongside targeted retribution by the Party against certain groups.

3. HUMAN RIGHTS

The CCP has intensified its crackdown not just on opposition and dissent, but also on perceived disloyalty, disaffection, policy disagreements and ideological nonconformity. Repression and social control have reached their highest levels in the post-Tiananmen period, especially in China's peripheral regions such as Xinjiang and Tibet. In Hong Kong, Beijing has crushed autonomous political activity, academic and journalistic freedoms. All this reflects a surprising sense of siege on the part of the Chinese government, despite the popular support it receives inside China.

4. ECONOMY

China is using large-scale state intervention to increase national economic power and technological independence. The state is mobilizing significant financial support for favored sectors and companies, distorting capital allocation and corroding fair competition

and market-determined outcomes in China and the rest of the world. Still, China is expected to remain open to foreign investment and financial institutions so long as that serves the government's goals.

5. TECHNOLOGY

China's technology drive is massive in scale, led by the state but also enabled by an increasingly state-influenced private sector. Chinese policymakers have doubled down on their commitment to become technologically independent, especially in strategically essential sectors like semiconductors. In fact, Beijing has done more to "decouple" its supply chain from dependence on the U.S., than the other way around.

6. MILITARY

China has developed a robust capability to fight effectively within the first island chain that runs north to south from Japan and Taiwan to the Philippines. These expanding capabilities are aimed at deterring and defeating U.S. military intervention in East Asia, especially in defense of Taiwan.

7. DIPLOMACY

China has abandoned its Deng Xiaoping-era low-profile, risk-averse diplomacy. China's current forceful foreign policy aims to protect its interests, ensure access to global markets, capital and technologies, and demand international respect for China's achievements. Economic instruments are its preferred tool of statecraft, with active efforts directed toward shaping the global order regarding human rights, internet governance, technology standards and development finance. China's leaders seek respect and even admiration for their Party-centered political system, though they stop short of evangelizing or trying to export a complete model of governance.

8. CLIMATE CHANGE

U.S.-China cooperation, coordination and healthy competition will be essential if the world is to achieve the 2015 Paris Climate Agreement objectives, and if China is to achieve its 2060 carbon neutrality goals. China's leaders have focused on developing clean technologies and created financial incentives for climate action within China. Yet, the government has been reluctant to aggressively curtail coal use at home and to reduce support for fossil-fuel energy projects abroad if it means acting against the interests of state-owned enterprises.

MEMO NO. 1

CHINA'S DOMESTIC POLITICS

Susan Shirk, David Shambaugh and Jessica Chen Weiss

There are several defining features of China's political system under Xi Jinping:

- ◆ The system has regressed from collective leadership with limited checks on power holders to a highly centralized and personalistic dictatorship.
- ◆ Xi has defeated all his potential rivals by means of a massive anti-corruption campaign, is popular with the public and now appears set to rule China indefinitely.
- ◆ Xi has empowered the CCP's organs to lead on policy making, and in doing so, degraded the authority of the State Council in policy formulation and implementation.
- ◆ Xi has molded the CCP into an instrument of his will that requires a high degree of ideological commitment from its members, and is a ubiquitous presence in Chinese life.
- ◆ Xi has uniquely expanded the use of technology for the purposes of surveillance, grid management, and social and political control.
- ◆ Xi has become obsessed with political stability and threats to it; in response, he has shifted the CCP's national priorities from economic reform and development to national and regime security regardless of the costs.
- ◆ Xi has carried out heavy-handed repression of individuals, groups and media that are even mildly critical of government policies and performance.

popular anger against the CCP and its "core leader" Xi Jinping. But Xi's quick and deft recasting of the pandemic as a win for China's centralized system, coupled with the Western blame of China for mishandling the initial outbreak and allowing the virus to spread so rapidly, has strengthened Xi's support among the Chinese public.

In effectively tackling COVID-19, Xi has enhanced his iron grip on the military, the Party, the government apparatus, state enterprises and, increasingly, on private enterprises. As China emerges from the COVID-19 pandemic and towards the epochal 20th Party Congress in Fall 2022, we assess that—barring health problems or "black swan" events—rules and norms will be finessed or ignored so as to facilitate Xi's extended tenure for a third term. The CCP's 100th anniversary featured various grand events with Xi Jinping at center stage, allowing him to project the image of an all-powerful ruler.

Although some in the Party are unhappy with Xi's personalistic, centralized rule, which has eliminated power sharing, patronage and regular turnover of leadership from the system, his critics have been so completely silenced that there is little sign of any overt opposition to his continued rule. Still Xi and his security apparatus surely want to avoid unpleasant surprises in the lead-up to the Party Congress. For this reason, they are likely to continue the COVID-19-related restrictions on foreign travel until the Congress.

China's one-party political system, long composed of multiple contending factions, is

Xi has defeated all his potential rivals ... and now appears set to rule China indefinitely.



1. The COVID-19 pandemic has strengthened Xi Jinping's position within the Chinese Communist Party and his popularity with the public, making his mandate for a third term at the Fall 2022 Party Congress a virtual certainty. The COVID-19 crisis initially stirred

now dominated by one faction. Xi is advised by a narrow circle of trusted senior leaders, including Wang Qishan, Wang Huning, Li Zhanshu, Zhao Leji, Ding Xuexiang, Cai Qi, Chen Xi, Liu He and Huang Kunming. Party leadership bodies as well as key provinces are packed with Xi's

political allies, who exhibit no deviation from his dictates. Xi is positioned to further consolidate his power among the key CCP organs, in Beijing and the localities, during the upcoming Party Congress.

2. The overly centralized political system distorts incentives and impedes information flows for policymaking, which leads to policy unpredictability and overreaching.

Xi's fixation on potential disloyalty among Party cadres and his fierce anti-corruption campaign have created a tense political environment. Intimidated officials compete to display their deference (*biaotai*) to Xi rather than to provide objective information about the consequences of policies, creating a propaganda echo chamber. Lower-level officials also rush to bandwagon on Xi's wishes, carrying them out to an extreme that may exceed what Xi himself would desire. These dynamics may contribute to China's domestic as well as international

of COVID-19, despite initial missteps. Images of heroic CCP members on the frontlines of the pandemic have coincided with increased applications for Party membership. The CCP's centenary celebration on July 1, 2021, and particularly Xi's [Tiananmen speech](#), played to national pride and the Party's indispensable role in what Xi calls "national rejuvenation."

Meanwhile, U.S. sanctions, technology embargos, supply chain decoupling, delisting of Chinese companies on U.S. stock exchanges, restrictions on student visas, counterespionage investigations and anti-Asian violence have increased distrust and acrimony towards the U.S. among the Chinese public. The power of U.S. democracy as an inspiration for Chinese liberals has also diminished.

With the CCP selectively mobilizing Chinese nationalism against foreign "interference in China's internal affairs," sensitive issues that could in the past be discussed, and even

The days when the Party tolerated some forms of critical expression from abroad appear to be over.



overreach, including China's brutal crackdown on the Uyghurs in Xinjiang, its precipitous stripping of Hong Kong's autonomy and its confrontational "Wolf Warrior" diplomacy. The internal dynamics in the CCP's current dictatorial system are a recipe for more policy missteps, which risk further damaging China's international reputation and generating even more international pushback.

One recent example of overreach is Beijing's extreme resistance to a scientific investigation and disinformation about the origins of COVID-19. Xi may be wary of a resurgence of the kind of public anger that swept the country after the Party's early 2020 COVID-19 cover-up and Xi's inadequate attention at the beginning of the pandemic. Despite growing international pressure, Beijing is likely to continue to stonewall international efforts to determine the origin of the COVID-19 pandemic, increasing the costs for China's international image.

3. Nationalism is high and intensifying in the face of foreign criticisms.

CCP propaganda touting the superiority of the Chinese system resonates with many Chinese, who are proud of China's achievements and resent foreign criticism. Surveys indicate that public approval of the government has been enhanced by its successful control of the spread

accommodated, are now routinely rebuffed. The days when the Party tolerated some forms of critical expression from abroad appear to be over.

The Winter Olympics in February 2022 offer another occasion for the CCP to bolster its brand of patriotism at home. Any Western boycotts, whether by corporate sponsors, governments or foreign tourists, may only further inflame China's already supercharged nationalism.

RECOMMENDATIONS FOR U.S. POLICY IN THE POLITICAL REALM

1. Revive civil society and cultural interactions with China. International non-governmental and civil society organizations have worked productively and collaboratively in China for more than 40 years. These people-to-people interactions help temper the dangers of adversarial competition by humanizing relations, and state and local government ties can also be valuable. However, Chinese-U.S. civil society ties have been greatly compromised by Chinese restrictions on such interactions, especially due to the adoption of the NGO Law in 2017, the ongoing crackdown on Hong Kong civil society and media, and U.S. policy decisions under the Trump Administration.

Despite this downturn, the U.S. government should support more societal, educational and cultural exchanges with China, and communicate a desire for closer people-to-people ties between the American and Chinese publics. To this end, the U.S. government should work with Beijing to reopen the Houston and Chengdu consulates and negotiate a balanced and reciprocal restoration of journalistic access and scholarly exchanges.

2. Improve U.S. intelligence about China, particularly concerning the policy process and decision-making in Xi's inner circle. The Director of National Intelligence and all U.S. intelligence agencies have already identified China as a high priority, which should lead to better knowledge about many facets of Chinese realities, including the inner workings of China's political system. We also recommend improving China-related interactions between the U.S. policy community and non-governmental scholars and experts, domestically and worldwide. The U.S. intelligence community should more clearly recognize and draw from the enormous reservoir of knowledge that exists outside the government to better understand the dynamics driving China's increasingly autocratic internal and aggressive external behavior.

3. Bolster American public diplomacy aimed at the Chinese public. American public diplomacy has traditionally communicated goodwill and respect toward the Chinese public. While being forthright in criticism of negative Chinese government behavior, U.S. public statements have taken care not to unnecessarily insult or inflame nationalistic sensitivities among Chinese citizens.

It's time to give renewed attention to American public diplomacy because growing resentment of hostile U.S. rhetoric and actions could become a long-term liability. Washington should articulate a positive vision for a productive relationship that includes welcoming Chinese students, tourists and businesses that do not violate U.S. laws or compromise legitimate national security concerns. U.S. public diplomacy should also acknowledge what China has accomplished since 1978, especially in economic development and poverty reduction. Clumsily vilifying the Communist Party, or attempting to create a wedge between it and the Chinese people, will be counterproductive at a time when the public increasingly seems to support the Party.

