



# U.S.-China Economic and Security Review Commission

## 2023 Report to Congress

Executive Summary and Recommendations







# 2023 **REPORT TO CONGRESS**

## U.S.-China Economic and Security Review Commission

### **Executive Summary and Recommendations**

One Hundred Eighteenth Congress  
First Session  
November 2023

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U.S.-China Economic and Security Review Commission  
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# U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

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The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act of 2001, Pub. L. No. 106-398 (codified at 22 U.S.C. § 7002), as amended by: The Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107-67 (Nov. 12, 2001) (regarding employment status of staff and changing annual report due date from March to June); The Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of the Commission); The Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-108 (Nov. 22, 2005) (regarding responsibilities of the Commission and applicability of FACA); The Consolidated Appropriations Act, 2008, Pub. L. No. 110-161 (Dec. 26, 2007) (regarding submission of accounting reports; printing and binding; compensation for the executive director; changing annual report due date from June to December; and travel by members of the Commission and its staff); The Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291 (Dec. 19, 2014) (regarding responsibilities of the Commission).

The Commission’s full charter and statutory mandate are available online at: [www.USCC.gov/charter](http://www.USCC.gov/charter).

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

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November 14, 2023

The Honorable Patty Murray  
President Pro Tempore of the U.S. Senate, Washington, DC 20510

The Honorable Mike Johnson  
Speaker of the U.S. House of Representatives, Washington, DC 20510

Dear Senator Murray and Speaker Johnson:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the Commission's 2023 Annual Report to Congress. This Report responds to our mandate "to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China." The Commission reached a broad and bipartisan consensus on the contents of this Report, with all 12 members voting unanimously to approve and submit it to Congress.

In accordance with our mandate, this Report, which is current as of October 6, includes the results and recommendations of our hearings, research, and review of the areas identified by Congress in our mandate, as defined in Public Law No. 106-398 (October 30, 2000) and amended by Public Laws No. 107-67 (November 12, 2001), No. 108-7 (February 20, 2003), 109-108 (November 22, 2005), No. 110-161 (December 26, 2007), and No. 113-291 (December 19, 2014). The Commission's charter, which includes the 11 directed research areas of our mandate, is included as Appendix I of the Report.

The Commission conducted seven public hearings, taking testimony from 67 expert witnesses from government, the private sector, academia, think tanks, research institutions, and other backgrounds. For each of these hearings, the Commission produced a transcript (posted on our website at [www.USCC.gov](http://www.USCC.gov)). This year's hearings included:

- China's Military Diplomacy and Overseas Security Activities;
- China's Challenges and Capabilities in Educating and Training the Next Generation Workforce;
- China's Global Influence and Interference Activities;
- China's Pursuit of Defense Technologies: Implications for U.S. and Multilateral Export Control and Investment Screening Regimes;
- Rule by Law: China's Increasingly Global Legal Reach;
- Europe, the United States, and Relations with China: Convergence or Divergence?; and
- China's Current Economy: Implications for Investors and Supply Chains.

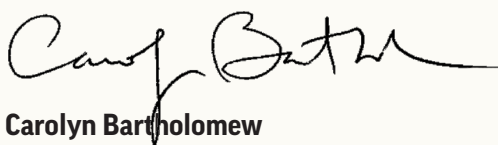
The Commission received a number of briefings, both unclassified and classified, by executive branch agencies, the intelligence community, foreign government officials, and U.S. and foreign nongovernmental experts on topics such as Europe's views of China, China's education system and its implications for economic competitiveness, climate for U.S. businesses in China, personnel of the People's Liberation Army, and China's foreign military relations. The Commission includes key insights gained through these briefings either in its unclassified Annual Report or, as appropriate, in a classified annex to that Report.

The Commission conducted official fact-finding travel this year to Belgium, Germany, and Lithuania, to hear and discuss perspectives on Europe and the United States' relations with China as well as transatlantic cooperation. In these visits, the Commission delegation met with U.S. diplomats, foreign government and alliance officials, business representatives, academics, journalists, and other experts. The Commission also relied substantially on the work of our excellent professional staff (see Appendix IV) in accordance with our mandate (see Appendix I).

The Report includes 30 recommendations for congressional consideration. The Commissioners agreed that ten of these recommendations, which appear on page 10, are the most important for congressional action. The complete list of recommendations appears on page 36 at the conclusion of the Executive Summary.

We offer this Report to Congress in the hope that it will be useful for assessing progress and challenges in U.S.-China relations. Thank you for the opportunity to serve. We look forward to continuing to work with Members of Congress in the upcoming year to address issues of concern in the U.S.-China relationship.

Sincerely,



**Carolyn Bartholomew**  
Chairman



**Alex N. Wong**  
Vice Chairman

# INTRODUCTION

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**Throughout much of 2023**, the public discussion of China in the United States was preoccupied with the short-term ups and downs of the relationship between the two countries. Tensions between the two were said to be rising or easing, warming or chilling, usually as the result of high-level visits (or the lack of them). The underlying reality was that, amid these ups and downs, the rivalry between the United States and China was intensifying. While the top-level contacts reflected a general desire, at least by the United States, to improve the relationship with Beijing and create an air of normalcy, the new normal is one of continuing, long-term strategic and systemic competition.

China's Communist Party (CCP) regime gives no sign of altering its policies, either at home or abroad. Beijing continues to reject cooperation with the United States on fundamental questions of national security, economics or trade. None of the flurry of visits and other diplomacy over the past year have resulted in any significant change of course by the regime. The result of high-level meetings between the United States and China has been merely the promise of further meetings—that is, of more talk, rather than concrete actions. China now appears to view diplomacy with the United States primarily as a tool for forestalling and delaying U.S. pressure over a period of years while China moves ever further down the path of developing its own economic, military and technological capabilities. Beijing, in a continuing and deepening effort to challenge the existing international order, seeks to create a new one that will be aligned against the United States and its democratic allies in Europe, Asia, and elsewhere.

China may now be on the verge of its most serious economic crisis in 40 years. After over three years of brutally enforced lockdowns, in December 2022 the CCP regime suddenly reversed course and abandoned its previous draconian approach to disease control. The end of “Zero-COVID” was widely expected to reinvigorate China's slumping economy, but despite an initial uptick, growth has remained anemic. This poor performance has raised new doubts about General Secretary of the CCP Xi Jinping's economic management skills as well as China's model for sustaining long-term growth.

After decades of debt-fueled growth, the CCP's ability to use its traditional tools to support the economy is constrained. Households and businesses have now lost confidence in the regime's ability to produce sustained, stable growth and prefer to sit on their money rather than to consume or invest. This is helping to speed the ongoing deflation of China's real estate bubble, which could lead to more bankruptcies for major construction companies as well as bank failures and a loss of wealth for families who have bet on continually rising prices. In addition to its domestic troubles, China also faces an increasingly inhospitable international environment as the United States and other advanced industrial countries attempt to shift supply chains out of China and “de-risk” their economic relations with it.

Notwithstanding the evident seriousness of the situation, Beijing has thus far responded with relatively minor fixes and empty exhortations designed to revive confidence. Reflecting its habitual secrecy and need for control, the CCP regime has also stopped the publication of some economic data (including youth unemployment figures) and cracked down on Western companies doing independent economic research in China. These measures have only fueled concerns about its long-term trajectory, further depressing foreign direct investment.

Experts (including some in China) have long warned that the country's growth model, with its heavy dependence on exports and debt-fueled investments in real estate and infrastructure, was unsustainable. Yet, to date, little has been done to change it. The CCP is reluctant to relax its grip on the economy by placing greater reliance on market forces and putting more money and decision-making power in the hands of consumers and private entrepreneurs. Beijing is using subsidies to help its exports gain large shares of the global market for new products like electric vehicles. In the somewhat longer run, it is evidently betting that massive, state-directed investments and continued access to foreign technology can help it to achieve the breakthroughs it needs to boost productivity and maintain growth.



Despite indications that its behavior is generating growing suspicion and resistance from other countries, Beijing continues to hold to the same aggressive course on foreign policy that it has been pursuing in recent years. In the face of Russian war crimes, battlefield setbacks, a coup attempt in Moscow, and persistent criticism from the United States and other democratic countries, Xi Jinping has not wavered in his support for Russian President Vladimir Putin's unprovoked invasion of Ukraine. China continues to provide "non-lethal" military assistance to Moscow while helping to buffer the Russian economy from Western sanctions by importing increasing volumes of Russian grain, energy, and other raw materials. Meanwhile, military cooperation between the two countries is deepening well beyond Ukraine: last summer, the Russian and Chinese navies conducted joint patrols in the Arctic and near Alaska.

China's support for Russia has had diplomatic costs, especially in Europe. But the CCP regime appears already to have factored these negative reactions into its calculations and has decided to stand by Russia regardless. China's criticism of alleged Western double-standards and hypocrisy in its handling of the Ukraine crisis has been more favorably received in parts of the so-called "Global South." Here, Beijing is working hard to expand its influence, including in March 2023 by launching a so-called "Global Security Initiative" and in August by seeking to assert a leadership role at the BRICS summit.

Although a sustained economic slowdown could force difficult choices and tradeoffs, China continues to pour resources into its unprecedented military buildup. The PLA places particular emphasis on achieving technological breakthroughs in missiles, space, undersea warfare, and artificial intelligence, among other areas, in hopes that these might enable it to deter or defeat the forces of the United States and its allies.

Alongside its military buildup, Beijing has stepped up its use of political influence operations to try to shape the perceptions and preferences of foreign elites and publics. The CCP regime has also become more aggressive in attempting to persuade or coerce others into accepting its own antidemocratic definition of legal concepts and in trying to enforce its own laws on foreign soil, such as through the establishment of illegal, covert "police stations" in other countries, including the United States. Its espionage activities have continued unabated. In 2023, the CCP regime continued the methodical and ruthless destruction of Hong Kong's once-vibrant civil society, completing its transformation into a Chinese—rather than an international—city. In an attempt to sway the outcome of Taiwan's upcoming

January 2024 presidential election, China continues to ramp up pressure on the island, seeking to increase its diplomatic isolation and to impose economic costs. Beijing's bellicosity is causing growing concern in Europe as well as in Asia.

Despite the evident worsening of its economic prospects and external situation, the CCP regime has thus far done very little to try to allay suspicions about its intentions or to lessen tensions, either with the United States or its major allies. China is attempting a limited "charm offensive" directed primarily at Europe. But Beijing's support for Russia has heightened suspicion of its motives in European capitals and, at least to date, has reduced the effectiveness of its diplomacy. After refusing meetings with high-level officials, China has shown an increased willingness to engage with the United States, but there is little evidence that it intends to make concessions or modify its own policies to improve relations.

To date, China's efforts to appear more cooperative with the United States and Europe have been mostly in the realm of rhetoric and abstract ideas rather than concrete action. Europe has moved closer to the United States in now recognizing that China is a systemic rival and that the vague concept of "de-risking" is necessary. European governments increasingly recognize that they have a role to play in helping to dissuade China from attacking Taiwan. But the United States, the EU, and individual nations in both Europe and Asia all need to do much more, in collaboration with one another, to counter China's aggressive policies overseas and continuing mercantilism at home. Unless and until Beijing changes course, it will not be possible to achieve a genuine improvement in relations. The "new normal" cannot be one in which the United States merely accepts Beijing's ever-hardening policies and its ever-tightening control over the Chinese people.

Looking ahead to 2024, the U.S. relationship with China is likely to be affected by developments outside that country, including U.S. elections in 2024, the Taiwan presidential elections in January, and the course of the war in Ukraine. Finally, U.S.-China ties could be influenced next year by changing developments inside China, including the possibility that the Chinese economy could experience a deep slump. Amid these uncertainties and the continuing talk of "tensions" and "thaws" between the United States and China, the prospects for 2024 are for continuing strategic competition and an intensifying systemic rivalry between the two countries. ■

# THE COMMISSION'S 2023 KEY RECOMMENDATIONS

The Commission considers 10 of its 30 recommendations to Congress to be of particular significance. The complete list of recommendations appears on page 36.

