CHINA'S EXPANDING INFLUENCE IN EUROPE AND EURASIA

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPE, EURASIA, ENERGY, AND THE ENVIRONMENT

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CHINA'S EXPANDING INFLUENCE IN EUROPE AND EURASIA

Thursday, May 9, 2019

House of Representatives

Subcommittee on Europe, Eurasia, Energy and the Environment

Committee on Foreign Affairs

Washington, DC

The subcommittee met, pursuant to notice, at 10:01 a.m., in room 2167 Rayburn House Office Building, Hon. William Keating (chairman of the subcommittee) presiding.

Mr. KEATING. The hearing will come to order. We are in a different room, I can tell just from the microphones. It is reverberating. The subcommittee is meeting today to hear testimony on China's Expanding Influence in Europe and Eurasia. Without objection, all members will have 5 days to submit statements, questions, extraneous materials for the record, subject to the length and limitation in the rules. I will now make an opening statement and then turn it over to the ranking member for his opening statement.

We are holding this hearing today on China's engagement in Europe and Eurasia as part of a series of hearings being held within the Foreign Affairs Committee this week, all of them on China. I am pleased that the committee is taking this step in-depth because I firmly believe that failing to develop a strategy for engaging with an increasingly competitive China, we will be confronted with one of the greatest security threats of our generation.

The goal of today's hearing is not to preemptively disqualify Chinese investments as illegitimate. Competition after all is the bedrock of a successful capitalist system. However, a core value of Western democratic countries is also that competition must be fair and everyone must play by the same rules. So as we consider the range of China's economic and financial endeavors across Europe and Eurasia today, that is the principle that we must keep in mind. And the question we must ask is this, is China playing by the rules? Unfortunately, the overwhelming evidence across the range of China's global dealings indicate, really, that at this time they are not.

In today's hearing, we will be able to assess China's investment in Europe and Eurasia through the Belt and Road Initiative and by Chinese companies, with an eye toward understanding the risks of accepting these investments when China does not adhere to the rules and abide by principles of free and fair competition. There are real security and economic risks if we do not take this opportunity to reaffirm the rules-based international order.

And whether it is using Chinese companies to build Europe's 5G networks or investments in ports and critical infrastructure, there

are real security concerns for NATO and cooperation with our allies. And with the lack of transparency around these deals and evidence of predatory lending, the economic risks are clear. Further, we see that China uses their newfound economic ties for leverage within Europe to avoid criticism for their human rights record and other concerning policies.

All of this undermines our shared values around democracy and the rule of law and the principles and cooperation that we have made in the U.S. and share with our allies and have shared for more than 70 years.

Today is an important day because today is Europe Day, May 9th, the anniversary of the Schuman Declaration which first put forth the idea of a unified Europe on peace. We all can appreciate and celebrate that today. It is an important day not just for Europe, but for us in the United States as well, because a united Europe is a stronger Europe. These are our allies and closest partners in security and in business, and when Europe is stronger, we are stronger.

For our part, we can do more here in the United States to enforce our standards and make sure China is playing by the rules here at home. This is our own companies that embrace free and fair competition and make our economy stronger and they are not pushing and going to be pushed out by the unlevel playing field that China has so far been involved in, so that we do not have to also leave ourselves more vulnerable to cyber and security threats.

Europe must do the same, and I am very encouraged by the screening mechanism framework which we will hear something about I hope that was passed quickly by the EU and went into force this year. This is a critical step and we should continue to work with the EU and our allies and partners across the region to harmonize our screening mechanisms and share information on how to watch for risks associated with these Chinese investments.

We should also recommit to working together to offer alternatives to Chinese investments. Countries are not wrong to want to have investments in important sectors in their economies, and we have to make sure that alongside of working with governments to avoid predatory and unfair Chinese investments, we are also there to offer safe alternatives to make our economies and our alliances stronger.

The U.S. took an important step in this regard passing the BUILD Act last year and Europe has announced its similar connectivity strategy and spur for greater investment and projects around the world. This is something we can work on, I believe, together not just independently. We can do more.

A troubling poll earlier this year in Germany found that 43 percent of Germans thought China was a more reliable partner than the United States on economic partnerships. At a time when Russia and China are actively working to chip away at our alliance with Europe and undermine the values and rules that we have brought for greater security and prosperity for all of us, this is a moment where we must reaffirm our alliance, recommit to trade, recommit to investment agreements and reinforce our shared standards for rule of law. That is how we operate from a position of strength in responding to threats from Russia and China.

So I would like to thank our witnesses for being here today so we can examine these issues carefully and our policy options for moving forward in this way. Now I will turn to the ranking member for his opening statement.

Mr. KINZINGER. Well, I thank the chairman. And I thank the witnesses for being here today. And I want to apologize up front, I have another hearing in Energy and Commerce I will have to leave for, but that does not belittle the importance of this issue.

And I think it is important to note that there is no daylight between the Republicans and Democrats, the chairman and I, on this threat, this concern. A lot of our differences get a lot of media attention, but there is way more that unites us than actually divides us, and so that is important to note.

When President Xi assumed power in 2013, he set China on an ambitious path to increase its regional control while expanding its global reach. During the cold war, we had this great battle of ideas between capitalism in the West and Communism in the East. This has shifted to a battle between democracy versus authoritarianism and the United States must respond accordingly.