A major U.S. policy speech, expressing both concern and affirmation, would help clarify American objectives vis-a-vis China, including how the U.S. views China's role in the world, what "competition" means to the U.S., and what type of regional and global order the American government supports. Such a high-level statement could become the anchor of a reenergized public diplomacy effort.

MEMO NO. 2

CHINESE SOCIETY: MEDIA, EDUCATION AND CIVIL SOCIETY

Robert Daly, Paul Gewirtz and Paul Haenle

CONTINUITY AND CHANGE IN CHINESE SOCIETY

Chinese society is neither static nor unidimensional. In the media, business, education and civil society domains, Chinese citizens navigate both a top-down system of governance and a bottom-up process of social change. Since 2012, even as the Party's political control tightened under Xi Jinping, Chinese citizens have shown a high level of approval of the government's focus on poverty alleviation and quality of life issues. But they have also found ways to advocate and organize for better living conditions, enhanced opportunity and increased individual dignity. As individual expectations rise, Chinese society continues to evolve. The country's dynamic business environment, consumer goods marketplace, social relationships, cultural life and travel options were unimaginable to previous generations, even if they have been curtailed by COVID-19. The U.S. must understand this ongoing social change in order to deal with China effectively.

Xi's declaration that "in political, military, civil, and academic affairs—north, south, east, west and center—the Party leads everything" echoes the Maoist approach to social control, and reverses many of the practices and attitudes developed over three decades of reform and opening. While the CCP under Xi asserts greater influence over the media, education and civil society, the institutional rigidity of the Party is confronted daily with the dynamism and diversity of Chinese social life.

With the outbreak of COVID-19, Chinese social media erupted with criticism of the government's initial response. Later in 2020, feminists publicly supported Zhou Xiaoxuan's allegations of [workplace sexual assault](#) and female rock stars and [stand-up comedians](#) called for better treatment of women in their lyrics and jokes. In today's China, elderly citizens oppose raising the retirement age, delivery workers call for greater occupational safeguards, [veterans](#) protest denial of benefits, couples marry later and defer or opt out of parenthood despite government calls for higher fertility, members of the LGBTQ community live openly

and are [more accepted](#), high tech "gladiators" challenge inhumane work schedules, the young people of the Lie Flat (*tangping*) movement opt out of the rat race altogether and a growing number of Chinese advocate for more online privacy and less use of [facial recognition technology](#). In all of these ways, they are calling for relief from the relentless pressures of work, family and political control of daily life. They are asking for a more humane society.

Still, China is not ripe for revolution. Its people rarely make explicit political demands, and the divide between China's ordinary people and the government should not be overstated. Xi has become more autocratic, but Chinese in recent decades have become more affluent, better educated and internationalized. Support for the Party has ebbed and flowed, but appears in surveys to remain [substantial](#) or appears to have [grown](#) during the pandemic. The CCP's responsiveness to public concern over issues like [sexual harassment](#) and [consumer privacy](#) has allayed some opposition to the Party's authoritarian rule.

1. The Communist Party is asserting greater control over the media. Censorship has long been a key tool of the CCP's societal controls, but the degree to which the Xi government now controls China's vast media landscape has shocked both Chinese and foreign observers. China ranked 176th out of 180 countries on Reporters Without Borders' 2021 [World Press Freedom Index](#). While China's social media environment still allows for some discussion of controversial topics, the CCP has curtailed press freedoms that had been expanding since the 1980s in both traditional and digital journalistic outlets. Today, no journalistic organization in China operates outside of Party strictures. As Xi proclaimed in a [Party conference](#) on news media in 2016, "media organs owned by the Party and government are propaganda platforms. They must be surnamed Party." Not only do algorithms and state overseers censor any social media posts critical of the government, but bots, volunteer nationalists and paid influencers flood the online space with organized posts that create the impression of unquestioned support for Xi and the Party.

Increased censorship of domestic media has coincided with growing oversight and expulsion of foreign journalists. In March 2020, 13 journalists from The New York Times, The Washington Post and The Wall Street Journal were expelled after the Trump Administration decided to [limit the number](#) of Chinese nationals allowed to work for five state-controlled Chinese news organizations in the U.S. When Washington designated Chinese state media operations in the U.S. as “foreign missions and agents,” China [froze](#) visas for CNN, The Wall Street Journal, Bloomberg News, and Getty Images journalists. The Foreign Correspondents Club of China [reported](#) in April 2021 that at least 20 foreign journalists, including Americans, had been forced to leave China since 2020.

2. The Communist Party is tightening its supervision of higher education. In China, higher education has been guided since 2015 by the [Double First-Class Plan](#), which seeks to develop world-class universities and academic disciplines. Chinese universities are moving up in global rankings, thanks to their work in the natural and applied sciences. They now graduate at least nine times more STEM students annually than the U.S. But China’s social sciences and humanities, which are deemed by the CCP as politically sensitive, have not enjoyed corresponding expansion. Rather, in recent decades, universities all over China have set up specialized Schools of Marxism to promote the Party’s ideological work on campuses, and to encourage Confucian studies to counter Westernization.

Educational institutions throughout China face growing pressure to align their research and curricula with Communist Party priorities.

[extraterritorial](#) monitoring of their statements on foreign campuses via a network of students reporting fellow students to Chinese embassies and consulates, which may limit free speech in American classrooms.

In sum, the Chinese educational system in 2021 is, at all levels, more completely managed by the Communist Party than at any time since the 1980s.

3. The Chinese government is increasing restrictions on civil society organizations.

Because most Chinese civil society organizations are politically weak GONGOS, or “government operated non-governmental organizations,” China’s civil society [ranks](#) as one of the most closed in the world. The government’s loosening of restrictions on domestic and foreign NGOs that began in 1978 [was reversed](#) by the overseas NGO law, implemented in 2017. It constrains the activities of both foreign NGOs and domestic “social organizations” whose activities the Party sometimes associates with “color revolutions” and other pro-democracy uprisings in Europe and the Middle East. The 2016 law moved oversight of NGOs from the Ministry of Civil Affairs to the Ministry of Public Security, making clear that an independent civil society was viewed as a security threat.

And yet, according to Chinese government [statistics](#), the number of domestic “social organizations” has increased by 80% since Xi took office in 2012, totaling more than 894,000 by the end of 2020. Only [a fraction](#) of those “social organizations” are non-profit public-interest entities, however, and most focus on poverty alleviation, education and other charitable activities that align with government

... despite an upsurge in concern for social issues, China’s civil society remains politically weak—a force for good, but rarely for change.



Chinese leaders require that Party committees play a major role in managing all Chinese educational institutions, including [U.S.-affiliated schools](#) in China. The CCP’s calls for students to report on faculty who make improper statements strike many Chinese as a return to Cultural Revolution-style politicization of education. In 2020, a prominent Tsinghua University professor [was detained](#) and fired for publicly criticizing the Communist Party. In 2019, [Fudan University](#) deleted a commitment to promoting “freedom of thought” from its [charter](#). Other major Chinese universities made similar moves. Chinese students abroad face

policy. Since 2017, the number of registered foreign NGOs in China has steadily declined, and the scope for domestic environmental, women’s rights and civic engagement advocacy has narrowed drastically. Thus, despite an upsurge in concern for social issues, China’s civil society remains politically weak—a force for good, but rarely for change.

POLICY RECOMMENDATIONS FOR ENGAGING CHINESE SOCIETY

Informed by a sophisticated understanding of Chinese society, the Biden Administration can

craft policies that protect U.S. interests, promote Sino-American collaboration and reduce the potential for conflict. Even as it pushes back against Chinese illiberalism, the White House should ensure that America remains open and attractive to Chinese talent, and should encourage corresponding openness in China. It should be wary of enacting policies that Beijing and the Chinese public can construe as attempts to alter or undermine Chinese society. The focus of policymaking in this sphere should be on providing opportunities for Chinese to engage with Americans through educational, media and civil society channels that have no national security sensitivities for the U.S.

To achieve these goals, the Biden Administration should:

1. Issue a presidential statement encouraging academic and cultural exchange between the two countries.

A public statement should proclaim that Chinese students and scholars are welcome to study and work in the U.S., in accordance with American laws. It should make clear that Chinese scholars in American institutions, and the many Chinese who have remained in the U.S. as citizens, have made valuable contributions to the country's innovation system and well-being since the early 1980s. Collaborations between scholars and experts in the basic sciences, public health, law, business, environment, economics, arts and culture remain beneficial for both countries.

2. Give American educators a voice in policy.

While American university presidents are concerned about national security, they are also concerned about the integrity of our knowledge system, which benefits from the inflow of Chinese talent and from Sino-U.S. university collaboration in fundamental research. The Biden Administration should consult with the Association of American Universities (AAU), American Council on Education (ACE) and Association of Public and Land-grant Universities (APLU) before curtailing joint research or educational exchanges.

3. Restore visa access for Chinese students.

The U.S. must maintain constructive vigilance of Chinese government-affiliated scholars who conduct illegal activities within the U.S. However, it should also be our policy to re-establish easy visa access for Chinese students in non-sensitive areas of study, and to reinstate programs that permit them to remain in the U.S. for research, training and work after they attain their degrees.

4. Clarify security concerns for U.S. universities. The Biden Administration should more clearly define research sub-disciplines that are too sensitive to be pursued by senior scholars from nations of high strategic

concern. This includes completing the work of committees at the National Academies and White House Office of Science and Technology Policy, established by the 2019 National Defense Authorization Act.

5. Support Chinese-language study. The U.S. cannot compete effectively with China unless it trains far more leaders in all professions to speak Chinese, have familiarity with China's history, and better understand China's domestic and foreign policies. Rather than rely on Beijing-funded Confucius Institutes to teach Chinese in U.S. schools, the Biden Administration should significantly expand support for Chinese-language and area studies programs in American public schools, colleges and universities.

6. Reinstate the Fulbright and Peace Corps programs in China.

These exchanges have long promoted a positive U.S. image abroad while serving as a training ground for American academics and other professionals who promote secure, constructive relations with the People's Republic of China (PRC) over the course of their careers.