The Commission recommends:

I. Congress consider legislation establishing a framework for corporate disclosure requirements to provide investors greater transparency into risks from publicly traded companies' exposure to China. Factors encompassed within the framework may include but not be limited to the percentage of companies' total assets in China, their joint ventures with Chinese firms, the amount and nature of research and development they undertake in China, and the influence of any company personnel associated with the Chinese Communist Party in corporate decision-making.

II. Congress establish a risk matrix framework to evaluate the national security threat posed by electronic products imported from the People's Republic of China. To eliminate or mitigate risks identified in the threat matrix evaluation, Congress should consider the use of all trade tools, including tariffs.

III. Congress direct the U.S. Department of Defense to work with European partners to protect the movement of U.S. military equipment, supplies, and personnel from Chinese surveillance via China's National Transportation and Logistics Public Information Platform (LOGINK) and any other logistics platform controlled by, affiliated with, or subject to the jurisdiction of the Chinese Communist Party or the Government of the People's Republic of China or any logistics platform that shares data with such a system. Coordination with European partners should include:

- ▶ Identifying ports in NATO countries that currently utilize or intend to utilize LOGINK or similar systems from China or other countries of concern;
- ▶ Assessing the U.S. military's current and past potential exposure to Chinese surveillance via LOGINK or similar systems and the risks to U.S. interests and national security resulting from such exposure;
- ▶ Identifying and assessing the feasibility of adopting alternative shipping routes through ports that do not currently utilize or intend to utilize LOGINK or similar

systems, including by identifying any risks to U.S. military programs, activities, and movements that would be created by attempting to avoid exposure to such systems; and

- ▶ Implementing joint measures to mitigate the identified risks of exposure to LOGINK and similar systems in European ports.

IV. Congress address China's state-sponsored influence and interference in the United States by amending the Higher Education Act of 1965 as follows:

- ▶ To require the U.S. Department of Education to share data on U.S. universities and colleges' foreign gifts and contract disclosures, required under section 117 of the act, with U.S. federal law enforcement, intelligence agencies, and other relevant agencies, including but not limited to the Federal Bureau of Investigation and the Office of the Director of National Intelligence (ODNI). Such information sharing should encompass gifts and contracts extending back at least ten years, or a period of time determined by Congress, as well as all future gifts and contracts as they are disclosed to the department.
- ▶ To direct an interagency review, led by ODNI, to assess the section 117 data to identify risks posed by China- and Hong Kong-origin money received by U.S. universities and colleges. The interagency findings should be reported to Congress and inform steps, including potential suspension of federal funds, to mitigate risks associated with continued receipt of China-origin money by U.S. universities and colleges.
- ▶ To require universities and colleges to include in their section 117 reporting when a foreign gift or contract disclosure has been added retroactively or when a past entry has been revised and to establish penalties for late reporting. Penalties may include loss of federal financial assistance within three consecutive or nonconsecutive years of failing to disclose gifts or contracts above the current threshold of \$250,000.

- ▶ To direct the U.S. Department of Education to evaluate the adequacy of the current reporting threshold of \$250,000 by conducting a study on the average amount of foreign gifts and contracts received or signed by U.S. universities and colleges in a variety of academic disciplines and to determine whether the threshold needs to be adjusted for programs in disciplines that Congress deems critical to U.S. national security. The study should also include an analysis of the amount, focus, and potential impact of China- and Hong Kong-origin gifts and contracts received by U.S. universities and colleges over the last ten years.

V. Congress enact legislation to address politically oppressive lawsuits initiated by the Chinese government or its proxies attempting to silence, intimidate, or impose significant litigation costs on parties for exercising protected rights through political engagement or other public participation. Such legislation would create a procedure providing for expedited consideration of efforts to dismiss such lawsuits and staying expensive discovery proceedings until the court has made a threshold determination on the merits of the lawsuit.

VI. Congress request an evaluation, to be completed within 180 days by the General Accountability Office, of the effectiveness of recently imposed semiconductor export control regulations in preventing China from either acquiring or developing the capacity to manufacture certain advanced semiconductors. The report should include an assessment of the extent of cooperation received from key allied governments, as well as both U.S. and foreign-based companies, and an evaluation of China's efforts to circumvent these controls or to negate their effectiveness by developing its own indigenous capabilities. This assessment should be prepared for public release but may include a classified annex. The report should be updated annually.

VII. Congress provide the Committee on Foreign Investment in the United States (CFIUS) the authority to review investments in U.S. companies that could support foreign acquisition of capabilities to attain technological self-sufficiency or otherwise impair the economic competitiveness of the United States, including:

- ▶ Investments in technology areas prioritized in potential adversaries' industrial policies, such as China's 14th Five-Year Plan, Made in China 2025, and other

related initiatives;

- ▶ Investments in U.S. firms that have received funding from the U.S. Departments of Defense, Commerce, Energy, and other U.S. government funding for projects critical to national security and competitiveness; and
- ▶ Other investments that may provide privileged access to expertise, business networks, and production methods critical to maintaining U.S. economic and technological competitiveness.

VIII. Congress establish an interagency group, led by the Office of the Director of National Intelligence, to create a public database to assist U.S. companies, universities, and individuals in conducting due diligence on potential business or academic partners in China. The database should enable users to identify how China's military, United Front Work Department, intelligence agencies, and security agencies may be linked to Chinese companies, investment firms and other financial institutions, research institutes, and universities.

IX. Congress should direct the U.S. Department of Defense (DOD) to expand the training of Taiwan's military to locations in the United States for the purpose of conducting weapons familiarization with systems that have been ordered by but not yet delivered to Taiwan in order to speed Taiwan's adoption of those systems once delivered. Congress should authorize DOD to station standing observer teams from Taiwan at U.S. training installations and bases to observe and participate in such training.

X. Congress direct the Administration to engage in discussion with European allies on plans and preparations to impose economic sanctions on China in the event of a confrontation over Taiwan, an escalation in China's support for Russia, or other contingencies. Congress also direct the Administration to consult with Congress on the progress of these discussions. ■

# CHAPTER 1: YEAR IN REVIEW

## Section 1: U.S.-China Bilateral and China's External Economic and Trade Relations

In 2023, the United States pursued diplomatic engagement with Beijing while seeking to de-risk the economic and security relationship. De-risking has seen its most muscular expression in an unprecedented export control regime designed to stifle China's access to advanced semiconductor technologies. At the same time, bilateral trade reflects deep and continuing commercial ties between the United States and China. Beijing's increased control over corporate information flows has significantly complicated the ability of U.S. firms to assess risk in China. Meanwhile, China's role in global debt distress, attempts to internationalize the renminbi (RMB), economic sustainment of Russia and its war in Ukraine, and economic coercion in 2023 all highlight its opportunistic stance: Beijing seeks to reap benefits from the financial instability it sows while attempting to shield itself from effects of the same. China's willingness to help international rule-breakers like Russia sidestep U.S. sanctions is an example of how the Party-state seeks to bend the rules-based order in its favor.

The composition of U.S.-China bilateral trade has changed dramatically in the last five years,

owing to U.S. tariffs imposed under the Trump Administration Section 301 investigations, an increasingly uncertain business environment inside China, and other policy initiatives and efforts. Although China dismantled the COVID-19 controls that had sent its economy into unpredictable lockdowns throughout 2022, U.S. businesses and investors are reassessing the stability of China's domestic policy environment. Many of the U.S. industries exposed to trade actions and geopolitical tensions have begun to shift toward suppliers in other parts of Asia. Frequently, however, these suppliers are Chinese companies with overseas operations, and U.S. supply chain exposure remains at risk as Chinese producers expand their presence in regional supply chains, a trend seen most prominently as China's rapidly growing electric vehicle and battery industry invests heavily to establish a footprint overseas.

After a decade of predatory lending through the Belt and Road Initiative (BRI), nearly 60 percent of China's loan holders were in financial distress in 2022, up from just 5 percent in 2010. Beijing has resisted global appeals to address these debt challenges, instead seeking

to leverage these troubles and international events to expand the use and reach of the RMB. At the same time, China is expanding its energy partnerships with countries across Central Asia and the Middle East to increase its energy access and security while insulating itself from U.S. economic statecraft.

### Key Findings

- U.S. restrictions introduced in 2022 to curb China's ability to manufacture and develop advanced semiconductors have limited China's access to key segments of the chip industry that could advance its military. The controls prompted China to increase efforts to draw foreign talent to its chip industry, circumvent export controls, expand espionage activities, and promote indigenous innovation. In September 2023, Huawei began selling a smartphone that reportedly uses a Chinese-made chip capable of 5G performance despite U.S. restrictions, although China's capacity to domestically produce these chips at scale remains uncertain. The restrictions led to a drop in U.S. semiconductor exports of 50.7 percent in the first eight months of 2023 relative to the same period in 2022—down to \$3.1 billion from \$6.4 billion the year prior.



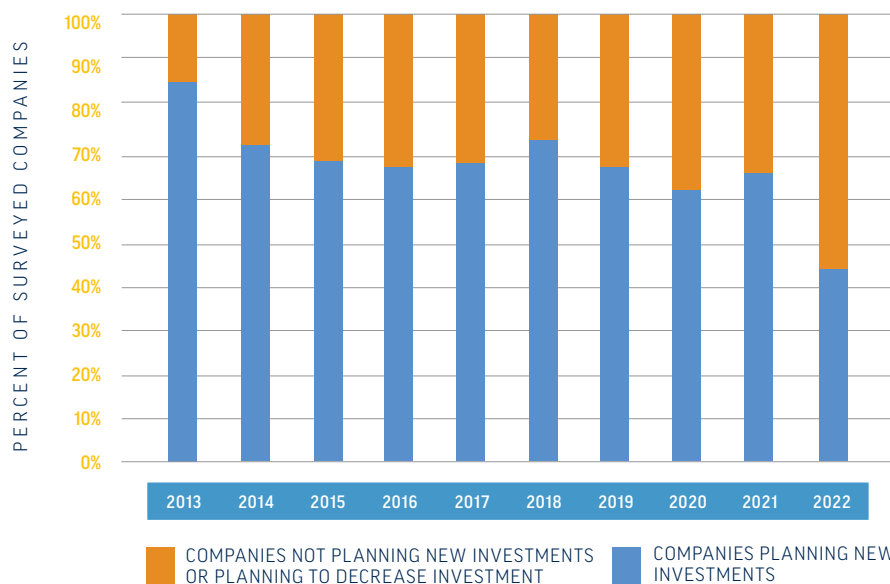
- Five years after the United States first imposed tariffs under the Trump Administration Section 301 investigations, the composition of bilateral trade has changed dramatically. Many of the U.S. industries exposed to trade actions and geopolitical tensions are seeking to shift toward suppliers based outside of China; however, this may not substantially reduce U.S. reliance on Chinese producers. A growing portion of suppliers in overseas markets are owned by Chinese entities, who also seek to evade trade restrictions by setting up facilities overseas, particularly in other parts of Asia and Mexico. U.S. exposure to China also rose through transshipment of goods through third countries.
- U.S. businesses delayed or reconsidered investment in China amid a weak economic outlook there (see Figure 1), contributing to a continued decline of foreign direct investment (FDI) flows into China in 2023 after record lows in 2022.

Amid heightened geopolitical tensions, U.S. businesses frequently found their Chinese operations getting caught in the crosshairs of Chinese restrictions. While many U.S. firms continue to view access to China's market as crucial to growth, a growing number of firms are moving to limit exposure and identify alternative strategies.