We have seen the CCP conduct influence operations around the world to affect how media, business, academia, and politicians view the Chinese threat. Whether it be Chinese, Russian, or ISIS ideological ideas, we should not be brushing them off without a second thought. Yet this is what many countries around the world are doing when it comes to China's debt-trap diplomacy. Through State-funded projects such as Made in China 2025 and the Belt and Road Initiative, the CCP has found a way to use capitalism to benefit the spread of their authoritarian system.

By offering incentive-laced ideas, China has gained access to European markets which have historically shied away from their system of governance. China has had over 350 mergers, investments, and joint ventures across Europe. In many cases, they can access critical information about how these systems work or even steal sensitive IP. More than half of China's investments in Europe is in the largest economies, Germany, United Kingdom, France, and Italy. What concerns me though is that these are linchpins in our NATO alliance.

China has now passed the U.S. as Germany's largest trading partner and they are closing the gap for the EU as a whole. They have also bucked American concerns and have stated their willingness to integrate their systems with Hauwei's 5G networks which compromise our intelligence sharing. In the U.K. alone, China has invested over 70 billion. They are trying to get a foot in the door in anticipation of any Brexit deal that sees the U.K. leaving the EU.

Italy is becoming the first G7 country to sign a memorandum of understanding with China to participate in the BRI. While not binding, it is a symbolic win for China to secure such a significant nation. Chinese companies now either fully own or have sizable investments in Greek and Portuguese ports, a British and Portuguese energy system, and airports in London, Frankfurt, and Toulouse. As a result, Chinese influence has pushed countries like Greek and Hungary to water down EU statements regarding China's illegal island-grabbing in the South China Sea.

Following a massive flow of Chinese investment, the Czech Republic's President stated that his country would become an unsinkable aircraft carrier of Chinese investment expansion. Luckily, amidst growing American and European concerns over China's intention, the CCP has softened their tone and decreased foreign investment over the past few months. By no means do I believe that they will back down. This gives Congress and the administration time to engage with our European partners to formulate a plan as we must be ready for China's next investment push.

Again, I thank the chairman for convening this extremely important hearing today and I thank the panel for your commitment in testifying for us, and I yield back.

Mr. KEATING. The chair thanks the ranking member.

I will now introduce our witnesses. Philippe Le Corre is a Nonresident Senior Fellow in the Europe and Asia Programs at the Carnegie Endowment for International Peace and an affiliate with the project on Europe and the transatlantic relationship at the Harvard Kennedy School Belfer Center for Science and International Affairs. He is a former Special Assistant and Counsellor for international affairs to the French Minister of Defense. And thank you very much for being here, Mr. Le Corre.

Stephanie Segal is the Deputy Director and Senior Fellow, Simon Chair in Political Economy at the Center for Strategic & International Studies, and the former codirector of the East Asia Office at the United States Department of the Treasury. Thank you for being here.

Dr. Andrea Kendall-Taylor is the Senior Fellow and Director of Transatlantic Security Programs at the Center for New American Security and a former Deputy National Intelligence Officer for Russia and Eurasia at the National Institute Counsel and the Office of Director of National Intelligence, thank you.

Dr. Cooper, Dr. Zach Cooper is a Research Fellow focusing on U.S.-China strategic competition at the American Enterprise Institute. He is also an Adjunct Assistant Professor at Georgetown University with an Associate from Armitage International and a National Asia Research Fellow. He previously served at the National Security Council and at the Department of Defense.

I would like to thank all the witnesses for being here today and look forward to your testimony. You will have the opportunity, although we are not going to put a clock over your head too harshly, to limit your testimony to the range of 5 minutes. Without objection, your prepared written statements will also be part of the record. As I stated at the outset, members will be able to forward other questions in the future for your response.

I will now go to Mr. Le Corre for his statements.

STATEMENTS OF PHILIPPE LE CORRE, NONRESIDENT SENIOR FELLOW, EUROPE AND ASIA PROGRAMS, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE; STEPHANIE SEGAL; ANDREA KENDALL-TAYLOR; AND, ZACK COOPER, RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE

STATEMENT OF PHILIPPE LE CORRE, NONRESIDENT SENIOR FELLOW, EUROPE AND ASIA PROGRAMS, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. LE CORRE. Thank you very much, Mr. Chairman, Ranking Member, distinguished members of this committee, thank you for inviting me for the second time in a year. And I have to say, this hearing takes place in the context of a shift in the attitudes of both the United States and Europe toward China's economic and political rise.

For the past 2 years, the U.S. has taken a tougher stance in dealing with China especially in the field of economic reciprocity and violations of international norms of intellectual property. More broadly, Washington has taken a consensual bipartisan approach vis-a-vis Beijing, which now appears as the main threat to American interests.

But I also want to stress that Europe, the Europe we are dealing with today is not the one we were dealing with 3 years ago in this particular context. True, Europe remains divided vis-a-vis the People's Republic of China, but for the past 3 months a number of important events and developments have taken place.

First and foremost, on March the 12th, the European Commission published a document called the "EU-China: A Strategic Outlook". The tone and the language of this document is quite different from what we are used to, those of us looking at European documents. It labels China as a systemic rival and it lists all the issues that are basically in the way of a smooth relationship between China and the EU. For example, the role of State-owned enterprises, intellectual property issues, the lack of market access in China, 5G, and generally different values and issues that have become a problem, and also in the eyes of European countries.