7. Negotiate reciprocal visa agreements for journalists.

U.S. policymakers should demand that American journalists in China be permitted to report as freely as Chinese journalists do in the United States, and a corresponding number of journalists should be admitted to each country. State-run Chinese media bureaus in the U.S. should continue to be designated as "foreign missions."

8. Make public diplomacy a pillar of U.S. China policy.

Because public diplomacy invites China's middle classes into discussions of global governance, technology and values, the Biden Administration should modernize Voice of America's China Branch and other Chinese-language social media platforms to reach a broader Chinese audience. Programs should be well-produced, intellectually absorbing and politically informative, rather than simply amplifying criticism of the CCP.

9. Build more civil society exchanges in non-sensitive areas.

U.S.-China civil society collaborations foster trust and transparency and promote best practices. The Biden Administration should make the promotion of NGO and university exchanges a regular talking point in discussions with Chinese leaders, emphasizing to the Chinese government and public that people-to-people exchanges of all forms can improve nation-to-nation relations and provide guardrails against ever-worsening relations.

MEMO NO. 3

HUMAN RIGHTS, VALUES AND IDEOLOGY IN CHINA

Winston Lord, Andrew J. Nathan and Orville Schell

THE STATE OF HUMAN RIGHTS IN CHINA

China's crackdown continues to intensify, not just on opposition and dissent, but also on perceived disloyalty, disaffection and ideological nonconformity. The most striking examples, beyond ongoing crackdowns on journalists, intellectuals, civil rights lawyers and social media influencers perceived as critical of the Party, are the crimes against humanity—rising to the level of genocide according to the U.S. government—taking place against Uyghurs and other Muslim ethnic minorities in Xinjiang. Then, there is the imposition of the draconian National Security Law in Hong Kong that immediately crushed all autonomous political activity, eliminated independent media and curtailed academic freedom.

In another worrisome trend, the Party has recently also extended its control efforts beyond China's borders. Chinese diplomatic missions now regularly surveil the activities of Chinese students and scholars in other countries with ever more thoroughness. Chinese police order the families of dissidents, or even exiles living overseas, to refrain from any disloyal activity. Without the permission of host governments, the Party has dispatched agents to pressure alleged fugitives from the anti-corruption campaign in China to return home to face prosecution. Furthermore, China's "Wolf Warrior" diplomatic corps has been reacting with increasing belligerence to criticisms of Chinese policies and behavior, evincing a special sensitivity to any mention of Chinese human rights violations. Meanwhile, the government

Such increased repression, despite all of China's developmental success, raises the question: What is the Party afraid of?



Repression also continues in Tibet against those who venerate the Dalai Lama, as well as among the Han population against rights-defense lawyers, feminist activists, Christians who worship outside the government-controlled Catholic and Protestant hierarchies and people who speak out critically in the academic world on traditional media, the internet and over social media.

In the administration of justice, the CCP has advanced a new theory for an existing practice, "[socialist rule of law with Chinese characteristics](#)," which emphasizes the subordination of the legal system, including the courts, to Party control. As the domestic administration of justice remains arbitrary and harsh, practices such as extralegal detention, torture during investigations and imprisonments, and violations of the right to a fair trial have become more common. Within the CCP, members are being exposed to ever higher demands for political conformity on the basis of being purged for "corruption."

is taking punitive actions against foreign businesses that offend its political sensibilities, using visa denials to punish foreign academics and journalists who speak or write critically about China. It has even taken foreign citizens living or working in China hostage to pressure their governments in diplomatic disputes.

This "new Maoism," as some call it, reflects a surprising sense of siege on the part of a government that has been so successful in sustaining economic growth, building its military, and extending its economic and diplomatic influence abroad. Multiple reliable academic surveys confirm that the regime enjoys a high level of public support because of its successful economic performance, control of the COVID-19 pandemic and ability to generate nationalistic pride in the country's growing influence.

Such increased repression, despite all of China's developmental success, raises the question: What is the Party afraid of?

China's 2015 [National Security Law](#) defines national security in terms of three core priorities: economic prosperity, territorial integrity and regime stability. The regime fears challenges to all three. Because prosperity requires access to global supply lines, capital and technology, which the U.S. and its allies still have the ability to interrupt despite the narrowing power gap between the two countries, China is still inescapably dependent. Territorial integrity depends on maintaining control of the vast, strategically important areas inhabited by Tibetans, Mongolians and Turkic Muslim minorities, making Hong Kong a subordinate part of China and eventually consummating the unification of Taiwan with the "motherland." Yet, in all these regions, the more Beijing has insisted on loyalty to the People's Republic, the more alienated these populations have become, and the more the Party has had to turn to repression to maintain control.

While regime stability still depends largely on the continuing loyalty of the majority Han population, the Party often acts as if it thinks even this loyalty is fragile, perhaps because, as the CCP succeeds in modernizing China, it is also building a larger middle class whose members increasingly want to think more for themselves. Their loyalty to the regime is conditional not just on China's prosperity, but on that prosperity being fairly shared, and coming with quality of life rather than the prevailing 996 work schedule—9 a.m. to 9 p.m., six days a week. This compact is complicated by the fact that few citizens may truly believe in the Party's sterile promotion of a "big leader" centered around the myth of an infallible Xi Jinping. With economic growth slowing, the population aging and some young Chinese feeling so frustrated with the hand they've been dealt that they've started the "Lie Down" movement—just opting out of the rat race—there are already signs that the "we'll make you prosperous if you don't challenge us" deal that held for a couple of decades after the 1989 Tiananmen crackdown seems to face more skepticism in this new generation.

The Party's anxiety grows out of its fear that students, intellectuals, media workers, entrepreneurs and even Party members themselves are susceptible to the cultural and ideological influence of what it calls Western "hostile forces" dedicated to destabilizing Party rule. The regime's belligerent responses to foreign criticism and its harsh crackdowns on even the mildest forms of dissent at home all suggest that it regards any expression of skepticism as a serious challenge to its rule. Perhaps the Party is overly sensitive. Or, perhaps, it understands its vulnerability better than outsiders do.

POLICY RECOMMENDATIONS IN THE AREA OF HUMAN RIGHTS

Human rights should remain an important component of U.S.-China policy for five reasons:

1. Most American political leaders and government professionals are personally committed to the integrity of international human rights norms.
2. Supporting human rights abroad is a powerful way to sustain public and Congressional support for an active foreign policy in Asia and around the world. The public understands the necessarily complex policies in Asia as a fundamental clash of values, in which what is ultimately at stake is whether democracy or authoritarianism will prevail as the most successful form of government.
3. The U.S. and its allies agree most fully on the human rights issue. In the complex and sometimes contentious alliance and quasi-alliance system centered around the U.S., human rights provides a shared foundation for working together toward consensus on more difficult issues.
4. Human rights is a Chinese weak point in its active competition for international influence. China is popular among other authoritarian rulers, but citizens in most countries do not admire its political system or esteem it as a general political model. Their distrust is deepened by China's willful and expansive human rights violations.
5. The drama of China's political evolution is ongoing. Although foreign criticism of China's human rights abuses may not be able to immediately change the behavior of the Chinese regime, an active and consistent policy of calling attention to its abuses gives moral support to domestic liberals and reformers whose actions will help shape China's future.

Some fear that the kind of assertive human rights policy that has characterized the Biden Administration's approach will endanger cooperation on other key issues like climate change and global public health. We do not think so. We believe that China will pursue its own objectives on climate change, public health and other issues depending on their own interests, regardless of friction over human rights.

However, to effectively promote universal values of human rights in the face of Chinese competition and interference, the U.S. must set a better model, by enhancing its own

compliance with the same international standards it urges China to respect. With respect to China, we propose six policy recommendations:

1. The U.S. must consistently call out China on rights violations, both in public diplomacy and in relevant UN settings. As it does so, its reference point should not be American values, but universal values, to which China has committed itself via international law by obligating itself through formal accedence to most of the major [human rights treaties](#). High-level public expressions of concern are an important governmental tool, because they make violations visible to the outside world and inflict reputational costs on the senior officials responsible. Although sanctions that are merely symbolic give an impression of weakness, the selective use of sanctions that have real consequences, especially when carried out in coordination with other governments, are essential tools.

2. The U.S. government, foundations, NGOs, universities and the legal community must support Chinese legal reformers, academic freedom advocates, independent journalists, human rights defenders and pro-democracy activists in China and in exile, both verbally and financially. The U.S. Congress should increase support for the National Endowment for Democracy, Voice of America and Radio Free Asia; support the development of technology enabling more Chinese citizens to circumvent the Great Firewall and award asylum readily to those who face a credible risk of persecution inside China because of their human rights advocacy.

3. The U.S. government should rejoin or devote more resources to international bodies that set and monitor human rights standards, such as the UN Human Rights Council, the World Health Organization, the International Telecommunication Union, the World Intellectual Property Organization, Interpol and other agencies where diplomacy takes place and international norms relevant to human rights are set. Sustained work in these bodies is an essential antidote to China's intense diplomatic efforts to bend them to their own purposes.

4. Wherever possible, the U.S. should collaborate as closely as possible with like-minded democratic countries to coordinate collective positions relevant to human rights. Such activities should include convening Democracy summits aimed at developing concrete joint programs, and pushing such multilateral gatherings as the G-7 and the G-20 to engage actively on human rights and democracy issues.

5. Even if relations grow more fraught, the U.S. should continue to nurture people-to-people engagement. Since the ties between the two societies—especially in cultural, business and educational exchanges—can help promote better understanding of human rights, the U.S. government and American academic institutions should continue supporting educational exchanges between the two countries, except in those areas of science and technology that are sensitive for military and national security reasons. Otherwise, Chinese students and scholars who wish to study in the U.S. in non-sensitive fields should be made to feel welcome and should receive student or visiting scholar visas without undo hassle.

6. The U.S. government should work with U.S. businesses to help raise human rights awareness and avoid human rights violations. CEOs should be encouraged to comply with the UN Guiding Principles on Business and Human Rights, which among other things, require due diligence to avoid human rights violations in supply chains. Investors in China should become more aware of the consequences of their investments and should speak more frankly with their Chinese counterparts about the ways in which human rights violations create financial risks and brand damage for Chinese enterprises, and everyone else, in the global marketplace.