- As part of China's far-reaching anti-espionage and national security campaign, restrictions on cross-border data flows have cut off offshore businesses and investors from real-time financial and economic data. Amendments to China's Counterespionage Law that went into effect in June broadened the definition of espionage activities to include any information gathering that involves material related to China's broad and ambiguous definition of national security, potentially subjecting any company that collects information to investigation for espionage.

- Developing countries that received loans financed through China's policy banks are facing widespread debt distress, but China is not providing sufficient relief. China's continued free-riding on multilateral relief efforts and persistent refusal to offer debt forgiveness to many distressed borrowers undermines U.S.-led efforts to assist developing countries through comprehensive debt relief and restructuring.
- China is attempting to expand international use of the RMB and encourage participation in its RMB-based cross-border payment system through bilateral currency agreements and swap lines. These steps could provide an alternative financial architecture for countries seeking to circumvent or insulate themselves from U.S. sanctions, but they have not meaningfully increased global settlement in RMB. ■

**FIGURE 1**  
**SURVEYED INVESTMENT PLANS OF U.S. MULTINATIONAL ENTERPRISES IN CHINA**  
**2017-2022**



Note: Each year, American Chamber of Commerce in China surveyed leaders of U.S. businesses operating in China about their investment plans for the following year.  
Source: American Chamber of Commerce in China, "2023 China Business Climate Survey Report," March 2023, 48; American Chamber of Commerce in China, "2020 China Business Climate Survey Report," March 2020, 33.

## Section 2: U.S.-China Security and Foreign Affairs

Throughout 2023, the Chinese Communist Party (CCP) recalibrated its foreign policy to counteract increasingly negative international perceptions of China over its support for Russia's unprovoked war in Ukraine and Beijing's aggression toward neighbors in the Indo-Pacific region. Emerging from Zero-COVID lockdowns in 2022, Chinese diplomats engaged in a flurry of activity in an attempt to assuage key global partners and cast China as a contributor to the global good. These engagements have demonstrated a change in tone but not substance, aimed primarily at preserving Beijing's access to foreign markets, technology, and FDI as well as its global influence. Beijing has sought to cultivate support from governments across Latin America and the Caribbean, Africa, and Europe in order to facilitate these objectives. In practice, Beijing continues efforts to shield Russia diplomatically and provide material support for its war in Ukraine. Sino-Russian defense cooperation is by no means limited to Ukraine, as both countries continue joint military exercises in the Indo-Pacific—including strategic bomber patrols with nuclear-capable aircraft—and ostensibly scientific activities in the polar regions. China may also be exploiting new opportunities to attract talent in artificial intelligence (AI) due to the exodus of Russian technology workers. Meanwhile, in Europe, the CCP has sought to undermine the transatlantic unity that has emerged vis-à-vis China as a response to Beijing's foreign policy

choices. The CCP has also continued to engage selectively with the United States while preparing Chinese society for protracted strategic competition, up to and including the possibility of war.

China took several steps this year to reshape the global order. The June 2023 Foreign Relations Law creates a legal basis for sanctions and “countermeasures” against countries for actions Beijing deems threatening to its sovereignty, security, and development interests. Under the law, China's treaty commitments may no longer be binding. In a similar vein, China seeks to influence global governance organizations by promoting new initiatives to rework the norms underpinning these institutions, attempting to change the way they work. Through Beijing's Global Security Initiative, China's leaders hope to undermine U.S. leadership in international security affairs, establishing a role for China in mediating international conflicts and normalizing its selective application of its principle of “noninterference.”

That principle of noninterference does not apply to Beijing's espionage activity. In 2023, actors linked to China's government perpetrated multiple cyberespionage attacks against the United States and foreign governments, demonstrating the growing prowess and danger posed by Beijing's cyber operations. In 2023, media revelations emerged that China has operated an intelligence facility in Cuba since 2019 and that

it is negotiating to establish a new joint military training facility there. A Chinese state-backed hacking group infiltrated the unclassified Microsoft email servers of the U.S. Departments of State and Commerce in May 2023, perpetrating the first publicly known, successful Chinese hack of a Cabinet-level official since 2008. China's unpredictable and increased use of its Counterespionage Law and other national security laws also creates new risks for foreign businesses and their personnel. These and other even more brazen destabilizing activities show a trend of an increasingly assertive foreign policy that Beijing gives every indication of continuing and intensifying.

The CCP has also continued to engage selectively with the United States while preparing Chinese society for protracted strategic competition, up to and including the possibility of war.

## Key Findings

- In 2023, top CCP leaders portrayed their country as facing “extreme scenarios” and called on Chinese society to steel itself against the alleged efforts of the United States and its allies to blackmail, contain, and pressure China. General Secretary of the CCP Xi Jinping has called repeatedly on the People’s Liberation Army (PLA) to prepare for war. This rhetoric has been coupled with a number of war-readiness measures, including new legislation focused on reenlistment and the revision of China’s conscription law, a 7.2 percent increase to the official defense budget, and the establishment of new “National Defense Mobilization” offices around the country.
- China continued to support Russia amid its ongoing war in Ukraine, apparently judging that Russia’s value as a partner in opposition to the United States outweighed the mounting reputational costs of taking sides with the aggressor. Beijing’s diplomatic, technological, and economic assistance provided vital lifelines that kept the Russian government afloat as its military foundered on the battlefield. Farther afield, China and Russia continued to conduct military exercises and scientific missions in the Pacific and polar regions, respectively.
- China’s leadership has selectively responded to U.S. efforts to reduce tensions for the purposes of preserving Chinese access to U.S. markets, technology, and FDI. At the same time, China continued to blame the United States for the worsening bilateral relationship and refused to cooperate on key issues, such as reestablishing crisis communications channels and stemming the flow of fentanyl into the United States. China has also selectively engaged with U.S. allies and partners to try to drive a wedge between them and the United States.
- China promoted its new trifecta of foreign policy initiatives known as the Global Security, Development, and Civilization Initiatives to reshape the international system in its favor. At the same time, Beijing sought to burnish its image as a force for world peace by offering to mediate high-profile conflicts and continuing vigorous diplomatic outreach to countries in Africa as well as Latin America and the Caribbean, all of whom it views as important potential allies in its attempts to transform the world order. These efforts are part of Beijing’s ongoing work to court countries in the Global South.
- In the Indo-Pacific region, China continued to adopt a heavy-handed and at times confrontational approach to its neighbors. In the South China Sea, China acted aggressively toward claimant states and transiting military forces alike. In East Asia, China sought to drive a wedge between the United States, Japan, and South Korea. Meanwhile, tensions continued to simmer on the border with India, and suspicions toward China’s efforts to gain strategic influence in the Pacific Islands grew.
- The PLA honed its expeditionary capabilities through new base construction in Cambodia and a much-publicized mission to evacuate Chinese and foreign nationals from Sudan. At the same time, Beijing continued attempts to enhance its military presence in Cuba through a reported joint military facility that is under negotiation, and it conducted a host of aggressive cyberespionage campaigns against the United States and foreign governments as well as numerous private organizations. ■

# CHAPTER 2: CHINA'S EFFORTS TO SUBVERT NORMS AND EXPLOIT OPEN SOCIETIES

## Section 1: Rule by Law: China's Increasingly Global Legal Reach

China is attempting to use its own and other countries' legal systems to achieve a suite of strategic and political goals, including silencing critics of the regime, stalling litigation against Chinese firms that steal intellectual property (IP), and targeting other actors that challenge CCP goals. At the same time, the CCP is attempting to draw more foreign business by increasing the efficiency and professionalism of its legal system. Despite using terms and practices consistent with a rule of law system, these reforms should not be confused with acceptance of the principles underlying that system. Instead, China's "rule by law" system aims to strengthen the Party's control through its ability to intervene in rulings and achieve its goals while also applying Chinese law outside its borders. Internationally, China seeks to shape international law in its favor by discrediting established norms, exporting authoritarian elements of its legal system, and influencing laws and norms development in and through emerging fields like

space and cyber governance. These efforts pose unique challenges to the integrity of Western judicial institutions and the rule of law. These challenges manifest in three primary ways: China's undermining of international laws that thwart Beijing's objectives; China's ongoing efforts to align international law with its illiberal values; and China's global enforcement of domestic laws, particularly criminal laws. As part of its efforts to enforce its laws outside China's borders, Beijing has placed agents abroad, including

in the United States, to coerce or harass Chinese nationals. A prime example was brought to light in April 2023, when the Federal Bureau of Investigation arrested several individuals operating an undeclared overseas Chinese "police station" in Lower Manhattan. While the United States can respond to such challenges domestically, China's continued abrogation of international rules and norms—committed with impunity—undermine confidence in and the effectiveness of international organizations and treaties.

China's "rule by law" system aims to strengthen the Party's control through its ability to intervene in rulings and achieve its goals while also applying Chinese law outside its borders.



## Key Findings

- The CCP uses law as a tool to wield power, not constrain it. Rather than viewing courts as independent, neutral arbiters of disputes between equal parties, the Party-state leverages the judiciary as a tool to advance its policy and political goals through a rule *by* law system. Under this construct, the CCP pays lip service to clear, stable, and evenly applied laws, taking full advantage when they produce outcomes determined to be favorable to Beijing but quickly departing this system once it impedes CCP interests. Rule by law does not limit the Party's exercise of power or hold central leaders accountable.
- Chinese legislation increasingly includes extraterritorial provisions, and China's government is expanding its ability to apply Chinese laws outside its borders. Its efforts range from extraterritorial enforcement of Chinese laws—sometimes unbeknownst to the host country—to penalizing firms operating in China for their activities in other jurisdictions.
- The CCP seeks to advance techno-authoritarianism beyond China's borders, especially through partnerships and trainings with developing nations and those in BRI. Beijing encourages these governments to acquire its sophisticated surveillance tech and to use it to normalize censorship, lack of privacy, and other authoritarian norms within their countries, dampening the prevalence of Western concepts like “rule of law,” which it denigrates as “erroneous Western thought.”
- China's promotion of surveillance technology to other governments also carries an ulterior benefit for Beijing: exercising certain powers granted to it within the Chinese legal system, the Party-state can compel Chinese firms to provide data from citizens of other countries collected on those platforms. The Party-state may then use these data to enforce its laws beyond China's borders, in effect giving Beijing's domestic laws international force and applications. In this way, Beijing grants itself power within the sovereign borders of other states.
- Beijing's rule by law approach creates hazards for international firms, which must navigate competing legal systems with contradictory requirements, expectations, and mandates. To comply with the legal and regulatory provisions of China's authoritarian system as well as democratic systems, some companies must establish segregated operations in China or even prioritize compliance with one legal system over another.
- In international law, or the rules and norms that govern relations between countries, China actively participates in fora it believes it can influence but deliberately undermines fora and laws that conflict with its objectives. For the former, its efforts are focused on setting rules of the road in emerging areas of international law that could have substantial future commercial impact, such as cyber governance and space.
- China's government exploits the openness of the U.S. legal system to bring meritless lawsuits against its critics in U.S. court, imposing burdensome legal costs on dissidents and adversaries. While some U.S. states have procedural safeguards to throw out these politically motivated suits, there is no federal statute to prevent China from using U.S. federal court to silence critics and dissidents. ■

## Section 2: Battling for Overseas Hearts and Minds: China's United Front and Propaganda Work

Over the past ten years, General Secretary Xi has directed a wide-ranging effort to enhance the potency and reach of China's overseas influence activities. Aiming to discredit the CCP's critics while inducing others to advance its strategic goals, these activities involve a variety of agencies within the Party-state as well as proxies who further its initiatives in foreign countries, often—but not always—unwittingly. Foreign countries' media, politicians, businesses, academic institutions, and ethnically Chinese citizens and residents are all major targets of Beijing's harmful, aggressive, and at times illegal overseas influence

efforts. Operating with flagrant disregard for sovereignty and the laws of foreign nations, these activities go well beyond “soft power” and persuasion to include bribery and threats of violence against officeholders and candidates for public office; harassment of the press, including allegedly framing individual reporters for criminal activity; and intimidation of the Chinese diaspora on foreign soil through the use of informants and threats against family in China.