Second, in March again, President Xi Jinping visited Europe. He visited Italy and he visited France. In Italy, yes, he did sign an MOU with the Italian Government on the Belt and Road Initiative, but it is only an MOU and I will come back to that in a minute. But in France he was welcomed not just by President Macron, but also by Chancellor Merkel and the president of the European Commission, Mr. Juncker.

This is a far cry from the usual attitude, the divided attitude of Europeans vis-a-vis China. Of course, you could argue that the Chinese Prime Minister who later came to Europe and countered the 16 countries, the 16+1 mechanism, but not much came out of this except perhaps, you know, it became the 17+1.

But I think the most important thing to remember is that there is a unified position toward China at least represented by the EU. The EU-China annual summit took place on April the 11th in Brussels in the presence of Premier Li Keqiang, and it concluded with a joint communique that sets a date for comprehensive agreement on investment that is also quite important.

And fourth and last, but not least, in April again, the EU introduced a new screening mechanism as you were referring to, Mr. Chairman, on foreign investment after less than 2 years of internal discussions. Despite divisions within Europe, no EU country, in the end, opposed this new nonbinding scheme.

At the same time, Chinese investments in the EU have declined considerably after peaking in 2016. This is mainly due to restrictions of capital outflows from China and also the fact Chinese investments are mainly in the area of technology and infrastructures, particularly as part of President Xi Jinping's signature project, the BRI. I mean the BRI by the way targets not just Europe, but pretty much every continent except North America. It is true that 12 European leaders attended the BRI forum in Beijing, but neither the German Chancellor or the French President took part. The EU was represented, but not by its most senior officials.

Division remains, but countries in Europe have become aware of China's discourse and feel the need to protect themselves through the European Union. The EU today remains one of the strongest advocates of liberal and democratic values in the world, many of them shared in America, which is why, Mr. Chairman, distinguished members of the committee, I would urge, in conclusion, that Congress does all it can to collaborate with Europe to build consensus over the immediate security, technological, and geoeconomic threats of China's expansion.

As the current U.S. administration continues to send mixed messages to America's oldest and most reliable allies, it is critical that Congress takes a leading role in reinforcing a transatlantic dialog on China's global influence. Thank you.

[The prepared statement of Mr. Le Corre follows:]

CARNEGIE
ENDOWMENT FOR
INTERNATIONAL PEACE

Congressional Testimony

Hearing on China's Expanding Influence in Europe and Eurasia

Philippe Le Corre
Nonresident Senior Fellow
Carnegie Endowment for International Peace
Senior Fellow
Mossavar-Rahmani Center for Business and Government
Harvard Kennedy School

Testimony before the House of Representatives Foreign Affairs Committee, Subcommittee on Europe, Eurasia, Energy, and the Environment

May 9, 2019

Introduction

Chairman Keating, Ranking Member Kinzinger, Distinguished Members of this Committee, thank you for inviting me to testify before you for the second time.

This hearing takes place in a context of a shift in the attitudes of both the United States and Europe towards China's growing economic and geopolitical rise, as well as a broader evolution of Beijing's own priorities and external strategy.

For the past seven years, I have been focusing on China's geo-economic outreach with a focus on foreign direct investments, and how these are perceived in Eurasia, including Europe, the Caucasus and Central Asia. Eurasia is a complex concept with diverging definitions and has been a playing field for competition or cooperation between big powers especially Russia, China, the United States and the European Union (EU).

Although I have also been working on Central Asia, I have decided today to focus my testimony on recent developments between China and the European continent.

While the U.S. has taken a tougher stance in dealing with China's persistent lack of reciprocity in economic relations and violations of international norms of intellectual property for some years, European countries have recently begun reacting concretely to the economic and security-related considerations linked to certain Chinese investments on their soil. The EU's official acknowledgment of China as a "systemic rival" in a policy document released this spring marks a departure from previously conciliatory language.[1]

At the same time, Chinese investments on both sides of the Atlantic have declined considerably after peaking in 2016. Beijing is increasingly curbing private outward investment to maintain its stock of foreign reserves and to direct capital to domestic use amid a period of economic slowdown. The notable exceptions are foreign direct investments (FDI) connected with President Xi Jinping's flagship strategy to achieve technological parity in key industries, *Made in China 2025*, and investment towards the *Belt and Road Initiative* (BRI), Xi's other grand plan to connect China to its markets through large-scale infrastructure projects. The BRI now counts new European signatories, including Italy, one of the EU's founding members, which also became the first G7 nation to sign a Memorandum of Understanding with China in March 2019.

The latter episode has provided an important test for the U.S.-Europe security relationship. Upon the urging of American diplomats not to take part in the BRI, Italy has loudly reiterated its allegiance to NATO and the underlying Western alliance. Yet is has chosen to defy both the U.S. and EU strategic posture in its decision to adhere to the project.

The greatest challenge is that Chinese investments in strategic sectors can generate economic dependence, especially among smaller countries and struggling economies, and this relationship can expand into the political realm, as it has on a few occasions that I will mention shortly.

Against this backdrop, the U.S. and Europe need to consider how they can maintain their security relationship to meet mutual challenges, but also how to reconcile diverging strategies for handling the emergence of China in order to avoid an escalation of tensions and to build instead a constructive relationship with Beijing.