MEMO NO. 4

CHINA'S ECONOMY

Arthur Kroeber, Charlene Barshefsky and Barry Naughton

KEY FEATURES OF CHINA'S ECONOMY UNDER XI'S SECOND TERM

Three major features of China's economy are relevant for American officials as they develop concepts for the new era of strategic competition between the U.S. and China:

- ◆ An economic growth strategy stressing large-scale state intervention to achieve rapid technological progress. So far, this strategy has delivered strong growth and given China global economic credibility.
- ◆ Increased openness to foreign investments and financial institutions, conditional on them serving China's developmental goals, one of which is to create an increasing foreign dependence on China's supply chains and markets.
- ◆ A highly leveraged financial system that requires constant risk management but is not fragile enough to derail the government's long-term development strategy.

STATE-DRIVEN ECONOMIC STRATEGY

Under Xi Jinping, China has adopted an "innovation-driven development strategy." China's strategy involves large-scale state interventions in the economy to achieve rapid technological progress, increased self-sufficiency in critical technology supply chains and global leadership in many key tech sectors.

Crucial to this strategy is the mobilization of finance on an unprecedented scale—through, for instance, "industrial guidance funds" that combine capital from the state budget, state-owned and private enterprises and capital markets for investment in strategic industries such as semiconductors, artificial intelligence (AI), new energy vehicles and biotech. As a result, large pools of capital have been made available to state and private companies, regardless of their creditworthiness. The aggregate value of this state-organized financial support to favored industries runs into the hundreds of billions of dollars.

Other interventions include the increased use of Communist Party committees in private companies to influence commercial

decision-making and gain access to proprietary information alongside the use of so-called anti-monopoly enforcement and other regulatory tools—both to facilitate the transfer of technology to favored firms and to limit the need to have IPOs on foreign exchanges.

Over the past few decades, market forces have played an ever-larger role in day-to-day economic activity in China, which is one reason why the economy continues to perform well. Yet Beijing's recent development strategy has worsened the distortion of capital allocation, not only in China but in the rest of the world, by subsidizing and keeping afloat many companies that would otherwise not have survived in viable form. This creates excess capacity in many industries and corrodes fair competition and market-determined outcomes, both in China and elsewhere in the global marketplace. These market-distorting policies are paired with an increase in China's efforts to convert economic strength into regional and global political influence.

Beijing's policy of "military-civil fusion" also implies intent to convert technology developed for civilian aims to military uses. China's goals of attaining self-sufficiency and global leadership in many tech sectors, combined with the government's continued gatekeeper role for foreign investment, leads to coercive transfers of intellectual property from U.S. and other foreign companies. There is also a long-run risk that through such government intervention, Chinese firms could displace American counterparts in certain high-value industries.

CONDITIONAL OPENNESS TO FOREIGN INVESTMENT

In the past five years, Beijing has substantially relaxed restrictions on foreign investment in many sectors, notably finance, pharmaceutical and automobiles. These market openings are generally in sectors where China lags but hopes to catch up to or overtake competitor countries. Thus, this opening is driven by the Chinese state's own industrial policy aims. Even so, this new access is a reason why, despite new political challenges, multinational companies see China as more integral than ever to their global strategies. China is a large and fast-growing market for many high-value products and services, an efficient and

resilient production base, and now, along with the U.S., has become one of the two main centers for global innovation. U.S. policymakers must reckon with the reality that despite all the friction and tension, most American multinationals still view participation in China's economy not as optional, but as critical for their continued global growth and competitiveness.

FINANCIAL RISK

China's economic system faces persistent financial risk. The ratio of gross debt to GDP, already high for a developing country at around 250% in 2019, rose by about another 25 percentage points during 2020 thanks to the COVID-induced recession and the government's subsequent credit-fueled stimulus response. The authorities are now imposing tighter credit policies to stabilize the debt level, resuming efforts that began in late 2016 when financial risk was identified as one of the country's top three governance challenges.

Much of this debt has been taken on, not by the central government, but by local jurisdictions to finance infrastructure and by both state-owned and private companies in favored industrial

U.S. ECONOMIC POLICY TOWARD CHINA: A NEW FRAMEWORK AND POLICY RECOMMENDATIONS

China's drive to achieve greater economic power and technological independence through massive state intervention is a major challenge for the U.S. The American response should not assume that the U.S. policies will have much ability to shift China from its course of state-driven economic and technological development, at least not so long as Xi Jinping is in charge. Instead, a realistic U.S. policy should be driven by the following considerations.

First, although China has vaulting ambitions, ample financial resources, and demonstrated technological prowess, its capacities in most areas are still behind those of the U.S. and other Organisation for Economic Co-Operation and Development (OECD) countries. The U.S. can and should be able to maintain leadership in many critical sectors by stepping up government funding for R&D, rebuilding relevant infrastructure and increasing its participation in international technology standards bodies to influence the future rules of the road.

China's drive to achieve greater economic power and technological independence through massive state intervention is a major challenge for the U.S.



sectors. The continued use of subsidized finance to drive technological progress and growth will inevitably create a significant number of bad debts from failed projects, such that high leverage and piles of new non-performing assets will continue to be a headache for financial regulators in Beijing for many years to come.

Efforts to contain leverage will require harder budget constraints on local governments and state enterprises. This could hamper China's development plans and economic growth. Yet the political will to achieve China's development goals is very strong, and thanks to its huge pool of domestic savings and tight controls on capital outflows, China is unlikely to be derailed by a financial crisis any time soon. While financial problems may make China's drive for technological progress bumpier, they are unlikely to stop it.

Second, many other countries share—to varying but growing degrees—U.S. concerns about China's coercive technology transfers, the displacement of international companies and challenges to their national security. The U.S. should work in concert with coalitions of concerned countries on measures to constrain China's predatory practices. However, since every country balances economic and security interests differently and many will place a higher priority on maintaining access to China's markets than the U.S., new coalitions will have different memberships depending on the issue and will need to be flexible. The U.S. should seek to fortify and work with as many such coalitions as is feasible.

Third, some policy tools must be used sparingly and with caution by the U.S., because of their potentially toxic side effects. These include:

- ◆ Unilateral punitive actions such as tariffs, sanctions and export controls, whose indiscriminate use risks undermining the credibility of U.S. leadership in a multilateral, rules-based, market-oriented global economic system with many different kinds of stakeholders. Tariffs are usually counterproductive, since their ultimate costs are borne by host companies and consumers rather than the target country. Other sanction instruments, too, should be deployed only selectively and proportionately, in response to harm that can be reasonably demonstrated or anticipated.
- ◆ An emphasis on state-directed industrial development in the U.S. would undermine competition and it is not an effective response to state-directed industrial development in China.
- ◆ Rhetoric implying that any economic or technological success of China's is necessarily a defeat for the U.S. Economics is not a zero-sum game. The aim of U.S. policy should not be to thwart China's development, but to constrain the negative impacts of China's policies on other economies, preserve the rules-based global market and protect vital national security interests.

Given this framework, we propose seven specific economic policies for the U.S. to take toward China:

1. Ramp up domestic investment in R&D, infrastructure, innovation-promoting standards (such as for clean energy and decarbonization) and technological education. The purpose should be to foster a national ecosystem for innovation that enables the creation of new technologies, companies and industries. The Innovation and Competition Act is a good start. More directed policies may be required in a handful of sectors critical to national security—notably telecommunications equipment, semiconductors and pharmaceuticals—to foster U.S. technology development and manufacturing capacity. But such direct industry support should remain limited, since there is significant risk of regulatory capture and diversion of resources into low-productivity projects.

2. Enact immigration policies that cement the U.S. position as the most attractive destination for global talent. Such policies will include measures to make it easier for international students with advanced degrees to work in the U.S.

3. Join the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), which the U.S. initiated as the TPP and then exited during the Trump Administration, and in which China is now actively pursuing membership. Domestic political opposition in the U.S. will make rejoining difficult, yet this agreement is the single most effective way for the U.S. to keep up with China's rising regional and global economic influence.

4. Develop a multilateral agreement specifically on digital economy issues, using as foundation rules already set forth in the CPTPP, the U.S.-Japan Digital Trade agreement and the U.S.-Mexico-Canada Agreement.

5. Establish a broader trade compact among major industrialized nations based on the principles of market-based economics, rule of law and transparency. Its aim should be the development of high-standard rules for trade and investment areas not covered by the World Trade Organization (WTO), in such areas as the digital economy, climate change, labor equity, subsidies, and state-owned enterprises.

6. Create a more closely-knit coalition of nations willing to push for major WTO reforms, including revision of the WTO's dispute settlement mechanism and rules relating to state subsidies and state-owned enterprises. China would likely seek to block or water down such reforms, but the effort would still be worth undertaking, to highlight that the U.S. and a large bloc of nations are committed to a more open, rules-based, market-oriented international economic order even if China is not.

7. Reopen negotiations with China on specific issues, including market access, regulatory transparency, national treatment and intellectual property protection. These initiatives could take the form of restructured "Phase II" trade negotiations, or be limited to a small set of negotiations on discrete topics. Additional dialogues in areas of common or parallel interest, notably climate change and financial risk management, would also be helpful. We should be under no illusions about our capacity to compel China to undertake large-scale structural changes. Nonetheless, the continued presence of U.S. companies in China means that we need better mechanisms for resolving problems and pressuring China to adhere to prior commitments, with the goal of assuring that the benefit U.S. firms derive from China's economy are equitable and reciprocal.

MEMO NO. 5

CHINA'S TECHNOLOGY

Barry Naughton and Peter Cowhey

KEY FEATURES OF CHINA'S TECHNOLOGY DRIVE

The basic patterns of China's technology drive—state-led, massive and seeking to end dependence on foreign suppliers—along with its competition with the U.S., have become more deeply confirmed over the past few years. Some particular new developments relating to China's drive for greater technological self-reliance need to be highlighted because of their importance for American policy responses:

1. Chinese policymakers have doubled down on a massive commitment to become more technologically independent, partly because of fears about being sanctioned or otherwise cut off. China's Outline of 14th Five-Year Plan (2021-25) represents a clear intensification of this drive for independence. For the first time, Beijing calls "science and technology self-sufficiency" a pillar of strategic support for national development, and commits itself to massive subsidies for commercial technology applications. The plan builds on Beijing's earlier commitment to "new infrastructure" investment as a key driver of both growth and technological development through such initiatives as "Smart Cities." The highest priority remains on the cluster of technologies centered on semiconductors, telecommunications, artificial intelligence, quantum information and new materials. China's technology drive is, if anything, less targeted than in the past, as support for high tech expands to cover more of the industry.