Notably, China's influence operations often seek to undermine political processes and manipulate political or social activity to

disguise actions that advance China's interests as being the efforts of domestic constituencies. These efforts may include conducting online disinformation campaigns, co-opting domestic constituencies through the activities of front organizations, or even threatening or punishing political and economic leaders who support policies Beijing regards as disadvantageous. While some of China's harmful overseas influence activities may be illegal in the targeted country, others may be entirely legal or occupy a legal gray zone.

Foreign countries' media, politicians, businesses, academic institutions, and ethnically Chinese citizens and residents are all major targets of Beijing's harmful, aggressive, and at times illegal overseas influence efforts.

## Key Findings

- For CCP leaders, influencing how the outside world views and engages with China is a matter of regime survival and a means of advancing national interests. The Party-state recognizes that the success of certain objectives—such as the CCP’s unquestioned rule over China, the absence of criticism regarding CCP policies, the Party’s unequivocal claim to speak for the Chinese diaspora in a way the outside world acknowledges, and the unification of Taiwan with the Mainland—depends partly on the behavior of foreign leaders and publics. In the same vein, CCP leaders understand that foreign parties’ reactions to their efforts may impact the effectiveness of China’s signature foreign policy initiatives, foreign investment, and technology transfer as well as the attractiveness of its global image.
- Under Xi’s rule, China’s overseas influence activities are now more prevalent, institutionalized, technologically sophisticated, and aggressive than under his predecessors. China’s overseas influence activities involve many actors within the Party-state and can be found in countries around the world, regardless of their form of government or level of development.
- The Chinese Party-state exhibits a growing and increasingly brazen tendency to employ coercion in tandem with persuasion to conduct overseas influence activities, often in ways that challenge other countries’ sovereignty or threaten the rights of persons living within their borders. Beijing seeks to sow discord in other countries, including the United States, where the uptick in China’s influence activities has inflamed rhetoric and contributed to a troubling rise in violence against Asian Americans.
- Certain factors make countries more or less resilient to China’s overseas influence activities. These include the presence of liberal democratic institutions, such as a free press and an independent judiciary, the extent of economic dependence on China, the prevalence of domestic corruption, and a foreign society’s familiarity with China.
- In the media sphere, China’s Party-state aims to bolster its global image by encouraging positive coverage, manipulating local media environments, and silencing critical voices. Content sharing agreements between Chinese state media and foreign media outlets, CCP-sponsored media training programs, investments in local media, disinformation propagated through social media, and intimidation of media figures are all avenues through which the Party-state seeks to control foreign coverage of China.
- In the political sphere, Beijing seeks to empower foreign political figures who will pursue policies it regards as favorable while deterring, threatening, or punishing those who pursue policies it regards as disadvantageous. Covert efforts to influence electoral processes, to violate the civil liberties of people within another country’s borders, to curry favor with sitting officials, and to harass unfriendly political figures are all hallmarks of China’s overseas political influence activities.
- In the economic sphere, Beijing attempts to align the commercial interests of other countries with its own strategic goals and to distort domestic policymaking. In countries with weak institutions, China often employs outright corruption, enriching ruling elites who advance its objectives. In democracies, industry associations and business councils may serve as proxies for CCP interests. The CCP may also leverage business partnerships in strategic sectors to advocate for policies favorable to China.
- In the academic sphere, the Chinese government endeavors to control access to knowledge about China and, by extension, to influence public opinion regarding the policy choices based on that knowledge. China’s influence activities can result in censorship, intimidation, and harassment that shape critical discourse about China in universities around the world. ■

# CHAPTER 3: POTENTIAL RISKS TO CHINA'S FUTURE ECONOMIC COMPETITIVENESS

## Section 1: China Educating and Training Its Next Generation Workforce

Stark contrasts define China's education system, which contains some of the world's most highly rated universities within a broader landscape beset by widespread, systemic weaknesses (see Figure 2). These contrasts contribute to and reflect a more general divergence between China's increasing ability to compete with the United States in cutting-edge innovation and its deteriorating productivity growth. Unequal access to quality education, particularly noticeable between urban and rural areas, undermines the country's capacity to cultivate a nationwide skilled workforce. The implications for the United States are mixed: Party-state-led initiatives that funnel resources into strategic sectors such as AI and semiconductors may generate near-term challenges for the United States, while China's broader educational deficiencies may hamper its long-term economic and technological competitiveness.

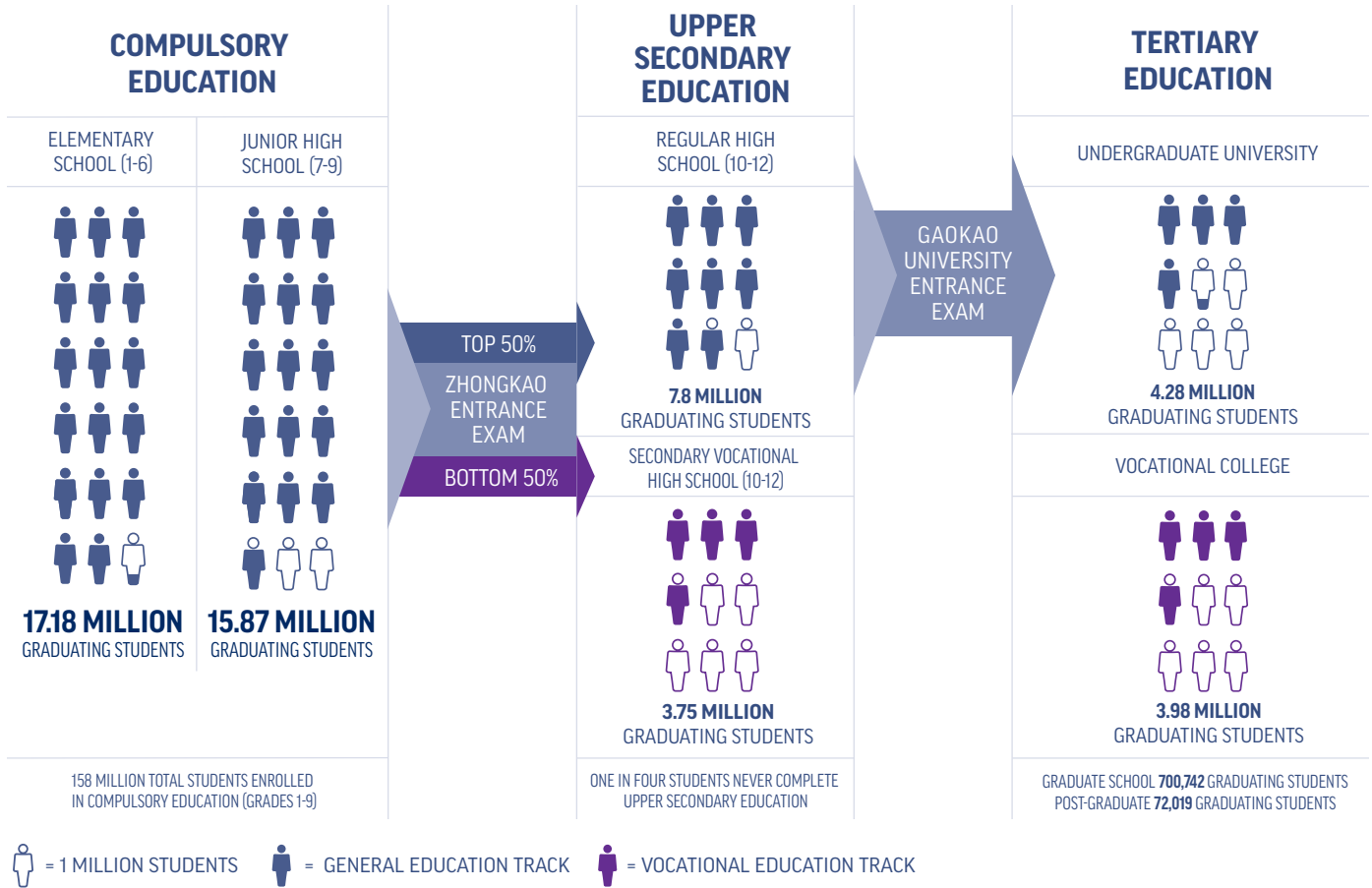
At the same time, China will likely struggle to maintain economic growth, as its workforce lacks foundational skills to transition to a more knowledge-intensive economy. While China's government invested heavily to drastically increase quantitative enrollment and output indicators, beyond China's wealthiest metropolitan areas, most of the country's primary, secondary, vocational, and higher education institutions suffer major qualitative deficiencies and perform at a level well below that of countries with similar per capita income. China's soaring official youth unemployment is in part related to the limited upskilling of China's workforce and the questionable quality of the education and training a large portion of students receive. Because of a weak domestic training system in many advanced industries, China's leadership remains reliant on talent educated overseas to

meet its technological development objectives. These and other challenges in China's education system create obstacles to diffusing productivity boosting knowhow throughout China's economy, contributing to a divide between China's overall development and its advances in cutting-edge technology.

Education in China also serves as a tool of repression against ethnic minorities in Tibet and Xinjiang. Particular facets of the education system, namely boarding schools and vocational training facilities, are core components of the Party-state's campaign of cultural genocide in minority regions and systemic use of forced labor in domestic and global supply chains.



**FIGURE 2**  
**OVERVIEW OF CHINA'S EDUCATION SYSTEM AND**  
**2021 GRADUATION STATISTICS**



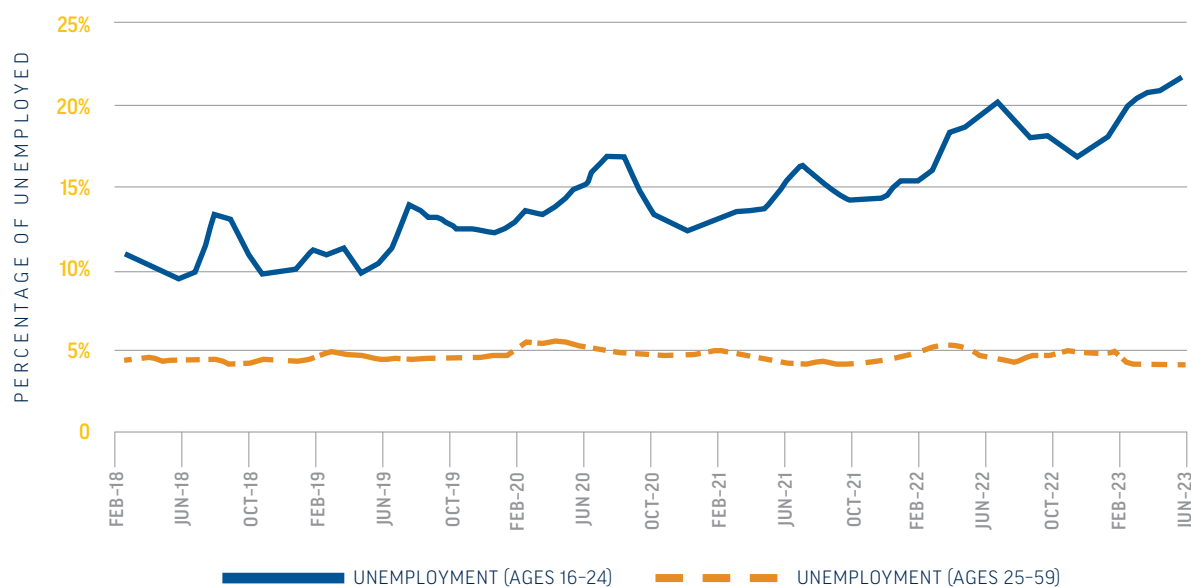
*Note:* The number of students graduating from each level and education track reflects the number of students completing their final year in each tier in 2021. The proportion of students who never complete upper secondary education is calculated using the rate of upper secondary school completion among adults aged 20-22 in China's 2020 census, the closest available year. The majority of university entrants come from regular high schools, although secondary vocational graduates can also take the *gaokao*.  
*Source:* UN Children's Fund, China National Bureau of Statistics, UN Population Fund, "What the 2020 Census Can Tell Us about Children in China: Facts and Figures," April 2023, 17; Organization for Economic Cooperation and Development, "Education GPS – China: Overview of the Education System," 2022; China National Bureau of Statistics, *China Statistical Yearbook 2022*, 2022.