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[1] "Communication-EU-China-a-Strategic-Outlook.Pdf," March 12, 2019, https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.

Over the brief time of this testimony, I will address the following questions and concerns:

- What is the state of Chinese Foreign Direct Investments in Europe
- Following multiple visits and summits in Europe and the BRI Forum in Beijing, what is China's vision towards Europe?
- How is the European Union—and how are individual countries—reacting?
- Is China's growing economic presence translating into political influence in Europe?
- How is the EU responding to the BRI?

Overview of Chinese FDI in Europe

Economic relations between Europe and China have expanded dramatically over the last decade. The EU is now China's largest trading partner, and China is the EU's second-largest trading partner after the United States. China's annual FDI into the EU skyrocketed from $840 million in 2008 to $42 billion in 2017, covering a wide range of geographic areas and industrial sectors. The count about doubles when including Switzerland, a non-EU country, which has captured the lion's share of Chinese FDI with ChemChina's acquisition of the agri-business giant Syngenta for $43 billion—the world's single largest acquisition by a Chinese company.

However, data from the last two years indicates that in aggregate terms Chinese FDI into Europe is slowing down from its 2016 peak. In 2018, Chinese FDI in Europe declined by 40% compared to 2017, for a total of $22.5 billion.[2] Part of this downward trend relates to fewer "mega-deals" being pursued or completed, whereas multi-billion deals were a key feature of total FDI in previous years. Similarly, 2018 saw a shift away from infrastructures, utilities, and real estate projects in favour of more consumer-facing sectors.

The United Kingdom remained the largest European recipient of Chinese FDI for 2018, followed by Sweden, Germany, Luxembourg, and France. Behind the headline of an aggregate fall in FDI, 2018 saw sharper increases in a more diverse pool of European countries: Spain, Sweden, Luxembourg, Denmark, as well as Hungary, Croatia, Poland, and Slovenia all saw growing investments.[3] The overall value of deals was nothing to remark on, especially for smaller and Eastern European countries, but it is significant insofar as it marks a growing Chinese presence in a wider range of countries and significantly in several EU member states. The British case deserves a close attention as the country prepares to exit the union.

The 2017-2018 decline in FDI in Europe is largely the outcome of the Chinese government's recently introduced controls on private capital outflows. Besides the decline in outbound FDI, there has also been a considerable wave of divestments, estimated at $5 billion. It includes large private companies such as HNA or Dalian Wanda that had invested substantially in European countries, but have recently sold some of their assets. However, Europe continues to receive most of its FDI from state-owned enterprises (SOEs), which made up about 63% of total FDI between 2008-18.[4] Unlike private firms

[2] Hanemann, Huotari, and Kratz, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies".
[3] Chinese FDI into North America and Europe in 2018 Falls 73% to Six-Year Low of $30 Billion | Newsroom | Baker McKenzie."
[4] "EU Reaches Deal on Screening Measures for Foreign Investment," accessed February 24, 2019, http://country.eiu.com.ezp-

(which have made up a majority of FDI in the U.S. for instance), SOEs are less restricted in their ability to invest abroad, especially on projects backed by Beijing and compatible with *Made in China 2025* and the BRI[5]. On top of this supply-side restriction on FDI, European countries have followed somewhat in the U.S.' footsteps and began to scrutinize investment, especially from SOEs, with the effect of reducing the volume of deals.

On the other hand, China ranks 59th out of the 62 countries evaluated by the Organization for Economic Cooperation and Development (OECD) in terms of openness to FDI. Almost half of companies surveyed in 2018 by the European Chamber of Commerce in China said they missed out on business opportunities due to regulatory barriers or market access restrictions, and they expected obstacles to increase during the next five years. It is increasingly evident that many European countries are unhappy with the lack of reciprocity and the joint ventures forced upon European firms to do business in China (which often entail a form of technology transfer). Only smaller countries appear to continue to view one-way FDI as a sufficiently good trade-off. New regulations announced at the recent session of the National People's Congress in Beijing might bring more openings for European companies in the next year, but the real changes will come when the EU and China finally settle on a Comprehensive Agreement on Investment (CAI).

Recent Developments in EU-China Relations

The past three months have seen some of the most significant developments and responses to challenges in Europe-China relations. These include both increased cohesion at the EU-level, especially among the largest EU members, and divergence on key foreign policies such as adherence to the BRI.

With regards to the latter, Italy became the first G7 country to formally endorse the BRI in March. Switzerland followed suit on April 29. They joined 22 other European countries who had already signed MoUs: Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Luxemburg, Malta, Montenegro, North Macedonia, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, and Ukraine. In the Chinese original conception of the BRI[6], Europe is the final destination of this ambitious project, and still represents the largest and most attractive consumer market for Chinese products. Having more European countries signing in to the BRI is a major success in the Chinese domestic political context. At the second BRI Forum organized in Beijing in April 2019, no less than 12 European heads of State and heads of governments attended, including those of Austria, Hungary, Italy, Greece, Portugal, the Czech Republic and Malta[7].