Meanwhile, China is actively "decoupling" its supply chain from dependence on the U.S. China is insulating its supply chain, reducing or eliminating bottlenecks and chokepoints, and investing in redundancy. This is an expensive undertaking, but China wants to keep many of its cross-border networks in place, so other countries remain dependent on Chinese suppliers and markets. Remarkably, the Chinese government has explicitly said that this policy will allow China to retaliate if and when it faces technological sanctions.

2. Chinese government-led tech projects have given policymakers successes that have generated real popular pride, despite a mixed record. External factors, like U.S. sanctions, have led Chinese leaders to intensify

technology and industrial policies. China has celebrated projects like the Mars rover and the probe of the far side of the moon. In applied technology, China's accomplishments in fintech, 5G telecom and quick deployment of COVID-safety phone apps are also notable accomplishments.

China has been less successful in the advanced semiconductor sector, despite considerable efforts and investment over the past decade. But China wants to be a global leader in cutting-edge technology, and much of that technology depends on having access to the most advanced semiconductors. This has reinforced the conviction of policymakers in Beijing that they need to be able to make their own advanced semiconductors, as soon as possible. Meanwhile, both China and the United States rely heavily on Taiwan's semiconductor industry, and especially on TSMC—the Taiwan Semiconductor Manufacturing Company, which has developed a commanding presence at the cutting edge. A global scarcity of semiconductors has developed because suppliers could not quickly enough respond to shifting demands for chips. Semiconductor shortages have emerged even in many types of "legacy" microprocessors, such as those higher nanometer chips not on the extreme cutting edge that are used in every form of industrial product. These shortages have underlined the massive ongoing economic importance of the semiconductor sector in the new "Internet of Things."

3. U.S. policies toward China's technology drive have changed little under the Biden Administration. Although the administration has sought to rationalize policies and give markets time for orderly adjustment, it has not broadly relaxed Trump's policies. His placing of Chinese firms on the U.S. "entity list" has hurt China's tech aspirations significantly, and caused it to spend significantly more on R&D while also stockpiling large inventories of chips. Such U.S. actions are unlikely to change the Chinese government's support for China's tech sector. They may instead spur Beijing to speed up its quest for self-reliance, and more actively move toward decoupling.

U.S. POLICY RESPONSE: A FRAMEWORK AND SPECIFIC POLICY RECOMMENDATIONS

China's technology drive presents a major challenge to the U.S. We must protect ourselves, our friends, allies and companies, by making major adjustments of our own that strengthen a global rules-based system of free and fair competition. At the heart of such an effort must be an American-backed move towards a stable, sustainable and open innovation system that relies on allies, partners and countries of common interests.

China has, over the past two decades, invested heavily in increasing innovation, with the goal of becoming a global leader in cutting-edge technologies. The effort has and will continue to achieve some goals, while also at times being wasteful, or even counterproductive. The odds of that increase if China's industrial policy loses its focus on export-oriented innovation.

However, the United States should not and cannot wait for China to slow down. For three decades, the U.S. has developed myriad and varied kinds of collaboration with China, which have contributed enormously to the creation of knowledge globally and the expansion of low-cost production networks. But leaders in Beijing have long demonstrated a willingness to subordinate economic efficiency to security imperatives, which appears to be a factor now behind China's steps to decouple its supply chain from the U.S., and even from the OECD.

That does not mean China is decoupling from the world. Its Digital Silk Road, part of its global Belt and Road infrastructure initiative (BRI), includes building out 5G networks, and

in a world of ambiguity, where a growing share of the global market is in places where the U.S. and Chinese interests constantly intersect and sometimes collide. The U.S. must determine which of these areas of intersection should decouple for national security reasons without disturbing the others, and which should not.

The U.S. needs to articulate a more coherent policy about which advanced technologies it can, and cannot, share with China. It makes little sense to ban a company like TikTok simply because it is Chinese. Instead, there need to be explicit U.S. guidelines and rationales set for such things as the collection of private user data and the application of sophisticated behavioral algorithms. National security concerns that justify bans, sanctions or decoupling from Chinese companies must be made more explicit, and be very selective.

A point that can hardly be overemphasized is that the U.S. response to China's actions should be premised on maintaining our lead in scientific research, discovery and application. Here we want to echo the previous memo on China's economy: "The U.S. can and should maintain leadership in many sectors by stepping up government funding for R&D and relevant infrastructure and increasing participation in international technology standards bodies."

As the U.S. selectively decouples from certain China-dependent supply chains, it should remain open to the flow of students and talent from China. It is in the U.S. national interest to continue encouraging the participation of Chinese students and scholars in the research commons of our country, where they have been playing an inordinately productive role.

... our response to China should always be to foster rather than diminish the open, attractive and powerful innovative environment that is the beating heart of America's singular scientific dynamism.



exporting surveillance equipment and other technology to dozens of countries around the world. Beijing also seeks to set technological standards in a way that will favor China.

China's economic scale, mid-level technological achievements, and competitive pricing mean that ties with middle-income and developing countries will likely continue, and could even grow. The U.S. really doesn't have a decoupling option from these same markets. The U.S. faces a long-term challenge in deciding how to pursue U.S. core security and economic goals

Not every Chinese student will stay in the U.S. or leave with a favorable attitude toward the U.S., but the substantial number of Chinese graduates who do stay in the country contribute immeasurably to U.S. scientific and technological creativity.

In sum, even as we move to protect areas of research deemed essential to national security, our response to China should always be to foster rather than diminish the open, attractive and powerful innovative environment that is the beating heart of America's singular scientific dynamism.

We recommend the following specific policy measures:

1. Develop clearer rationales and guidelines for measures needed to protect the U.S. against harmful Chinese behavior.

Money will have to be spent to bring some manufacturing and production back to the U.S., including advanced semiconductors, some capabilities for 5G networks and more advanced networks to come, some pharmaceuticals and [perhaps rare earths](#). We will also have to refurbish long-standing security measures that help guarantee diverse and selective stockpiles of critical raw materials. In the process, we will need to distinguish between long-term critical vulnerabilities that need government intervention, and situations where normal market forces will correct imbalances naturally. We should guard against mimicking China and falling prey to an overly broad and hastily assembled industrial policy, both for production of goods and the mining of raw materials. Indeed, it may be worth establishing two competing teams to investigate each of these issues and make counterproposals to get the balance right.

2. A smart strategy will require much more U.S. government funding, especially for basic research and advanced production facilities.

We agree with the recommendations made in the memo on China's economy, to "ramp up domestic investment in R&D, infrastructure, innovation-promoting standards (in such fields as clean energy and decarbonization), and technological education" and "enact immigration policies that cement the U.S. position as the most attractive destination for global talent." However, we should be aware that government spending is only one part of the rapidly changing research and innovation system landscape. Government funding should stay focused on those parts of the innovation system that are especially responsive to government action, namely those with strong public goods properties and long-term, hard-to-predict but potentially large benefits.

3. We should not assume that the U.S. and its close allies need to be dominant in every field of emerging technology. Prioritization is essential if we are to effectively focus our efforts. We must be mindful that there can also be benefits to interdependence, especially with friendly global partners, that can often outweigh specific risks of dependence. A careful delineation of which technologies should be based in the United States for security or other reasons, and which would be just as useful and accessible based elsewhere, is a crucial step in sustaining innovation and overall U.S. technological leadership.

4. It is important that U.S. spending be matched to big, medium and long-term risks, not short-term hiccups. As we focus on the big picture for key technologies that relate to national interest, it is important not to be discouraged by occasional failures (e.g. Solyndra, a failed solar company) that are an inescapable, even necessary byproduct of innovation. We should also recognize that extensive U.S. government funding for applied innovation, including semiconductor fabs, may be subject to short-term thinking, and it is too often influenced by industry lobbying. The U.S. Innovation and Competition Act, passed with bipartisan support in June 2021, allocates \$250 billion to help improve R&D and innovation to better compete with China. This is a step in the right direction.

5. The U.S. should focus on smart infrastructure as an important area for government policy support and collaboration.

Both China and the EU are using next-generation infrastructure to gain competitive advantage. Because we desperately need to repair and modernize our own infrastructure, we should learn from the efforts of others in creating smart grids, high-speed transport networks and smart cities. Because smart infrastructure is also crucial to meeting climate policy goals, the federal government should provide similar kinds of flexible support for innovative local infrastructure experiments, after monitoring developments in China and Europe. "First movers" have some advantages, but so do responsive "fast followers," as some Chinese tech firms have shown over time, by learning from the mistakes of "first movers." In many fields, decentralized experiments that optimize for local conditions may prove superior to centralized master plans. In the long run, the flexible U.S. federal system has important advantages over more rigid hierarchical systems, but better national policy support is needed to bring those advantages into full play.

6. We should move rapidly and proactively to establish new broad agreements with our allies and friends on baseline protocols for data privacy, cybersecurity and data management that allow for easier collaboration, while respecting differences—including national preferences.

This will encourage and facilitate collaborative multilateral research, as a preferable alternative to China's more sovereign-based, even nationalist, approach to research.

7. The U.S. should develop policies specifically designed to attract and keep foreign talent.

A new U.S. visa policy should protect national security, while also welcoming the foreign talent that has been a key building block in the edifice of America's scientific and technological preeminence.

MEMO NO. 6

CHINA'S MILITARY CHALLENGE

Thomas Christensen, Zack Cooper, Karl Eikenberry, M. Taylor Fravel and Bonnie Glaser

THE CHALLENGE OF CHINA'S
MODERNIZING MILITARY

For U.S. defense planners, China's modernizing military—the People's Liberation Army (PLA)—poses the greatest challenge in the world. China is not a global military peer competitor of the U.S. and will not be for decades, but it has developed a robust capability to fight effectively in the areas within the first island chain, which runs north to south from Japan in the East China Sea, to Taiwan, to the Philippines in the South China Sea. These areas are of vital importance to global trade and U.S. security. They include U.S. allies Japan, South Korea and the Philippines, and the key security partner of Taiwan. The U.S. military presence in East Asia is also an essential link in the global network of bases that allows the U.S. to project power around the world.