## Key Findings

- China's continued economic growth depends on the country's ability to cultivate talent, but its education system faces acute challenges. China's primary, secondary, vocational, and higher education suffer from weak curricula and instruction that leave some graduates poorly trained to enter the workforce, particularly in rural areas.
- The quantitative expansion in China's education system has not been matched by qualitative improvement. Large swaths of high school and vocational students receive low-quality education, leaving them unprepared to join an increasingly knowledge-intensive economy; at the same time, colleges outside of a top few fail to develop students' cognitive or technical skills. These structural issues are one factor that has contributed to China's soaring official youth unemployment rate, which was above 21 percent in June 2023 before the Party-state abruptly stopped reporting it (see Figure 3).
- Despite major challenges facing China's education system, a relatively small number of universities have emerged as world-class institutions that drive global innovation, posing a critical challenge to U.S. security. Research centers at these universities often serve as platforms to advance industrial policy objectives and further China's development of dual-use technologies, such as AI and semiconductors.
- Concentration of resources in a few of China's top universities and select schools in the wealthiest metropolitan areas has come at the expense of broad-based investments in the country's educational system. Even if top universities train scientists and engineers who can develop world-leading technologies, the workforce may lack the technical proficiency to adapt and deploy these innovations.
- The national college entrance exam, the *gaokao*, is the centerpiece of China's education system and is both a key to success for some and a source of mounting challenges. Its focus on intensive memorization inhibits development of critical thinking skills. Despite drawbacks, the Chinese public views the exam as the primary route to upward mobility and a great equalizer in a system that otherwise privileges wealth and connections, making it a bulwark of social stability. Still, this social contract is under stress. University graduates confront a difficult job market in a decelerating economy. Fewer opportunities have led some students to question the system's meritocracy, challenging an idea central to the CCP's legitimacy. ■

China's soaring official youth unemployment is in part related to the limited upskilling of China's workforce and the questionable quality of the education and training a large portion of students receive.

**FIGURE 3**  
**CHINA'S INCREASING URBAN YOUTH UNEMPLOYMENT**  
**JANUARY 2018-JUNE 2023**



*Note:* Like China's official overall unemployment indicator, the officially reported youth unemployment rate tracks registered unemployment in China's urban areas. China's National Bureau of Statistics stopped releasing data on youth unemployment after June 2023, likely due to increasingly dismal data on employment rates for this age group. *Source:* China National Bureau of Statistics via CEIC database.

## Section 2: Fiscal, Financial, and Debt Problems Weigh Down Beijing's Ambitions

Optimism surrounding China's post-COVID economy at the beginning of 2023 has all but vanished. For two decades, this growth model has relied on debt-fueled investment in both commercial and residential real estate and infrastructure, which combined, have generated employment and revenue, and routinely accounted for 40–45 percent of China's gross domestic product (GDP). CCP policy decisions have contributed directly

to weaknesses and the collapse in the real estate and infrastructure sectors. The CCP's approach has left the country encumbered with an unsustainable debt burden and a deeply imbalanced economy, with China unable to consume what it produces and reliant on export-led growth. These structural problems have become acute, posing significant political and economic challenges to the Party-state. Confident that its strong

central government balance sheet can prevent systemic instability, the CCP is focused on constraining the rapid growth in debt at the local levels where some of the largest economic challenges are concentrated. Beijing intends to grapple with structural issues by asserting more top-down control, aiming to defuse debt risks while steering more resources into the Party's technology ambitions.

China's investment-dependent growth model has contributed to the country's rapid increase in overall debt-to-GDP ratio, which has more than doubled since 2008 and is projected to pass 300 percent in 2023. The weight of this accumulated debt is amplified by increasing distress, as defaults on property loans rise while asset prices fall and property sales decline. Irrespective of Beijing's intentions toward deleveraging, its ability to use the banking system as a shock absorber against economic downturn and unemployment is constrained. Additional economic difficulties are also tied to real estate. With roughly 70 percent of household wealth in real estate, falling property prices have dampened consumer spending and confidence. Local governments, meanwhile, long reliant on fiscal revenue from selling land-use rights to property developers, are in increasingly dire fiscal straits

as sales have plunged and new revenue sources have failed to materialize. The deeper, structural nature of China's economic challenges call into question the future of the country's investment-led model as well as its overall growth trajectory.

Beijing intends to grapple with structural issues by asserting more top-down control, aiming to defuse debt risks while steering more resources into the Party's technology ambitions.



## Key Findings

- China has relied upon investment in real estate and infrastructure to create employment, generate revenue for local and central government coffers, support upstream industries like steel and cement, and broadly drive its domestic economy. This decades-old debt-fueled model is now facing its most severe challenge. A crisis in China's real estate sector, which accounts for 25–30 percent of the country's GDP, has cascaded through the economy. Property developers have lost capacity to buy land, purchase construction materials, make payments to contractors, and deliver housing units. Thirty-four of fifty developers have defaulted at some point on dollar-denominated bonds, with the two largest companies in—or at risk of—bankruptcy. Infrastructure construction, which accounts for another 15 percent of GDP, is experiencing similar pressures.
- The property crisis has had a severe impact on local government revenue. Real estate developers' purchase of new land plots has collapsed. Land sales have previously provided roughly one-third of local government revenue essential to education, health, municipal services, and general welfare.
- With roughly 70 percent of household wealth tied up in real estate, falling property sales and prices have shifted consumer focus to reducing existing household debt. This, in turn, is contributing to risks of deflation.
- Despite over two decades of official statements emphasizing the importance of boosting consumption, in 2022, household consumption as a share of GDP dropped to its lowest level in nearly a decade, followed by a slight 2023 rebound. As a result, China will continue to rely on exports to sustain growth, distorting markets and leaning on the rest of the world to absorb its excess production.
- The failure of the real estate model is systemic and the financing mechanism that underpins it is in acute stress. Rising property loan defaults with falling asset sales and prices have created the conditions for broader instability in the financial system. Bank profit margins are declining and consumer deposit rates are shrinking, while bank balance sheets are carrying an increasing load of undeclared nonperforming loans. These financial strains are occurring at a time when the CCP is opening the sector to foreign investment, raising risks for U.S. citizens invested in pension and wealth management products.
- In addition to the pressures of the pandemic, misguided policy choices by the CCP have contributed to the country's overall debt-to-GDP ratio, which has more than doubled since 2008. In 2023 it passed 300 percent. Much of this debt is passed between one state-owned entity and another to hide the volume of debt and the impact of risk. As an example, 80 percent of local government bonds are purchased by state-owned commercial banks.
- Beijing has stated its intention to address the accumulation in local debt; however, policy choices may be constrained by the financial risks and destabilizing impact on households, foreign investor sentiment, and state and non-state-owned enterprise revenue. ■

# CHAPTER 4: CHINA SEEKING MILITARY INFLUENCE AND ADVANCED CAPABILITIES

## Section 1: China's Relations with Foreign Militaries

China uses the PLA's activities and relationships with foreign militaries to promote a positive image of China as an international security partner, undermine U.S. influence, and pursue military, foreign policy, and economic benefits. China's leadership coordinates a range of military activities with foreign security forces, including bilateral and multilateral meetings, functional exchanges, port calls, exercises, and arms sales. It also uses military exchanges to pursue combat-relevant skills, practice power projection capabilities, and collect intelligence. Most of the PLA's combat and combat support training exercises are conducted with its "no limits" partner Russia in both bilateral and multilateral settings, and the PLA also gains experience by participating in exercises with U.S. allies and partners. China seeks to leverage ostensibly "cooperative" military engagements with its Indo-Pacific neighbors to discourage them from pushing back against China's aggressive pursuit of its own interests in the region. Although China's military diplomacy is

expanding, the United States maintains key strengths and advantages in building partner capacity that can help it remain a partner of choice for security cooperation.

The CCP views its military as a tool that not only serves warfighting objectives but can also influence diplomatic, economic, and security conditions in peacetime, and Xi Jinping has sought to increase the PLA's leverage internationally. Expanded leadership in international security affairs is seen as an opportunity for Beijing to expressly offer itself as an alternative security partner to the United States. China's military exchanges with foreign countries aim to build influence with partners near key economic locations. For example, China's participation in UN peacekeeping operations in some African countries coincides with greater Chinese investments in energy and critical minerals. China is now the fourth-largest exporter of military equipment in the world, having expanded its global weapons

customer base and shifted from a "supplier of last resort" to a more competitive defense industry that has upgraded the quality of its arms for exports. Foreign military relations is an area of U.S.-China competition that is likely to intensify as China continues to use international military interactions to promote the same false narratives about U.S. intentions and strategic goals that it also advances by other means.

The CCP views its military as a tool that not only serves warfighting objectives but can also influence diplomatic, economic, and security conditions in peacetime.

## Key Findings

- China orients many of its interactions with foreign militaries around undermining U.S. leadership of international security affairs. The PLA's messaging to its foreign counterparts in bilateral and multilateral military engagements aims to enhance China's reputation at the expense of the United States.
- Russia is China's most important military partner, and their relationship serves many of China's interests, such as signaling strategic unity against the United States, undermining U.S. security partnerships, practicing combat-relevant military skills, and obtaining advanced technology. During Russia's unprovoked war in Ukraine, China and Russia have continued to conduct joint exercises both bilaterally and with other partners such as Iran and other members of the Shanghai Cooperation Organization (SCO).
- China's military exercises with foreign counterparts align with Xi's requirement for the military to strengthen its combat effectiveness. The PLA uses bilateral and multilateral exercises to carry out increasingly realistic, combat-oriented training such as live-fire drills, combat simulations, air defense, and strike operations. The PLA also pursues relevant combat support capabilities such as communications, logistics, survival skills, military medicine, and other basic military skills. The PLA accrues additional benefits, including practicing skills that support power projection and gathering military intelligence during exchanges.
- China uses ostensibly cooperative engagements with militaries of neighboring states to encourage greater acquiescence to its plans in the region. Nevertheless, China undermines its own efforts in some cases by continuing to engage in aggressive behavior targeted at these same militaries, such as by harassing the vessels of its supposed "partners" in the South China Sea.
- Many of the activities China conducts with foreign militaries, including exercises and international military education and training, do little to develop foreign partner military capacity. The United States maintains strong advantages in these areas due to the quality of its programs and focus on building partner capacity that China struggles to replicate. ■

## Section 2: Weapons, Technology, and Export Controls

China's rapid military modernization over the past two decades shows it has not only been successful as a "fast follower" but also is now leading in several technologies as it seeks to "leapfrog" the United States to achieve dominance in the military domain. The United States and China are engaged in a de facto arms competition, and the PLA is preparing for the possibility of open confrontation. If China overtakes longstanding areas of U.S. advantage in undersea warfare and space and establishes a decisive lead in AI, the balance of power in Asia and worldwide could be dramatically altered. But whether China will become the world's defense technology leader remains an open question, depending on how speedily it resolves its own inadequacies in areas such as human capital and certain manufacturing technologies.