The Balkan countries, with the exception of Croatia, are not EU members. For that reason, they are eager for Chinese investments, do not require a visa for Chinese visitors and have little barriers for FDI at all. China is investing massively in this part of Europe. Five of these Balkan states and 11 EU Eastern European member states form the 16+1 group, which gathered for its 8th Summit Meeting in Croatia on April 10-11 attended by Premier Li Keqiang. Greece has now joined this group, which has been re-labelled as 17+1.

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prod1.hul.harvard.edu/article.aspx?articleid=507371234&Country=Italy&topic=Economy&subtopic=Forecast&subsubtopic=Policy+trends.

[5] This includes projects that were not originally part of the BRI when it was created, but have since been labelled as such.

[6] Although it still remains a fairly vague global concept, the BRI now includes every continent in the world with the exception of North America

[7] Notably, leaders of Germany, France and the United Kingdom did not attend the BRI Forum

On the other hand, larger EU member states are broadly wary of entertaining purely bilateral relations with Beijing, and instead favour a coordinated EU approach that can effectively stand up to China as an equal power. For instance, France's President Emmanuel Macron summoned German Chancellor Angela Merkel and European Commission President Jean-Claude Juncker to Paris on occasion of Xi Jinping's state visit in March. Again, Germany's Economy Minister told the press from the Belt and Road Forum that took place in late April that large EU member states had "agreed" not to sign similar deals on a bilateral basis, but as a European bloc.

Thanks to the alignment of its largest members, the EU has recently taken three main steps on the foreign policy stage that signify a change of attitude towards China.

Firstly, in March the European Commission, the EU's executive body, issued a "Strategic Outlook" in which it labels China as a "systemic rival" and "strategic competitor" and sets out a number of intended steps to contrast the lack of reciprocity and violation of international rules. "China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in pursuit of technological leadership, and a systemic rival promoting alternative models of governance", it says. Such language is unusually bold for the EU and captures the concerns of EU institutions and several member states with an increasingly felt Chinese presence on its soil and periphery.

Secondly, on April 5th, the EU concluded the process to introduce a centralized FDI screening mechanism and instructed the roughly half of its member states that still lack equivalent domestic measures to introduce them too. This investment screening mechanism is a relatively loose, non-binding cooperation and oversight system. It encourages sharing information across member states about the potential for given investments to affect national security and interests, and empowers the Commission to weigh in on deals that affect multiple member states or the EU as a whole. The EU screening mechanism sets out the goal of gradual convergence of individual member states' regimes and calls for monitoring and reporting by member states. Today only 11 of 28 members lack screening measures or concrete plans to introduce them. The rapid passing of this new EU measure in just 18 months is indicative of heightened concerns over the terms of China's economic expansion.

This measure is largely perceived as targeting China specifically because it makes provisions for dominant characteristics of its investment strategy: a focus on technology and infrastructure sectors, state-linked and funded entities and state-led outward projects. Another key feature of the EU's new screening mechanism targets a specific aspect of some Chinese deals, namely that many are executed via third parties in other states to conceal the Chinese source of ownership and funding. The measure explicitly sets out to prevent the bypassing of national screening by investigating deals within the EU linked to Chinese firms. By one estimate, this FDI screening mechanism would have covered 92% of the value of Chinese FDI flowing into Europe in 2018.[8]

Thirdly, the last annual EU-China summit on April 9, 2019, which took place days after the announcement of the FDI screening measure, concluded with a stern position by the EU. Although the joint statement was lacking in substance, the overall tone of EU leaders was one of frustration and scepticism. Juncker remarked on the slowness of progress, which concerned issues such as revisiting WTO rules and improving reciprocity and IP protection. Brussels called for reciprocity with and a balanced approach to China. It asked China to address certain issues such as its state subsidies to SOEs and forced technology transfers. China has agreed to discuss with the EU how to reform the WTO and

[8] "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies", 2019, 19.

open up government procurement to foreign suppliers. Last, but not least, the EU and China did agree on concluding a Comprehensive Agreement on Investment by 2020.

The EU and U.S. share similar goals towards China, and these developments signal fertile territory for EU-U.S. cooperation on this front. However, the EU is unlikely to endorse the confrontational strategy pursued by President Trump, especially since its membership remains overall divided on the subject of China. Instead the EU will continue to reiterate its strong interest in a constructive relationship with China and to pursue common ground through dialogue and cooperation.

Chinese FDI and Political Influence in Europe

Behind the encouraging big picture of concrete steps from Brussels to rebalance the EU-China relationship, Beijing has been making political inroads in several European countries, with implications for the U.S., NATO, and cohesion on security issues.

There are examples of the political influence attached to China's economic presence. The EU's attempt to issue a statement of support for freedom of navigation in the aftermath of the 2016 final ruling of the UNCLOS (United Nations Convention on the Law of the Sea) Arbitration Court in The Hague on the Philippines' case against China over the South China Sea was revised downward. This had followed the refusal of three EU member countries—Greece, Hungary, and Croatia—to sign onto this joint declaration. Portugal, being a major recipient of Chinese FDI in many sectors of its economy, was at first reluctant to support the EU's requirement for certain FDI screening procedures and called them "protectionist". Again, in 2017 Greece blocked an EU statement at the UN Human Rights Council (UNHRC) condemning China's human rights violations—the first time the EU failed to speak with one voice at the UNHRC. Hungary similarly refused to sign an EU joint letter denouncing the reported torture of lawyers detained by Chinese authorities.