The PLA, as part of its effort to prevail in regional conflicts, is focused on deterring and defeating U.S. military intervention in East Asia. It is developing longer range kinetic and electronic warfare systems, as well as cyber and anti-satellite capabilities which can complicate and delay efforts to resupply and reinforce American military units operating near China from more distant bases in Guam, Hawaii and the Continental United States (CONUS). The PLA is also expanding and diversifying its nuclear arsenal, including in ways that overlap with some of its conventional missiles, amplifying the dangers of crisis escalation.

This short memo examines the challenges posed by these new and expanding capabilities, and focuses on the possibility of a U.S.-PRC

units such as the Chinese Maritime Militia. Due to space constraints, it does not discuss the militarily relevant issue of competition in 5G, AI, micro-processors and other technologies that will have profound implications for the next generation of weapons and future deterrence, or the real possibility of a U.S.-PRC clash on the Korean peninsula, which are also potential military threats.

China's rapid military development in the following areas is most concerning to the U.S.:

1. Long-Range Strike Weapons, including Anti-Ship Cruise and Ballistic Missiles

New generations of precision-strike ballistic missiles, land-attack cruise missiles and anti-ship cruise missiles launched from surface ships, submarines and aircraft put at risk U.S. bases as far away as Guam and U.S. surface ships, including aircraft carriers, operating within 2,000 kilometers (and perhaps beyond) of China's coastline.

2. Integrated Air Defenses (IADs)

A mix of imported and reverse-engineered Russian technologies, coupled with new indigenously produced systems, now provide China with long-range air power that threatens Taiwan's entire air force and U.S. air assets in the region, should Washington decide to intervene in Taiwan's defense. Placing such systems on surface ships and artificial islands in the South China Sea has greatly expanded the PLA's defense umbrella. The reach of these systems has the potential to outstrip those of many current U.S. air-launched strike weapons.

The PLA is emphasizing the need to establish information dominance in the Asian theater, making it difficult for U.S. forces to communicate with each other or target Chinese forces.

conflict over Taiwan, which we believe is the most likely and dangerous scenario for armed combat between the two sides in the foreseeable future. It also addresses China's "grey zone activities"—coercive actions involving assets like the Coast Guard or paramilitary

Moreover, the sheer quantity of these new Chinese systems might exhaust U.S. munitions during a protracted conflict.

3. Electronic Warfare, Cyberwarfare and Counter-Space Capabilities

The PLA is emphasizing the need to establish information dominance in the Asian theater, making it difficult for U.S. forces to communicate with each other or target Chinese forces. The PLA is developing capabilities to blind, cripple and destroy the satellites on which the U.S. relies for situational awareness and communications. It could also use cyberattacks against U.S. logistics chains, some of which rely on unclassified communication networks.

4. Grey Zone Activities

China's Coast Guard (CCG), marked by its white-hulled vessels, has doubled in size since 2010, and is now the largest in the region. It is also supplemented by a large fleet of government-directed fishing vessels, dubbed the Chinese Maritime Militia (CMM), whose assets have been used to assert the PRC's disputed claims in the East China Sea (around the Senkaku/Diaoyu Islands, which are also claimed by Japan and Taiwan) and especially in the South China Sea (where disputes exist with the Philippines, Brunei, Malaysia, Vietnam, Taiwan and Indonesia). Such "gray zone assets" are often supported by "over the horizon" protection of PLA forces that are near enough to threaten timely intervention should other disputants militarily challenge CCG and CMM operations. Finally, recently constructed artificial islands, with long military airstrips and harbors, have enabled the PLA, Navy, Air Force and the CCG and CMM ships to increase the scope and scale of their reach into the southern half of the South China Sea all the way down to Indonesia while also serving as platforms for air defense and anti-ship missile systems.

POLICY RECOMMENDATIONS FOR THE UNITED STATES

1. The U.S. should rely on more agile U.S. capabilities in East Asia. The U.S. needs to rely less on large, fixed regional bases that are vulnerable to Chinese strike weapons, and rely more on a dispersed and mobile regional force posture. Our military services are developing such concepts, including the U.S. Marine Corps' Expeditionary Advanced Base Operations, the Army's Multi-Domain Task Force, the Navy's Distributed Maritime Operations and the Air Force's Agile Combat Employment. They are also correctly emphasizing resilience, given that their combat-enabling systems can be attacked and degraded by PLA forces. The organic difficulties in making such major adjustments in joint and service doctrine are being greatly compounded by both the need for regional access in multiple locations (to complicate PLA targeting) and the need to exercise these concepts with regional partners

in peacetime. Long-term success will depend on the U.S. making significant advances in its regional diplomacy with new partners who feel threatened by Beijing's military modernization and grey zone assertiveness, even as many have strong trade, investment and financial ties with China.

2. The U.S. must develop a larger inventory of longer-range strike weapons beyond the reach of China's IAD system. In conjunction with the analyses above, the U.S. will need a larger arsenal of longer-range conventional strike weapons to deal with the increased range of China's IAD systems and the growing number of potential Chinese targets. These systems can be carried on ships, aircraft and, since the abolition of the Intermediate-Range Nuclear Forces (INF) Treaty with Russia, can also be placed on land.

3. The U.S. must disperse forward deployed material, and ensure better cybersecurity for logistics lines. Given the PLA's ability to complicate and block U.S. logistics support for forward deployed forces (i.e., food and water, fuel, ammunition, maintenance, medical care, etc.) from bases in Guam, Hawaii and the CONUS, the U.S. must develop innovative new ways to diversify regional stores of prepositioned materiel and more effective ways to protect lines of air and sea lines of communication for resupply.

4. The U.S. should help to improve partner capacity in the South China Sea. While the U.S. officially takes no legal position on disputed land features (such as the Spratly Islands), it does call for peaceful resolution of disputes and claims in a manner consistent with international law. The U.S. should continue to conduct regular "freedom of navigation operations," but without fanfare, to challenge China's vague, questionable and often excessive claims to seas and airspace, such as "historic rights" to expansive maritime areas, which are inconsistent with international law, and to demonstrate that the U.S. military cannot be excluded from areas in which it has legal rights to operate. Because the most important actors are the other local claimants in the South China Sea disputes who face Chinese bullying and salami-slicing tactics, the U.S. should work more closely with those claimants to improve their situational awareness, the fighting effectiveness of their militaries and the law enforcement capabilities of their coast guards.

5. The U.S. should conduct strategic dialogues on crisis management with Beijing. China's deployment of dual-capable weapons systems, like the DF-26 intermediate range land-based ballistic missile, dangerously blur the line between conventional and nuclear warfare. This problem will likely be compounded by

China's development of a larger submarine-based nuclear capability, the potential for air-launched ballistic missile capability from the H-6 bomber and hyper-glide vehicles. Because attempts to gain advantage in a conventional scenario by disrupting an opponent's cyber and space-based intelligence and communications systems might be misperceived by that opponent as a prelude to a strategic attack, the U.S. should pursue dialogues with the PRC on crisis management, aimed at preventing accidental confrontations between conventional forces from escalating into wider conflict, and even a nuclear exchange.

6. Finally, the U.S. must help strengthen Taiwan's defensive capabilities against invasion and coercion. The U.S. needs to support and help reinforce strategies currently being adopted by Taiwan to provide a more dispersed, agile and enduring asymmetric response to a PLA invasion. These include: better mobile coastal defenses (e.g. cruise missiles), deployment of sea mines and regular as well as irregular defense strategies against ground forces that successfully land on Taiwan. Because a naval blockade may prove easier for the PLA to execute and harder for the U.S. and Taiwan to counter than a full-scale PLA invasion, the U.S. should help Taiwan develop strategies for confronting such scenarios. In addition to standard military responses such as improved mine clearing, anti-submarine warfare and anti-surface warfare capabilities, Taiwan needs to create deeper and more dispersed strategic reserves of critical materiel like fuel and food and to pre-emptively prepare its population both practically and psychologically for crippling cyberattacks on critical infrastructure that are sure to be part of any attack. Above all, Taiwan must overhaul its anemic reserve system to ensure its own military readiness, so that its own forces will be able to serve as the primary bulwark against this wide range of potential assaults.

The U.S. must dissuade Taiwan politicians from making assertions of de jure (legal) sovereign independence from the Chinese nation that could unnecessarily provoke a conflict. In the same vein, the Biden Administration and Congress should reject calls in the United States, especially from the Congress, to make the U.S. commitment to Taiwan's defense unconditional. Such a move is unnecessary because the PLA and the PRC leadership already expect and plan for U.S. intervention in most of their major conflict scenarios. The credibility of an unconditional commitment could be constantly tested by lower-level PRC military actions in the Taiwan Strait. Moreover, Beijing would likely view an unconditional defense commitment both as a restoration of the U.S.-Republic of China (ROC) alliance that was terminated as a precondition for U.S.-PRC

normalization of diplomatic relations in 1979 and as an invitation to pro-independence forces on Taiwan to pursue sovereign independence from the Chinese nation. Rather than bolstering deterrence, moves that seem to restore the U.S.-ROC alliance could, in the end, undermine it and greatly increase the likelihood of a conflict.

Fortunately, current President Tsai Ing-wen has acted prudently on sovereignty issues, and most calls for greater clarity in the U.S.'s commitment to Taiwan have come from voices in the U.S., not Taipei. But this relative state of stability could be upended in Taiwan's presidential election in 2024, when President Tsai cannot run again due to constitutional term limits. The political environment surrounding the election will require a particularly skillful mix of credible U.S. deterrent threats against the use of force and assurances that the U.S. does not support Taiwan independence and opposes unilateral changes to the status quo across the Taiwan Strait. In the interim, while the U.S. should continue to advocate for greater involvement of Taiwan representatives in international organizations, the goal is to help stabilize the status quo while impressing on PRC leaders that an attack on Taiwan is much too risky and costly to consider, much less launch.

MEMO NO. 7

CHINESE DIPLOMACY

M. Taylor Fravel, Bonnie Glaser and Evan Medeiros

CHINA'S DIPLOMATIC GOALS AND AMBITIONS

China seeks regional preeminence and global prominence to cement its global presence and influence across all dimensions of power. At the same time, China seeks to minimize constraints, especially from the U.S., maximize its ability to protect its perceived interests, ensure its access to global markets, capital and technologies, and gain international respect for its achievements and domestic policy choices.