One potential accelerant of Beijing's efforts is its relationship with Russia. Russia may have no choice but to share its most valuable defense technologies with China, particularly those relevant to undersea warfare, as it becomes increasingly isolated from the world due to its war in Ukraine.

Chinese military leaders perceive AI as an inevitability in warfare. While the U.S. military leads the PLA in several AI applications (such as in the aerial domain), the PLA has focused on new technologies to become increasingly competitive in computer vision and autonomous underwater vehicles. These are potentially paradigm-shifting advances in warfare with broad ramifications. For example, AI advances in underwater vehicles, combined with accelerated Chinese research on satellite-mounted light

detection and ranging (LiDAR) technology, could enable China to locate submarines at depths of up to 500 meters. These investments could neutralize the United States' longstanding advantages in the undersea domain at a time when top U.S. military officials and experts are raising concerns the United States is retiring many of its aging submarines faster than they can be replaced.

Further, China's military AI firms have utilized U.S. technologies to create products for the PLA. Many of China's nonstate military AI firms also operate as civilian nonstate technology firms, avoiding the scrutiny and sanctions that come with aiding an adversarial military. Many drew on U.S. technology advancement—in some cases U.S. funding—during their development.

China's rapid military modernization over the past two decades shows it has not only been successful as a "fast follower," but also is now leading in several technologies as it seeks to "leapfrog" the United States to achieve dominance in the military domain.

## Key Findings

- The CCP aspires to transform China from a “fast follower” into a world leader in defense technologies. Party leaders frame this drive to catch up and surpass the United States in key warfighting domains in terms of the needs for self-reliance in critical technologies and a shift from a model based on copying foreign technologies to one of original innovation.
- China’s military-industrial complex produces a variety of quality modern weapons systems that increasingly enable the PLA to challenge the balance of power in the Asia Pacific region. China is also pursuing a space-based nuclear weapon that has the potential to threaten the U.S. homeland with a new global strike capability, and it is developing frontier technologies that could lead to a paradigm shift in warfighting. It does so in spite of the fact that its domestic defense industry is dominated by state-owned monopolies and plagued by inefficiency.
- China is already a world leader in missile and space technologies, and tighter U.S. export controls are unlikely to have an effect on future Chinese innovation in these areas. China’s huge inventory of conventional ballistic, cruise, and hypersonic missiles already limits the United States’ ability to operate freely within the second island chain. Beijing’s pursuit of space-based nuclear weapons and potential development of low-yield warheads could also complicate U.S. deterrence by offering the PLA greater flexibility to threaten or engage in limited nuclear use against U.S. forces in the region.
- China has made significant strides in submarine technology over time and is heavily investing in anti-submarine warfare capabilities to erode the longstanding U.S. advantage in undersea warfare. Current limitations China faces in undersea warfare technologies include quieting technologies for manned nuclear submarines and propulsion systems for small undersea vehicles. Russian technological assistance could, however, decisively affect how quickly China catches up to the United States in this area.
- China’s military-civil fusion program has made rapid progress in AI for defense applications by leveraging commercial advances. Investment and procurement patterns suggest the PLA aims to use AI-enabled weapons systems to counter specific U.S. advantages and target U.S. vulnerabilities.
- U.S. export controls toward China have expanded substantially, though they now face significant obstacles to enforcement. Military-civil fusion presents a unique challenge to export controls, requiring a renewed focus on dual-use technologies, particularly in current multilateral regimes, which focus mainly on preventing the spread of military technologies that currently exist rather than preventing the development of new ones.
- Current investment restrictions are insufficient to stem the flow of U.S. and foreign technology, expertise, and capital into China’s defense sector. Capital and technology flows are often accompanied by technical expertise, managerial acumen, and business networks—factors much more difficult to contain to intended end users. These intangible benefits can help Chinese firms build operational capabilities that are not covered under current screening mechanisms and into which the U.S. government has limited visibility. ■



# CHAPTER 5: CHANGING RELATIONS WITH EUROPE, TAIWAN, AND HONG KONG

## Section 1: Europe-China Relations; Convergence and Divergence in Transatlantic Cooperation

Accounting for nearly 25 percent of global GDP and 10 percent of the world's population, Europe has deep economic ties to both China and the United States. Consequently, the continent serves as a locus of geostrategic competition between the United States and China. Europe's approach to China affects the scope and impact of U.S. policies, including those that seek to limit U.S. exposure to and dependence on China, maintain a free and open Indo-Pacific region, and protect the rules-based international order. Ultimately, Europe must confront and mitigate the strategic impact of an increasingly aggressive China while balancing its economic dependence on the Chinese market. For its part, the United States may be confronted with consequences from China's actions through their impact on European markets and security calculations as well as potential spillover effects from European governments' policy responses to China.

China views Europe as an important region for supporting its economic rise and other political and geostrategic goals—but also one that is increasingly pushing back against its actions and

moving into greater convergence with the United States. Economically, China is expanding its coercive capacity over Europe through investments in critical infrastructure, including logistics networks, ports, and 5G capabilities. China also seeks to expand trade volume with the EU's single market and member state economies and to broaden Chinese market access in Europe. As with the United States, however, China's trade relationship with Europe undermines European competitiveness through market distortions caused by China's unfair trade practices. Politically, China seeks to sow division within Europe between EU institutions and member states, undermining EU authority while elevating individual states when their perspectives align with China's own. In addition to actively inflaming tensions, China capitalizes on differing perspectives between the EU and its member states by providing countries an alternative to participation in the EU. It also leverages its extensive economic ties to create competing incentives within individual European countries to reduce their capacity and willingness to respond to China through their national policies.

China's continued disregard for the rules-based international order, increasingly aggressive economic actions, and support for Russia's unprovoked invasion of Ukraine present direct risks to European economic and security interests. In light of these challenges, the EU and most of its member states are shifting their assessments of China from an economic partner to a multidimensional systemic rival, creating the potential for greater convergence in U.S. and European approaches to dealing with China. Important differences nonetheless remain, and diversity in European approaches presents China opportunities to undermine EU action through selective engagement with member states. At the same time, many of the EU's economic policies fail to adequately address China's practices while also presenting challenges for the United States. Taiwan is also a topic of growing importance in Europe; however, European governments and publics have yet to reach conclusions about the threat the Chinese government's aggression toward Taiwan may pose to their interests and how they should respond.

## Key Findings

- China's policies present a range of economic and security challenges to the EU and European countries. Unbalanced trade and substantial Chinese infrastructure investment on the continent undermine economic security and leave European countries potentially vulnerable to China's economic coercion. China seeks to interfere and stoke division in the EU and its member states' politics through media influence, disinformation campaigns, subversion of EU institutions, coercion of individual member states and policymakers, and the uneven provision of economic incentives. China also undermines European security by providing political and economic support for Russia.

- The EU and individual European states' strategic assessments of China are rapidly shifting from primarily seeing China as a potential policy partner and geographically distant economic competitor to increasingly seeing it as a systemic rival with an active presence in Europe. This shift is bringing European policy approaches into greater convergence with the United States, particularly as it relates to China's growing economic threat via unfair trade practices and strategically motivated investments in sensitive infrastructure and technologies.

- Diversity in views between and within EU countries makes consensus-building slow and may limit the scope, speed, and depth of fundamental change in the EU's collective policy approach to China. This complexity in

European approaches may affect the U.S. response to China and limit the space for viable policy cooperation with the EU.

- Europe is an important locus of geostrategic competition between the United States and China. Like the United States, the EU seeks to bolster its economic resilience and reduce dependence on China. While it is developing some economic tools to mitigate China's unfair trade practices and economic coercion, these tools are often voluntary and narrower in scope than corresponding U.S. mechanisms, limiting the effectiveness of transatlantic coordination. Significant disagreements over economic policy between the EU and the United States, including differences over preferential subsidies, also complicate policy coordination on China.

- Russia's invasion of Ukraine has increased European governments' focus on challenges from China. Beijing's support for Russia throughout the war has highlighted the threat China poses to European countries across a variety of issue areas, including through its use of disinformation and its willingness to provide diplomatic, economic, and military assistance to other hostile, aggressive powers. It also draws attention to the EU's and its member states' vulnerabilities, such as economic dependency on and supply chain risks from China and the potential economic costs of a conflict in the Taiwan Strait.

- China's leadership perceives increasing challenges to its economic, geostrategic, and political goals in Europe, including increasing economic rivalry with the EU and European economies, greater coordination between the EU and the United States, hardening views of Russia among European governments, and the EU and its member states' intensifying focus on a values-based China policy. Chinese leaders have grown more pessimistic about their ability to prevent further convergence between the United States and its European allies, and they have decided to accept some damage to their relations with the EU and European countries to maintain their strategic partnership with Russia.

- Chinese aggression against Taiwan would have serious economic and strategic consequences for the EU and European countries. Although Taiwan is a topic of growing importance in Europe, European governments and publics have not yet reached definitive conclusions about their interests and possible potential responses to a conflict stemming from Chinese aggression toward Taiwan. Despite deepening ties between Taiwan and Europe and statements from both the EU and individual state governments about their support for stability in the Taiwan Strait, a remaining lack of a coherent European policy toward Taiwan weakens the extent to which these positive steps can contribute to deterrence. ■

## Section 2: Taiwan

In 2023, China accelerated its multifaceted political, military, economic, and information pressure campaign against Taiwan, continuing to raise international concerns about the possibility of Beijing initiating military aggression. Beijing's coercion is aimed at influencing the outcome of the presidential election in January 2024. President Tsai Ing-wen's Administration continues to adopt measures to inoculate Taiwan against these coercive efforts, especially in the security and economic spheres; however, the results of these measures will not be apparent for some time. Reforms to Taiwan's military and efforts to root out election-related disinformation are contributing to greater resilience of the island, even as the PLA has intensified gray zone activities and rehearsals for possible military action. Taiwan's economy remains stable despite the global dip in demand for semiconductors and punitive measures from Beijing aimed, again, at influencing the upcoming election. Over the last year, Taiwan has sought to draw even closer to the United States through new initiatives, strengthening its security and

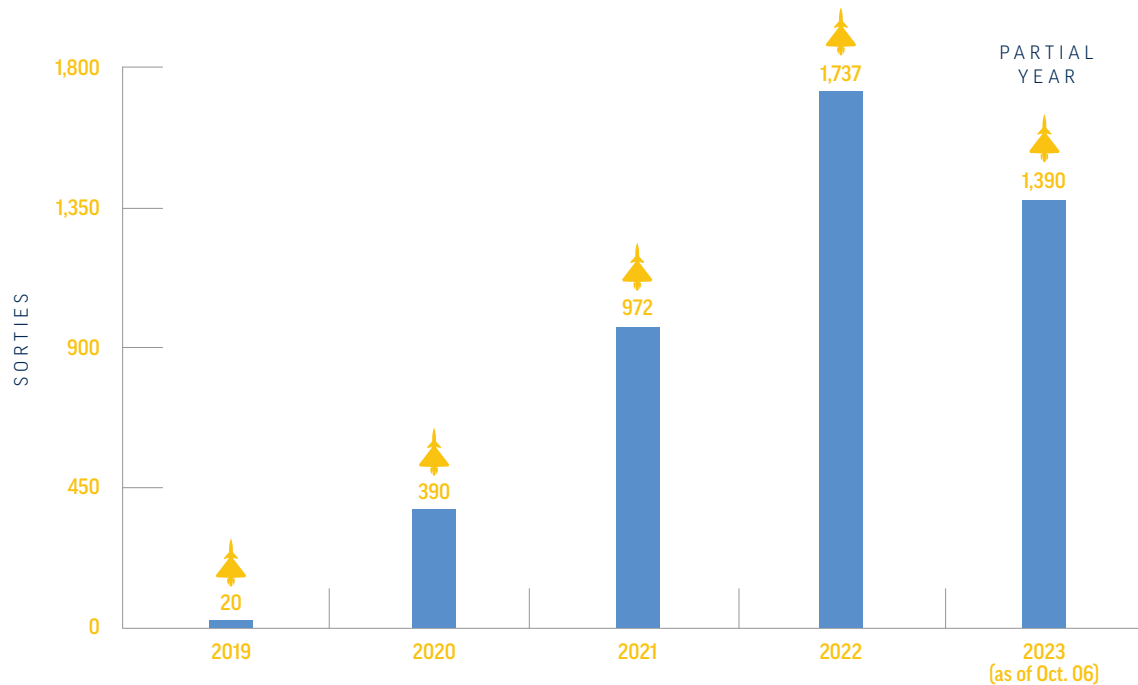
economic ties through the Biden Administration's announcement of drawdown authorities for faster arms transfers and the U.S.-Taiwan Initiative on 21st Century Trade.