But in a climate of rising nationalism, Chinese FDI has also become an issue of rivalry between different European states. When rebutting criticisms of their choice to join the BRI, Italian officials claimed that other European peers traded more and received more investment from China, justifying Italy's pursuit of its fair share as a national interest. However, in the same week France secured several times the commercial value in agreements with China than Italy did, without signing on to the BRI. In this respect, competition and disagreement over China has created tensions that further divide EU members at the political level.

Beijing's strategy to sow divisions is an intentional one. It treats EU members differently and creates its own circles of friends with regular contacts. From China's point of view, northern European countries are one community; southern European countries are another; central and eastern European countries are mostly encompassed in this 17+1 group. France and the UK, being permanent members of the UN Security Council along with China, enjoy more status and beneficial relations with Beijing. Germany is recognized by China as the economic powerhouse of the EU with admirable scientific and technological prowess.

China also earns diplomatic points by affording even the smallest states equal status when it comes to state visits. In addition to March's meetings with heads of states in Rome and Paris, President Xi also visited Monaco, a tiny country with a population of 38,000 people. This could be interpreted as a reward for Monaco's granting a Chinese telecommunication company, Huawei, a contract to build its 5G infrastructure. It should be noted that Huawei has launched an impressive public relations and lobbying

campaign across Europe, inviting journalists and politicians to its headquarters and underlining repeatedly its separation from the Chinese state and communist party.

Concerns for Security, NATO, and U.S.-EU Cooperation

Political influence is not the only challenge to maintaining cohesion among U.S. and European allies. Chinese FDI, and its economic presence in European markets also comes with strategic concerns over China's pursuit of technological parity (or even superiority), and its established practices of cyber espionage and hacking.

Competition between the U.S. and China to develop advanced technologies such as Artificial Intelligence (AI), robotics, quantum computing, and biotechnology, with strategic and military applications, directly implicates Europe. Although European countries have fallen behind both the U.S. and China in the technology race, investing in Europe's target industries can still help China to close this gap.

European countries have become more responsive to this challenge. The acquisition in 2016 of a premier German robotic company, Kuka by Midea Group, a Chinese home appliance manufacturer, woke up the German establishment to the risk that China could threaten its technological pre-eminence and national security[9]. Subsequently, Germany blocked the acquisition of chip maker Aixtron by Fujian Grand Chip Investment Fund, revoking an approval it had previously granted due to new evidence relating to security and meeting the criteria "security of supply in the event of a crisis, telecommunications and electricity, or the provision of services of strategic importance".[10] CFIUS has come out against the deal and provided the German government with evidence that motivated the withdrawal of its prior approval.[11]

Even without the EU screening system, in 2018 EU members' own FDI screening rules contributed to blocking seven deals for a value of $1.5 billion, mainly on national security grounds.[12] Germany introduced its domestic screening measure in 2017, which was first exercised to block the Chinese acquisition of machine tool company Leifeld Metal Spinning AG, whose nuclear and rocket technology expertise was deemed sufficient grounds to invoke a national security ban.[13] Shortly before the German government had also resorted to investing its own money in 50Hertz Transmission GmbH to avert China's State Grid from acquiring a 20% stake in the electricity grid operator.[14] Even Italy, whose coalition government appeared to be committed to a strong relationship with China during President Xi Jinping's March visit, is responding to internal calls (largely from Deputy Prime Minister Matteo

[9] The Federation of German Industries (BDI) published an important report on the subject in January 2019 https://english.bdi.eu/article/news/strengthen-the-european-union-to-better-compete-with-china/

[10] Guy Chazan, "Germany Withdraws Approval for Chinese Takeover of Tech Group," Financial Times, October 24, 2016, https://www.ft.com/content/f1b3e52e-99b0-11e6-8f9b-70e3cabccfae.

[11] "Germany's Aixtron Says U.S. Opposes China Deal on Security Grounds," *Reuters*, November 18, 2016, https://www.reuters.com/article/us-aixtron-m-a-fujian-usa-idUSKBN13D2Q8.

[12] "Chinese FDI into North America and Europe in 2018 Falls 73% to Six-Year Low of $30 Billion | Newsroom | Baker McKenzie," accessed April 16, 2019, https://www.bakermckenzie.com/en/newsroom/2019/01/chinese-fdi.

[13] Andrea Thomas, "Germany Vetoes Chinese Purchase of Business Citing Security Grounds," *Wall Street Journal*, July 26, 2018, sec. Business, https://www.wsj.com/articles/germany-vetoes-chinese-purchase-of-leifeld-metal-spinning-1532624172.

[14] "Germany Steps Up Efforts to Rebuff China's Swoop for Assets," July 27, 2018, https://www.bloomberg.com/news/articles/2018-07-27/germany-buys-stake-in-electric-grid-operator-to-block-chinese.

Salvini and his Northern League) to broaden the government's "golden powers" to block deals that threaten national security and economic autonomy.