Asia is—and will remain—China's most immediate foreign policy priority. Beijing will seek a dominant position there by advancing its sovereignty claims, deepening the region's economic dependence on China, neutralizing potential rivals (especially U.S. allies) and encouraging political deference on issues important to Chinese interests.

China views the “Global South”—the developing world including Africa and Latin America—as a region of comparative geopolitical advantage, and is devoting considerable resources to it. China seeks to position itself as the *de facto* leader of the developing world, to build support for its efforts to shape global rules and norms and its positions in international organizations.

DRIVERS OF CHINA'S DIPLOMACY

Both historical forces and contemporary dynamics drive China's current diplomacy. Chinese leaders' perceptions of a deeply felt historic sense of victimhood, as well as entitlement as a great civilization, fuel a dynamic mix of insecurity and ambition. These sometimes contradictory impulses motivate much of China's international behavior.

In material terms, China has never been stronger than it is today. Xi Jinping, as China's

Xi believes that as the U.S. decline accelerates, China is presented with growing opportunities to play a more active global role ...



China increasingly sees itself as a global power, but its global ambitions remain in an inchoate but evolving state. Under Xi Jinping, China has devoted significantly more time and resources than before to raising its global profile and influence by:

- ◆ Playing a greater role in shaping international rules, norms and institutions in such areas as human rights, internet governance, technology standards and development finance. China has also sought to increase its presence and influence in UN-led organizations and bodies where it can constrain the United States.
- ◆ Seeking to increase legitimacy for its political system and governance model, often by highlighting the failures of democracy. However, China has stopped short of defining or exporting a complete political-economic model.

most internationally proactive leader since Mao Zedong, uses China's new capabilities more frequently and forcefully than his immediate predecessors to advance his perception of national interests, abandoning the low-profile and risk-averse diplomacy that China adopted for two decades after the end of the Cold War.

Xi believes that as the U.S. decline accelerates, China is presented with growing opportunities to play a more active global role, even as it faces greater risks and challenges than ever. These dueling perceptions have motivated Xi to be more active, opportunistic and risk-acceptant in China's foreign policy.

The Chinese leadership's anxieties about territorial integrity, sovereignty and the CCP's legitimacy within China are central to understanding its foreign policy today. These anxieties manifest themselves in great sensitivity to external criticism of Chinese policies, and frame how Beijing views other

countries and often trigger sharp Chinese responses. They also drive China's desire to gain international acceptance of its governance choices.

CORE DIPLOMATIC TOOLS

After four decades of high growth, China has more ample and diverse material capabilities than ever before, which enable its more activist international posture. For example, China now has more diplomatic posts in the world than any other country, including the United States.

Economic instruments are China's most common and effective tool of statecraft, allowing Beijing to shape the choices of others without resorting to military threats or the use of force.

- ◆ Positive inducements include aid, loans, direct investment, market access, and trade and investment agreements, which burnish China's image and a sense of the inevitability of its rise. These economic interactions, many of which occur through the framework of the Belt and Road Initiative, also increase dependence on China, which creates political leverage.
- ◆ Negative inducements include economic coercion, such as the imposition of import tariffs or threats of the loss of access to China's large market, as well as export restrictions, consumer boycotts, tourism bans and sanctions on "unfriendly" individuals and organizations.

China also increasingly leverages its propaganda and information networks to pursue its diplomatic goals. It has built a global presence in print and broadcast media to disseminate narratives that promote Chinese

CHINA'S APPROACH TO KEY RELATIONSHIPS

China's ties with the United States remain its most important relationship, but its leaders believe that the adversarial nature of the relationship has become so entrenched that greater U.S.-led efforts to constrain China are now inevitable, especially in the area of technology. China seeks to avoid a war, but the risk of crises is growing as traditional stabilizers and communication channels in the relationship have atrophied. The emphasis in the current relationship on ideological differences and Taiwan are hardening negative perceptions in each country of the other, hampering negotiations and undermining stability.

China seeks to drive a wedge between Europe and the United States to prevent the formation of a counterbalancing coalition. But despite China's active economic diplomacy across Europe, some of its policies—such as recent sanctions on individuals and organizations in the EU—have alienated many European states. Whether Europe seeks in the future to enhance its strategic autonomy or work more closely with Washington will depend on European assessments of U.S. reliability, and on whether they see U.S. policy toward China as appropriately competitive or overly confrontational.

As Beijing seeks to balance against the U.S. and resist liberal values, Russia has become China's most important international partner. A newfound strategic entente has emerged as the two, at least for now, compartmentalize their differences in areas such as the Arctic, Central Asia and the Persian Gulf. Although their economic relationship is modest, there is unrealized upside potential for deeper

Positive views of China have declined precipitously in many regions of the world, in the wake of China's increased economic coercion and assertive public diplomacy.



successes and defend the CCP, as do China's "Wolf Warrior" diplomats. China also uses these tools for deliberate mis/disinformation efforts, such as spreading false information about the COVID-19 vaccine failures of other countries.

China's limited military-to-military diplomacy and arms sales offer only a modest diplomatic benefit, and are unlikely to become highly effective tools in the near term.

cooperation on intelligence sharing and military interoperability. Both areas may be under appreciated in the United States and should be carefully monitored.

VULNERABILITIES IN CHINA'S DIPLOMATIC POSTURE

Xi's activist diplomacy is generating substantial international blow-back.

- ◆ Positive views of China in many regions have declined rapidly. China is now viewed unfavorably in more and more countries as its use of economic coercion and assertive public diplomacy grows.
- ◆ States are beginning to increase cooperation to counter China, such as the first-ever leaders' summit of "the Quad" (Japan, India, Australia, and the U.S.) in March 2021 as well as the recent G-7, NATO and U.S.-EU summits.
- ◆ Because China lacks allies and struggles to generate convincing "soft power," its diplomacy relies on material incentives and disincentives, such as punitive commercial actions, to advance its interests, which have engendered substantial new resentments in many countries.

Nevertheless, it is premature to conclude that China will respond in a conciliatory manner to the blow-back its statements and actions have created. Recent high-level meetings in China demonstrate an awareness of these problems, but there have been no adjustments so far in Chinese behavior. Beijing's perceived need to show strength and confidence at home and abroad around the 100th anniversary of the Chinese Communist Party's founding, and perhaps even in the run-up to the 20th Party Congress in 2022, suggests that significant adjustments may be unlikely in the near term.

RECOMMENDATIONS FOR U.S. POLICY IN DIPLOMACY

1. The more the U.S. revitalizes itself politically, economically, and militarily, the more influence it can exercise in global affairs, thus providing more credible options to countries seeking to resist Chinese coercion and/or to avoid becoming too reliant on China.

2. The U.S. should continue to rebuild its relationships with allies and partners, as well as its role in multilateral organizations, which are an indispensable instrument of U.S. statecraft. Growing international concern about China's behavior creates an opportunity to leverage these relationships to respond collectively to the China challenge. In practical terms, this means: helping states acquire the ability to resist Chinese coercion, building partnerships to blunt China's "divide and conquer" tactics, coordinating policies to shape and deter unwelcome Chinese behaviors, fostering coalitions on specific shared interests such as technology controls and, in general, upgrading alliance capabilities to bolster diplomatic responses to China's assertiveness and, if necessary, to deter or respond to Chinese aggression.

3. The United States should reinvest in the infrastructure of American diplomacy. The budget for the U.S. Department of State must be increased, to expand the size of the Foreign Service Officer corps and the size and number of posts abroad, so that U.S. missions can build relationships and further U.S. interests abroad. To understand the impact of Chinese policies around the world, U.S. missions should also increase monitoring of Chinese diplomatic efforts in third countries.

4. At the same time, the United States should not avoid or eschew diplomatic cooperation with China or in multilateral efforts that include China, especially in areas where interests align, such as climate change, public health and nonproliferation.

5. U.S. policy responses should focus on areas where Chinese diplomacy poses the sharpest challenges to U.S. interests around the world, such as in economic diplomacy, global governance and information. Specifically, the United States should:

- ◆ *Increase and deepen its economic engagement with Asia*, by joining multilateral trade agreements, or risk ceding economic leadership to China. Washington should develop the capability to track and monitor Chinese economic influence given its foundational role in China's diplomacy. However, the United States alone cannot match the level of aid and investment China offers. Therefore, it should develop tools that puts pressure on China to improve its lending and building practices, including by offering countries alternatives to a heavy reliance on China.
- ◆ *Deepen and enhance its participation in international organizations, especially those with universal membership or that are part of the UN system.* The U.S. should also be much more proactive in seeking to place officials from like-minded countries in leadership positions of specialized UN agencies and other important international bodies, especially in the area of technical standards. The Biden Administration should also redouble its efforts to ratify the UN Convention on the Law of the Sea and other agreements as part of a rules-based order.
- ◆ *Develop and implement a much more effective information and public diplomacy strategy to counter Chinese propaganda and disinformation*, using broadcast, print and social media to highlight the positive impact of U.S. leadership and values as well as American investment and engagement around the world.

MEMO NO. 8

U.S.-CHINA CLIMATE COOPERATION, COORDINATION AND COMPETITION

Elizabeth Economy and Yasheng Huang

THE CLIMATE CHALLENGE AND CHINA'S DOMESTIC CLIMATE LANDSCAPE¹

China and the U.S. are the world's two largest emitters of greenhouse gases, contributing 28% and 15% of global CO₂ emissions respectively. Without their active efforts, the world will not achieve the 2015 Paris Climate Agreement objectives of limiting the increase in global temperature to 2 degrees Celsius above pre-industrial levels, much less its more ambitious 1.5 degrees Celsius target. Both U.S. president Joe Biden and Chinese president Xi Jinping have placed climate change near the top of their respective domestic and foreign policy agendas and set clear targets and timetables to help meet the agreement's goals. Despite the otherwise fraught state of U.S.-China relations,

measures and a COVID-19-induced decline in economic activity.

Meanwhile, Xi actively sought the mantle of global climate leadership, at least rhetorically. He has promised to increase the share of non-fossil fuels in China's primary energy consumption to about 25%, cut the country's carbon intensity (CO₂ emissions per unit of GDP) by over 65% by 2030, enhance China's forest stock and achieve carbon neutrality by 2060.