Politically, Beijing continues to target Taiwan with disinformation and united front work to amplify societal divisions and demoralize the electorate. Taiwan's population has overwhelmingly rejected the CCP's "one country, two systems" framework, and none of the four major candidates is advocating for moving forward under that paradigm. Economically, China continued to ramp up its pressure campaign against Taiwan in the leadup to the election, enacting new bans on targeted imports from the island and opening an investigation designed to call into question the future stability of cross-Strait trade and investment. Internationally, China continued its efforts to isolate Taiwan. In the face of the massive, unrelenting resources Beijing continues to devote to undermine its standing, Taiwan has abandoned previous efforts to compete directly with China's checkbook diplomacy. Instead, Taiwan takes a tailored approach to partners and seeks to

strengthen relations with a broad range of countries by highlighting its critical industries and its role as a beacon of democracy.

On the security front, the PLA expanded its provocative operations in the air and waters around Taiwan in 2023, violating the island's air defense identification zone (ADIZ) on an almost daily basis in an attempt to normalize its presence (see Figure 4). Prominent Chinese state-linked think tanks are also studying the implications of the war in Ukraine for a potential conflict over Taiwan as well as for lessons about U.S. deterrence strategy. Chinese scholars have noted the effective use of dual-use technology such as drones and Starlink satellites, as well as the United States' use of its intelligence capabilities to influence the information environment prior to the invasion and to enhance Ukraine's military effectiveness. Taiwan has also announced a number of changes to its military in 2023, including a restructuring of its conscription system and future procurement priorities, to enhance its defensive capabilities.

**FIGURE 4**  
**PLA INCURSIONS IN TAIWAN'S ADIZ**  
**2019 TO OCTOBER 6, 2023**



Source: Taiwan's Ministry of National Defense, compiled by Gerald C. Brown, Ben Lewis, and Alex Kung. See Gerald C. Brown, "Taiwan ADIZ Violations," last updated October 9, 2023.

## Key Findings

- In the runup to the 2024 elections, Beijing is accelerating its multifaceted coercion campaign against Taiwan. The PLA has continued to ratchet up military activity around Taiwan, continuing a trend over the past five years of increased military coercion that reflects a rising risk of conflict.
- Taiwan's four major presidential candidates have attempted to differentiate their China policies from one another while tailoring their positions to reflect popular consensus among the island's voters. Taiwan's electorate has overwhelmingly

rejected the CCP's "one country, two systems" framework, with no major candidate advocating for moving the cross-Strait relationship forward under that paradigm.

- Taiwan's military continues to develop its capabilities to resist a PLA military campaign, announcing plans to enhance both its training and equipment. Taiwan continues to grow its proficiency with advanced U.S.-supplied weapons and is integrating lessons observed in Russia's war against Ukraine. Taiwan's military has begun the process of reforming

training for its conscripted members and extending conscripted military service from four months to one year.

- Beijing has stepped up its economic pressure campaign by continuing to ban targeted imports in addition to threatening to roll back decades-old preferential cross-Strait trade arrangements. A drop in global demand for its key exports caused Taiwan's economy to temporarily slip into recession in early 2023, raising concerns that while the economy has stabilized, it may still be susceptible to the impact of economic coercion. ■

## Section 3: Hong Kong

Hong Kong now lives under the Mainland's control. Beijing continues to adapt Hong Kong's institutions to mainland preferences and has eliminated the territory's once vibrant civil society. China's central government has installed loyal judges and placed leaders in key roles, leading to the strictest interpretation of the National Security Law (NSL). Hong Kong's move to enforce its NSL beyond its jurisdiction also reveals the stronger mainland influence that is destroying its legal system. The effects of Beijing's authoritarian overreach are driving more Hong Kongers to leave the territory. Those who choose to stay must decide whether to self-censor or

risk politically motivated legal action for activities that were once protected by law and common across the Special Administrative Region. As these expats and Hong Kongers leave for other regional hubs such as Singapore, mainland human capital and investment increasingly dominate Hong Kong's business environment, cementing Hong Kong's status as a Chinese, rather than international, city.

Though Hong Kong's role as an international commercial hub has decreased, the territory remains important for Beijing's economic ambitions, particularly its efforts to connect the Mainland to international financial markets.

Hong Kong has also reportedly become a transshipment hub for diverting U.S. technology to Russia, while Hong Kong-based firms have joined China in aiding Russian technology supply chains.

The extent of Hong Kong's judicial degradation can be seen in the trials of Jimmy Lai, the Hong Kong 47, and many others. These cases are examples of the complete erosion of civil liberties and should be illustrative of China's future enforcement of the NSL in Hong Kong. Likewise, Hong Kong's faith-based communities, trade unions, and journalists face increasing repression, coercion, and a limited ability to participate in civil society.

Hong Kong's move to enforce its National Security Law beyond its jurisdiction also reveals the stronger mainland influence that is destroying its legal system.



## Key Findings

- Hong Kong Chief Executive John Lee serves as Beijing’s enforcer of the CCP’s interests in reversing the territory’s once democratic institutions and civil society. The CCP now controls Hong Kong’s political, judicial, religious, and education systems.
- Under the NSL, the central government in Beijing has the authority to intervene in any legal case in which it sees an “intractable” problem or determines the city is unable to resolve the problem on its own.
- The Hong Kong government is now attempting to extend its reach, taking an extraterritorial approach to enforcement. It is charging individuals overseas on national security grounds, has placed bounties on some overseas prodemocracy activists, and has attempted to intimidate their family members.
- Hong Kong’s civil society was weakened further this year as Beijing’s restrictions on religious organizations, labor rights, and the press led some organizations to choose to disband rather than submit to new restrictions on free speech and assembly.
- Faced with the continued departure of international firms and human capital, Hong Kong is seeking to draw in mainland Chinese business and talent to boost its lagging domestic economy. Chinese nationals and businesses have flooded Hong Kong’s labor force and economy, solidifying Hong Kong’s reliance on mainland China. Beijing’s efforts to rehabilitate Hong Kong’s international image are cosmetic, designed purely to attract foreign business. ■

# COMPREHENSIVE LIST OF THE COMMISSION'S 2023 RECOMMENDATIONS

The Commission considers 10 of its 30 recommendations to Congress to be of particular significance. These recommendations are denoted by a gold triangle ▲ next to the number.

## Chapter 2: China's Efforts to Subvert Norms and Exploit Open Societies

### Section 1: Rule by Law: China's Increasingly Global Legal Reach

The Commission recommends:

- ▲ 1. Congress enact legislation to address politically oppressive lawsuits initiated by the Chinese government or its proxies attempting to silence, intimidate, or impose significant litigation costs on parties for exercising protected rights through political engagement or other public participation. Such legislation would create a procedure providing for expedited consideration of efforts to dismiss such lawsuits and staying expensive discovery proceedings until the court has made a threshold determination on the merits of the lawsuit.
2. Congress pass legislation requiring the Judicial Conference of the United States to prepare an evaluation and guidance for U.S. courts and administrative personnel on the Chinese legal system and body of law for purposes of assisting courts in assessing recognition of Chinese judgments and change of venue, choice of law, and forum non conveniens inquiries.

### Section 2: Battling for Overseas Hearts and Minds: China's United Front and Propaganda Work

The Commission recommends:

- ▲ 3. Congress address China's state-sponsored influence and interference in the United States by amending the Higher Education Act of 1965 as follows:
  - ▶ To require the U.S. Department of Education to share data on U.S. universities and colleges' foreign gifts and

contract disclosures, required under section 117 of the act, with U.S. federal law enforcement, intelligence agencies, and other relevant agencies, including but not limited to the Federal Bureau of Investigation and the Office of the Director of National Intelligence (ODNI). Such information sharing should encompass gifts and contracts extending back at least ten years, or a period of time determined by Congress, as well as all future gifts and contracts as they are disclosed to the department.

- ▶ To direct an interagency review, led by ODNI, to assess the section 117 data to identify risks posed by China- and Hong Kong-origin money received by U.S. universities and colleges. The interagency findings should be reported to Congress and inform steps, including potential suspension of federal funds, to mitigate risks associated with continued receipt of China-origin money by U.S. universities and colleges.
- ▶ To require universities and colleges to include in their section 117 reporting when a foreign gift or contract disclosure has been added retroactively or when a past entry has been revised and to establish penalties for late reporting. Penalties may include loss of federal financial assistance within three consecutive or nonconsecutive years of failing to disclose gifts or contracts above the current threshold of \$250,000.
- ▶ To direct the U.S. Department of Education to evaluate the adequacy of the current reporting threshold of \$250,000 by conducting a study on the average amount of foreign gifts and contracts received or signed by U.S. universities and colleges in a variety of academic disciplines and to determine whether the threshold needs to be adjusted for programs in disciplines that Congress deems critical to U.S. national security. The study should also include an analysis of the amount, focus, and potential impact of China- and Hong Kong-origin gifts and contracts received by U.S. universities and colleges over the last ten years.

4. Congress pass legislation to amend the Foreign Investment Risk Review Modernization Act (FIRRMA) to expand the definition of “covered transaction” to include “research contracts.” Under the expanded definition, the Committee on Foreign Investment in the United States (CFIUS) should have the authority to review investments made by Chinese entities in the U.S. education system in the form of contracts. All parties to the transaction, including the foreign contracting organizations and U.S. institutions, should file a joint declaration to CFIUS ahead of their contract start date. Upon passage of this legislation, reporting requirements under section 117 of the Higher Education Act should be adjusted through regulation to include foreign gifts to U.S. universities and colleges, effectively transferring the administrative authority to receive and oversee the collection of foreign research contract reporting to CFIUS.
5. Congress amend the Lobbying Disclosure Act to require domestic associations, such as industry or trade associations, who employ an individual registered as a lobbyist to publicly disclose any donations or member contributions from entities based in China and other countries of concern, as well as their U.S. affiliates.
6. Congress support the establishment of a new entity under the U.S. Agency for Global Media (USAGM) to coordinate and disseminate news content internationally in Chinese, English, and other languages to promote fact-based information on China and counter Chinese Communist Party (CCP) global information manipulation. The entity could facilitate partnerships with international journalists and media and provide independent content, particularly where Chinese state and state-sponsored entities seek to discredit the United States and the values of liberal democracy and promote false narratives about China. This digital service will:
- ▶ Curate and repackage the best of USAGM entities’ daily content to provide uncensored China-related news in Mandarin and English for countries around the world where China is making inroads promoting its values and attempting to discredit the United States; and
  - ▶ Engage audiences and partners through multiple platforms and multilateral means to promote responsible and fact-based journalism.
- ▲ 7. Congress establish an interagency group, led by the Office of the Director of National Intelligence, to create a public database to assist U.S. companies, universities, and individuals in conducting due diligence on potential business or academic partners in China. The database should enable users to identify how China’s military, United Front Work Department, intelligence agencies, and security agencies may be linked to Chinese companies, investment firms and other financial institutions, research institutes, and universities.
8. Congress direct the U.S. Department of State, in coordination with the U.S. Department of Commerce and U.S. Trade and Development Agency, to prepare a public biennial assessment of the impact of China’s lending and other financial practices on Belt and Road Initiative participant countries and to recommend best practices for addressing the impacts of China’s activities through U.S. diplomatic and programmatic engagements.
- ▶ The assessment should consider the impact of these practices on corruption and social stability within recipient countries, among other issues.
  - ▶ Based on the findings of the report, Congress request the U.S. Department of State, in coordination with the Development Finance Corporation, U.S. Trade and Development Agency, and other relevant agencies, to work with the EU to develop a unified approach to addressing the impact of China’s activities under the Belt and Road Initiative in third countries.
9. Congress should consider legislative restrictions to address the national security and systemic risks raised by Chinese social media applications.
10. Congress should require the U.S. Department of State to establish as grounds for student visa revocation any instance where a foreign student surveils on behalf of or reports to any foreign-state intelligence, security, law enforcement, or political party authority the civil or political speech of any other student, or threatens to do so. The Department of State shall develop appropriate evidentiary sources and standards for revocation.