The U.S. and Europe remain largely divided over Huawei Technologies and the extent of the security risks linked to its inclusion in the development of 5G infrastructure. The U.K. recently approved Huawei as a supplier of 5G services but kept it out of critical parts of the network. Germany has similarly allowed the telecoms giant, and Italy is debating its position internally but seems to be leaning in favour of following its European peers. The U.K. and Germany even set up security evaluation centres to monitor Huawei services on their soil, but British intelligence services claimed that even this monitoring only had limited capacity to guarantee security. In the meantime, recent days have seen revelations that software backdoors were found in Huawei equipment as early as 2009 by carrier Vodafone in Italy, and that despite recurrences to the contrary they remained in place at least until 2011. Although Vodafone said the issue was eventually resolved, this precedent, if further evidence corroborates it, should discourage allowing Huawei to operate at least the most sensitive components of 5G networks in NATO countries.

While Europeans' concern with Huawei is largely limited to the ability of the Chinese government to exploit the company (which ownership system remain unclear[15]) to spy on the countries and conduct cyber-attacks, the U.S. is also significantly worried about the effect of sustaining the growth of a critical industry in a rival country that could cost U.S. and European firms their technological lead. A key motive for the U.S. pressure to ban Huawei that is not well received in Europe is that Western providers should be bolstered to win a "5G race".

Besides the question of Huawei, Europe has to grapple with Chinese ownership or control of physical infrastructure and the security risks that arise from it. Chinese state-owned enterprises (SOE), with backing from state funds often under the BRI label, are expanding their control of key European port assets and increasingly also rail links and utilities. Therefore, the use of European ports for U.S. and NATO naval operations could be compromised, as it may happen in the case of the Israeli port of Haifa, which will be operated by Shanghai International Port Group (SIPG) from 2021.

NATO as an organization is only starting to look at China as a part of its reflexion, but the bigger question is whether the Alliance is the ideal forum for this new strategic orientation. In one respect of military salience, the emergence of a Russia-China nexus directly affects NATO's primary mission. The Sino-Russian relationship should not be exaggerated, but the two countries have been conducting joint naval exercises in the Mediterranean, Black Sea, and Baltic Sea.[16] Their military leaderships have increased their exchanges. On the other hand, intra-European divisions on China may translate into lower effectiveness of NATO, making it a weak platform for pursuing a cohesive strategy to contain China's ability to project power.

To conclude, Europe has started re-evaluating its policies with respect to the China challenge. The necessary measures for ensuring critical technologies and infrastructures are protected are now largely in place, but their implementation and enforcement will make the difference between continued vulnerability and effective security. Europe also remains divided, with a number of countries at its periphery benefiting from Chinese economic assistance. Still, the European Union is now standing as one of the strongest advocates of liberal and democratic values in the world, many of them shared on

[15] Donald Clarke and Christopher Balding, "Who owns Huawei?", SSRN, April 19, 2019 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3372669

[16] Erik Brattberg, "Time for NATO to Talk About China," Carnegie Europe, accessed May 5, 2019, https://carnegieeurope.eu/strategiceurope/78684.

this side of the Atlantic. The rise of China in an increasingly multipolar world should be part of the transatlantic discussion. Bearing in mind European sensitivities, the U.S. Congress should use all its possibilities to collaborate with Europe to build consensus over the immediate security, technological and geo-economic sides of China's expansion. As the current U.S. Administration continues to send mixed messages to America's European allies, it is critical that Congress take a leading role in reinforcing a transatlantic dialogue on China's global influence.

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Mr. KEATING. Thank you, Mr. Le Corre, for those comments and look forward to coming back to you with some questions about some of those comments.

Ms. Segal, thank you for being here. You may proceed.

STATEMENT OF STEPHANIE SEGAL, DEPUTY DIRECTOR AND SENIOR FELLOW, SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Ms. SEGAL. Thank you, Mr. Chairman, Mr. Ranking Member, members of the committee. Thank you for the opportunity to contribute to today's hearing. I have submitted my full written statement for the record. My comments today will focus on Chinese investments in the context of the Belt and Road Initiative and China's strategy to become a global innovation leader. I will conclude with a few thoughts on cooperation between the United States and Europe.

While China's going out strategy can be traced back to the 1990's, initiatives under President Xi have focused on strategic and geopolitical goals. These include One Belt and One Road, the Asian Infrastructure Investment Bank, and Made in China 2025. One Belt, One Road, renamed the Belt and Road Initiative, or BRI, is China's most ambitious going out effort to date. Over 125 countries have signed BRI cooperation documents and, in April, Italy became the first G7 country to sign on.

Here are the concerns with China's investment and critical infrastructure and recipient countries' excessive reliance on debt to finance such investments. To date, European interests under BRI are most directly implicated in Central and Eastern Europe. Through its 16+1 format, recently expanded to 17+1 with Greece's participation, China has increased its activities in the region. Since its inception, criticism of BRI has mounted, particularly in the areas of transparency and debt sustainability. One cautionary example is Montenegro where a Chinese-financed highway project has sent the country's debt soaring.

Moving to another Chinese initiative, Made in China 2025 aimed to establish China as a global innovation leader. A report from the Council on Foreign Relations notes that Chinese companies have been encouraged to invest in foreign companies to gain access to advanced technology. Here are the concerns with China's acquisition of advanced technologies and the potential for China to gain unfair competitive advantage that will distort global markets. In response to external pressure, China has downplayed the formal Made in China 2025 slogan, but there is little doubt that China will continue pursuing policies that foster homegrown innovation.