China has led the world in overall investment and deployment of renewable energies. Nonetheless, China's GHG emissions increased from 13,010 million metric tons in 2016 to [14,400 million](#) metric tons in 2020. Under the

... there is a willingness in both countries to identify where cooperation to accelerate the world's response to climate change is possible.



there is a willingness in both countries to identify where cooperation to accelerate the world's response to climate change is possible.

That said, neither country's climate effort has truly distinguished itself over the past several years. Former U.S. president Donald Trump announced his intention to withdraw the U.S. from the Paris Agreement in June 2017 and formally pulled out on Nov. 4, 2020. During that time, U.S. officials continued to participate in UN climate negotiations, but did not contribute to advancing collective global action. Despite the lack of federally mandated activity, however, U.S. CO₂ emissions declined during Trump's tenure from 5,131 million to 4,571 million metric tons (while they otherwise remained largely constant during 2017-19), aided by state-level

terms of the Paris Agreement, China's CO₂ emissions can continue to increase until 2030, but the development of new coal resources and expanded consumption raised alarm bells in and outside the country.

China's domestic climate actions present a mixed picture overall. While there is positive news in areas related to clean technology, such as renewable energy and electric vehicles, Beijing has been reluctant to move aggressively to diminish its reliance on coal burned at home and on its still significant support for new fossil-fuel energy projects abroad. Several of China's recent initiatives around green finance are also being hampered by weaknesses in the design and implementation process. For example, [guidelines](#) for issuing bonds include projects such as improving the energy efficiency of

¹ Much of this section is adapted from Elizabeth Economy, "China's Climate Strategy," *China Leadership Monitor*, June 2021.

fossil-fuel powered furnaces. China has not provided a clear path forward for how it will meet its 2030 emissions cap or 2060 carbon neutrality goals.

In sum, China's recent climate action or non-action consist of these five points:

1. The primary source of China's CO2 emissions is still the burning of coal for energy and the industrial production of materials such as cement and steel. Coal still supplies about [57% of China's energy, down from 70% a decade ago](#), but with absolute generation up 19 percent, and coal use causes more than [75% of its CO2 emissions](#). In fact, in 2020 Beijing brought online more new coal plant capacity than in 2018 and 2019 combined, making its new coal plant capacity more than three times that of the rest of the world. What is more, China currently has 247 GW of [coal power](#) under development—enough to power the whole of Germany and more than the total active capacity in the U.S. The China National Coal Association (CNCA) has forecast that the country's [coal output will increase](#) once again in 2021, with consumption rising by [6% overall](#) by 2025. In the first quarter of 2021, China's CO2 emissions posted a [9% increase](#) over pre-pandemic levels.

The UK-based climate group TransitionZero says China would have to shutter roughly [one-third](#) of its current capacity by 2030 if it is to meet its goal to achieve carbon neutrality by 2060. The draft of the 14th Five-Year Plan released in March 2021, which when finalized will guide the country's economic development during the 2021-25 period, provides little indication as to how, given the continued rise in coal consumption, Beijing plans to achieve either its 2030 or its 2060 goals.

2. China is the world leader in total installed wind and solar capacity, which supply about 11% of all Chinese primary energy consumption. China now also boasts an 80% share of the [global solar panel market](#). In 2020, [investment in renewables accounted for 57%](#) (\$11 billion) of China's global energy infrastructure investment compared to 27% for coal. However, China's solar panel manufacturing has recently come under criticism by the U.S. government and labor groups not just for its state subsidies, but because of the alleged use of forced labor in Xinjiang for the production of a critical component, [polysilicon](#).

3. A priority area for Beijing is the decarbonization of its transportation sector, which contributes 9% of the country's emissions. By the end of June 2019, China boasted almost [half of the world's electric cars](#), which included about 4.5% overseas sales,

and 99% of its electric buses. And Beijing has outlined plans for electric vehicles to comprise 40% of all sales by 2030.

4. China has introduced financial tools to help meet its climate obligations. In 2021, Beijing launched a national [emissions trading system](#) (ETS) that covers the power sector—a sector that represents roughly 50% of China's total emissions and 14% of the world's total emissions. ETS is not without its critics, who point out that the plan targets carbon intensity, as opposed to emissions. Thus, a power plant could become more efficient even as it consumes more coal, and produces more emissions. In addition, the ETS plan lacks a strong [legal framework](#) to ensure adequate supervision of the initial permits allocations process, the leveraging of strict penalties on violators and a guarantee that firms will report their emissions accurately. Moreover, all Chinese coal plants larger than 300MW are already able to meet the targets without having to buy new quotas, meaning the initial allocation will not produce any [significant shift](#) in behavior.

5. China has also developed a vast and active green bond market that promotes sustainable, climate-friendly infrastructure investment. But here, too, there are [implementational weaknesses](#) that include: a lack of transparency around how invested funds are spent, the mislabeling of investment products as “environmentally friendly” and even the inclusion of oil and gas projects in green bond financing packages.

6. Chinese leaders have steered clear of commitments that would inhibit their ability to support fossil-fuel related infrastructure projects outside of China. In fact, more than 40% of China's Belt and Road projects are energy-related, with an additional 30% in the transportation sector. China is now financing one quarter of the world's [new coal plants](#), equivalent to more than 200 new facilities. According to a [September 2019 report](#) by a group of Chinese and international experts, if environmental standards are not improved in the 126 BRI countries, these projects could cause global temperatures to rise by 2.7 degrees Celsius, even if other countries all meet their climate commitments.

THE U.S. CLIMATE STRATEGY TOWARD CHINA AND POLICY RECOMMENDATIONS

As the international community prepares for the Glasgow Climate Change Conference in November 2021, both the U.S. and China have adopted new, more aggressive climate commitments. President Biden has pledged to reduce greenhouse gas pollution by 50-52% of 2005 levels by 2030 and achieve carbon

U.S. climate strategy must simultaneously use elements of competition, coordination and cooperation with China ...



neutrality by 2050—10 years ahead of China’s timeline for the same goal. [Additional objectives](#) include attaining 100% carbon pollution-free electricity by 2035, stepping up energy efficiency, enhancing forest stocks and using government procurement to incentivize the deployment of technologies such as carbon capture and sequestration.

To be successful, however, U.S. climate strategy must simultaneously use elements of competition, coordination and cooperation with China:

1. Competition

The U.S. should compete with China for leadership in the manufacturing and export of green technologies where China has already assumed a commanding lead, such as solar and battery technology. But whoever leads, this can still be a win-win proposition. Competition can create more jobs, lead to technological breakthroughs in both countries and force China to invest even more in green technologies, to defend its market position. The Biden Administration has a seemingly integrated plan, which includes \$100 million in funding for clean energy technology R&D, the development of a clean energy standard and job retraining for coal industry workers in the clean energy manufacturing sector. But to really transform manufacturing processes, diversify supply chains for the resources needed for green technologies, and support American companies to develop solutions that reduce dependency on such resources as rare earths and avoid overreliance on China, the scale of U.S. investments should increase substantially. As the Biden Administration and U.S. Congress seek to enhance American infrastructure support abroad, the U.S. International Development Finance Corporation should make infrastructure finance for clean energy projects a top priority.

2. Coordination

The U.S. should pursue coordinated action with China on the climate front. In April 2021, U.S. Climate Envoy John Kerry traveled to Beijing to meet with his counterpart Xie Zhenhua. While the first meeting between the two climate czars produced little in the way of actual cooperation, it did produce pledges from each that their respective countries would

separately take action on a list of issues, such as climate-resilient agriculture, low-carbon transportation and reduction in methane emissions.

Another area ripe for coordinated action is in raising one other’s ambitious targets and benchmarking each other’s progress. For example, here there is scope for the U.S. and China to accelerate the timelines of their [carbon neutrality commitments](#) from 2050 to 2045 for the U.S. and 2060 to 2050 for China, and thereby help energize the Glasgow summit. While concerns remain about precisely how China could achieve such goals, both countries could agree to provide benchmarks for attaining these goals by breaking down their targets sector by sector. This could help alleviate concerns that China is not taking the measures that are necessary early on to achieve its 2060 carbon neutrality target.

3. Cooperation

The U.S. should seek cooperation with China in pushing for global financial, infrastructure and technological solutions to climate change. During their meeting, Kerry and Xie agreed to [work cooperatively](#) in several multilateral frameworks, as well as with other countries. The People’s Bank of China and the U.S. Department of Treasury currently co-chair, for example, the G-20’s [Sustainable Finance Study](#) group, which is designed to develop a multi-year strategy for mobilizing finance to support sustainable investments. Several other areas of potential cooperation could prove a model:

- ◆ *Greening Global Infrastructure.* President Biden has made investment in clean energy a central part of his domestic infrastructure package, and has discussed plans for the U.S. to host a global infrastructure summit. Already, the G-7 Build Back Better World initiative promises to kickstart the process of incorporating climate mitigation and adaptation into future global infrastructure development. The United States and China, along with Japan, the EU, and Australia, could use an infrastructure summit as an opportunity to develop a set of standards that promotes the deployment of the kind of clean energy and transportation infrastructure necessary to achieve the 1.5 degrees Celsius target. These standards

could be particularly important in leading China to rethink its export of coal plants. In addition, as U.S. banks become more integrated into China's financial system, they should help their Chinese counterparts adopt higher standards and more stringent transparency in the green finance market.

- ◆ *Greening Supply Chains.* Through global standard-setting bodies, the U.S. and China can work together with other major green technology innovators and manufacturers to develop interoperable standards for green technologies. They could also align standards to encourage the recycling of rare earths and of the e-waste created by the manufacturing of green technologies like solar panels. There is also a need to “green” agricultural and forest supply chains. China's position as the world's largest importer of timber—both legally and illegally logged—and of many other agricultural commodities make its contribution in this sector particularly important.
- ◆ *Technological Cooperation.* Although China is already the commercial leader in renewable energy, the U.S. remains the R&D technological leader in a number of important fields, such as AI and nuclear reactors technology. The U.S. should encourage collaboration in climate-related research and technological exchange with China through a cooperative agreement, working together to scale up technological solutions like carbon capture and sequestration, which could most easily be jointly tested in China. China could also strengthen its IP protection, which could help open up its patent application markets to companies from the U.S. Meanwhile, the U.S. could consider not penalizing Chinese products made competitive because of Chinese government subsidies and ending the tariffs levied by the Trump Administration on Chinese solar panels and modules and other products that have actually helped reduce global carbon emissions by lowering the cost of installing solar energy systems in the United States.