## Chapter 3: Potential Risks to China's Future Economic Competitiveness

### Section 1: China Educating and Training Its Next Generation Workforce

The Commission recommends:

11. Congress request a Government Accountability Office report assessing the reciprocal nature of information sharing, including access to databases, and scientific collaboration between the United States and the People's Republic of China. Such a report shall include information on access by U.S. academics and experts to ongoing research activities, projects, symposia, and other scientific and technology activities in China. It should also assess whether such collaboration and activities provide comparable information and value to that which is available to researchers from China at international conferences and venues or in the United States.

### Section 2: Fiscal, Financial, and Debt Problems Weigh Down Beijing's Ambitions

The Commission recommends:

12. To combat tariff evasion by Chinese exporters, Congress amend the procedures for investigating claims of trade remedy laws in the Enforce and Protect Act of 2015 to include merchandise subject to tariffs under the findings of the 2018 Section 301 investigation into China's acts, policies, and practices of related to technology transfer, intellectual property, and innovation.

- ▲ 13. Congress consider legislation establishing a framework for corporate disclosure requirements to provide investors greater transparency into risks from publicly traded companies' exposure to China. Factors encompassed within the framework may include but not be limited to the percentage of companies' total assets in China, their joint ventures with Chinese firms, the amount and nature of research and development they undertake in China, and the influence of any company personnel associated with the Chinese Communist Party in corporate decision-making.

14. The Joint Economic Committee should consider resuming production of an annual unclassified report on the state of the Chinese economy and economic policy decisions of the Chinese Communist Party. The report would analyze open source and classified data and analysis, leveraging expertise from across the U.S. government, including analysts and economists from the relevant agencies of the intelligence community.

15. Congress consider legislation requiring federal financial authorities, including the Federal Reserve, to seek specific information from bank and investment institutions regarding their exposure to, and involvement in, the People's Republic of China. Such information shall include any wealth management products they offer within China and any Chinese investment vehicles they may sell to citizens of the United States directly or indirectly.

## Chapter 4: China Seeking Military Influence and Advanced Capabilities

### Section 1: China's Relations with Foreign Militaries

The Commission recommends:

16. Congress require the U.S. Department of Defense and the U.S. Department of State to provide to the appropriate committees of Congress within 180 days a classified briefing on China's efforts to educate and train foreign military personnel. The briefing should address how China's programs affect U.S. interests including: (a) foreign military partners' assessment of the value of China's security assistance and training programs; and (b) whether the scale and offerings of U.S. military education and training programs are sufficient to maintain the United States' status as a preferred partner.

17. Congress require the U.S. Department of Defense (DOD) to submit a report within 180 days that builds upon the restrictions on DOD's contacts with the People's Liberation Army (PLA) outlined in section 1201 of the National Defense Authorization Act for Fiscal Year 2000 by detailing measures DOD is taking to mitigate the risk of the PLA gaining indirect knowledge of U.S. Armed Forces' equipment and operational tactics, techniques, and procedures through interactions with the militaries

of U.S. allies and partners. The report should identify any obstacles to ensuring sufficient partner awareness of these risks and to conducting the necessary follow-up and end-use monitoring to ensure compliance.

## Section 2: Weapons, Technology, and Export Controls

The Commission recommends:

18. Congress hold hearings to evaluate the potential for establishing a single export licensing system. Such a system would integrate the Commerce Control List, the dual-use technology licensing system managed by the U.S. Department of Commerce's Bureau of Industry and Security, and the U.S. Munitions List, the armaments licensing system managed by the U.S. Department of State's Directorate of Defense Trade Controls. In evaluating a single licensing system, Congress should consider:

- ▶ Whether a single licensing system could improve the enforcement of export controls targeting specific end users, particularly those in jurisdictions with poor transparency into corporate ownership and commercial affiliations, such as China;
- ▶ The potential commercial impact of combining the licensing systems, including how to reduce the compliance burden on industry without compromising national security;
- ▶ Which technologies to include in a combined system and how to integrate appropriate technical expertise to scope evolving controls on dual-use emerging and foundational technologies;
- ▶ Where such a system should be housed within the U.S. government and how to establish effective coordination between different agency stakeholders; and
- ▶ How to provide the Department of State and other relevant agencies with appropriate information and authorities to advocate for multilateral export controls that advance U.S. security, foreign policy, and economic competitiveness.

▲ 19. Congress provide the Committee on Foreign Investment in the United States (CFIUS) the authority to review investments in U.S. companies that could support foreign acquisition of capabilities to attain technological self-sufficiency or otherwise impair the economic competitiveness of the United States, including:

- ▶ Investments in technology areas prioritized in potential adversaries' industrial policies, such as China's 14th Five-Year Plan, Made in China 2025, and other related initiatives;
- ▶ Investments in U.S. firms that have received funding from the U.S. Departments of Defense, Commerce, Energy, and other U.S. government funding for projects critical to national security and competitiveness; and
- ▶ Other investments that may provide privileged access to expertise, business networks, and production methods critical to maintaining U.S. economic and technological competitiveness.

▲ 20. Congress establish a risk matrix framework to evaluate the national security threat posed by electronic products imported from the People's Republic of China. To eliminate or mitigate risks identified in the threat matrix evaluation, Congress should consider the use of all trade tools, including tariffs.

▲ 21. Congress request an evaluation, to be completed within 180 days by the General Accountability Office, of the effectiveness of recently imposed semiconductor export control regulations in preventing China from either acquiring or developing the capacity to manufacture certain advanced semiconductors. The report should include an assessment of the extent of cooperation received from key allied governments, as well as both U.S. and foreign-based companies, and an evaluation of China's efforts to circumvent these controls or to negate their effectiveness by developing its own indigenous capabilities. This assessment should be prepared for public release but may include a classified annex. The report should be updated annually.

## Chapter 5: Changing Relations with Europe, Taiwan, and Hong Kong

### Section 1: Europe-China Relations; Convergence and Divergence in Transatlantic Cooperation

The Commission recommends:

- ▲ 22. Congress direct the U.S. Department of Defense to work with European partners to protect the movement of U.S. military equipment, supplies, and personnel from Chinese surveillance via China’s National Transportation and Logistics Public Information Platform (LOGINK) and any other logistics platform controlled by, affiliated with, or subject to the jurisdiction of the Chinese Communist Party or the Government of the People’s Republic of China or any logistics platform that shares data with such a system. Coordination with European partners should include:
  - ▶ Identifying ports in NATO countries that currently utilize or intend to utilize LOGINK or similar systems from China or other countries of concern;
  - ▶ Assessing the U.S. military’s current and past potential exposure to Chinese surveillance via LOGINK or similar systems and the risks to U.S. interests and national security resulting from such exposure;
  - ▶ Identifying and assessing the feasibility of adopting alternative shipping routes through ports that do not currently utilize or intend to utilize LOGINK or similar systems, including by identifying any risks to U.S. military programs, activities, and movements that would be created by attempting to avoid exposure to such systems; and
  - ▶ Implementing joint measures to mitigate the identified risks of exposure to LOGINK and similar systems in European ports.
  
- ▲ 23. Congress direct the Administration to engage in discussion with European allies on plans and preparations to impose economic sanctions on China in the event of a confrontation over Taiwan, an escalation in China’s support for Russia, or other contingencies. Congress also direct the Administration to consult with Congress on the progress of these discussions.

24. Congress direct the U.S. Trade and Development Agency, the Development Finance Corporation, and the National Institute of Standards and Technology (NIST) to report on how they are incorporating promotion of U.S.-supported technical standards into U.S.-funded development projects or technical assistance provided abroad.

25. Congress direct the Administration to establish a secure electric vehicle (EV) and new energy vehicle (NEV) supply chain by considering legislation that would foster U.S.-EU-UK coordination on:

- ▶ Raising or maintaining tariffs on Chinese EV, NEV, and related inputs and technology; and
- ▶ Promoting supply chain diversification and resilience in the EV and NEV markets.

### Section 2: Taiwan

The Commission recommends:

- ▲ 26. Congress should direct the U.S. Department of Defense (DOD) to expand the training of Taiwan’s military to locations in the United States for the purpose of conducting weapons familiarization with systems that have been ordered by but not yet delivered to Taiwan in order to speed Taiwan’s adoption of those systems once delivered. Congress should authorize DOD to station standing observer teams from Taiwan at U.S. training installations and bases to observe and participate in such training.
  
- 27. Congress should pass legislation establishing a joint “center of excellence” operated by the United States and Taiwan to uncover, analyze, and counter China’s disinformation and offensive cyber operations against Taiwan. This center could be modeled on the NATO Cooperative Cyber Defence Centre of Excellence and foster cooperation, capabilities, and information sharing on disinformation and cybersecurity through education, training, and research.
  
- 28. Congress direct the U.S. Department of State and relevant agencies to produce an unclassified report examining the expected economic impact of a People’s Liberation Army blockade and/or quarantine of Taiwan. The report should seek to assess the following under each scenario: (1) the impact on global trade and output on timelines up to one year; (2) the top ten sectors that will



be most disrupted by a sustained blockade; and (3) the expected impact on the domestic economies of each G7 country from such action.

### Section 3: Hong Kong

The Commission recommends:

29. Congress direct the U.S. Department of State to include in the annual report required by the Hong Kong Autonomy Act information on the Hong Kong government's restriction of émigrés' access to their financial accounts in the territory, including from the government-run Mandatory Provident Fund (MPF) pension scheme. Based on the findings of the report, the Administration should impose sanctions, as authorized under the 2020 Hong Kong Autonomy Act, on individuals involved in limiting freedom of emigration. Congress may consider further steps to prevent U.S.-based financial institutions involved in managing the funds of Hong Kongers from aiding in violating freedom of emigration by withholding pension funds from their rightful owners at the behest of Hong Kong's government.

30. Congress amend the Hong Kong Autonomy Act to add to the contents of the required annual report an evaluation of limitations on Hong Kong's judicial independence. Specifically, the evaluation should assess whether the chief executive or any other body acting on behalf of China's government has exercised undue influence over the Hong Kong judicial system in ways that violate the right to a fair and independent trial as guaranteed under the Basic Law of Hong Kong. Based on the findings of the report, Congress may impose sanctions, as authorized under the 2020 Hong Kong Autonomy Act, on individuals involved with the Hong Kong judiciary serving in Hong Kong, including foreign national judges that serve on the Hong Kong Court of Final Appeal. ■

## NOTES

## NOTES



2023 Report to Congress

of the

U.S.-China Economic and  
Security Review Commission

Executive Summary and Recommendations