In recent months, Europe has sharpened its approach to China. As Philippe just mentioned, in March, the European Commission delivered a strategic outlook to the European Parliament and the European Council. Significantly, that report refers to China as an economic competitor and a systemic rival promoting alternative models of governance, echoing language from the National Security Strategy of the United States.

Recently, Europe has taken steps which reflect the growing appreciation in Europe that the balance of challenges and opportunities presented by China has shifted. As we mentioned, the new EU-

wide foreign investment screening mechanism mandates information sharing in certain circumstances and incentivizes all EU members to adopt investment screening mechanisms.

A recent report attributed last year's decline in foreign investment from China in Europe to greater scrutiny in recipient countries as well as the macro conditions in China. There is also focus on export controls to address potential risks from the sale or licensing of sensitive technology. As indicated in the Commission's strategic outlook, European policymakers are considering modalities to address national security risks stemming from outbound investment and emerging technologies, in particular to address the challenges of different jurisdictions between member States, the European Union, and other advanced technology-exporting countries.

Regarding trade and the WTO, Europe is calling on China to adhere to stronger disciplines on industrial subsidies and is also working in the trilateral context with the United States and Japan. Just a few comments on cooperation, cooperation between the United States, Europe, and other like-minded countries maximizes the chances for shaping China's behavior and protecting U.S. interests.

Coordination with Europe is essential to ensure problematic investments or technology transfers are not simply diverted from one country to another. Such cooperation can take the form of greater information sharing as well as ex ante coordination on possible listings of sensitive technology. With respect to trade, cooperation to discipline China's behavior in the area of subsidies, self-declaration as a developing country, and digital issues will be necessary to shape global outcomes.

Separate but related, I would like to add that the imposition of tariffs, including on U.S. allies on national security grounds, undermines trust in the United States as a reliable partner. China has capitalized on U.S. rhetoric and actions. To reset the narrative, the United States should remove steel and aluminum tariffs imposed under Section 232, and end the threat of new tariffs on autos and auto parts, especially on U.S. allies and partners.

Again, I thank the subcommittee for the opportunity to offer these thoughts and I look forward to answering members' questions.

[The prepared statement of Ms. Segal follows:]

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Statement before the

House Committee on Foreign Affairs
Subcommittee on Europe, Eurasia, Energy, and the Environment

"China's Expanding Influence in Europe and Eurasia"

A Testimony by:

Stephanie Segal

Deputy Director and Senior Fellow, Simon Chair in Political Economy,

Simon Chair in Political Economy

Center for Strategic and International Studies (CSIS)

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2167 Rayburn House Office Building

Introduction

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for the opportunity to contribute to today's discussion on China's expanding influence in Europe and Eurasia. I appreciate the opportunity to offer my perspective on this important topic.

As former United States Trade Representative Charlene Barshefsky and former U.S. National Security Advisor Stephen Hadley wrote recently about China's expanding footprint, "Since World War II, a bipartisan mainstay of United States foreign policy has been preventing the emergence of a leading hegemon on the Eurasian supercontinent, where most of the economic capacity and population of the world resides."

With those stakes in mind, my testimony will focus on Chinese investments in Europe and Eurasia, including in the context of China's Belt and Road Initiative (BRI), and the response of recipient countries as well as the European Union (EU). I will elaborate on areas where greater cooperation between Europe and the United States would be beneficial, focusing on investment as well as trade-related policies.

Macroeconomic Context

To orient the discussion, it's worth considering China's place in the global economy. China's gross domestic product (GDP), at over $13 trillion, is second in the world only to the United States, while the 28 economies comprising the EU have a combined GDP of $23 trillion. With China's economy growing above 6 percent annually according to official statistics, most analysts expect it to surpass the United States in size within a generation. In terms of purchasing power, China's economy is already the world's largest, having overtaken the United States earlier in the decade. China is also the world's largest trading economy, with exports and imports (goods and services) equal to $5.2 trillion dollars or about 40 percent of GDP. While the data have established China as an economic giant for most of the 21st century, it's only in the past five years that attention has shifted to China's role as a strategic investor abroad, including in Europe.

China's foreign assets have been steady as a percent of its GDP; however, the composition of assets has changed. In particular, Chinese direct investment abroad has increased both in absolute terms and as a percent of China's foreign assets, growing by more than $1 trillion from less than $900 billion (14 percent of China's total foreign assets) in 2014 to $1.9 trillion (26 percent of foreign assets) at the end of 2018. According to the International Monetary Fund (IMF), foreign direct investment is a category of cross-border investment associated with a resident in one economy having control or "a significant degree of influence" on the management of enterprise in another economy. (In statistical practice, ownership of equity by a direct investor that entitles it to 10 percent or more of the voting power is used to determine a significant degree of influence.) The changing composition of Chinese investment abroad, combined with factors detailed below, has stoked concerns about the motivations behind such investment.

China's Motivations

While China's "going out" strategy can be traced back to the reforms of Zhu Rongji in the late-1990s, Chinese outbound direct investment gained momentum following the 2008/09 Global Financial Crisis (GFC), as Chinese policymakers sought to diversify their external holdings away from U.S. Treasuries and government-backed securities. Whereas the post-GFC shift is generally understood to reflect a desire on the part of China to diversify risk and maximize returns, more recent initiatives under the leadership of President Xi Jinping have focused attention on possible strategic and geopolitical motivations. These include the launch of "One Belt One Road" in 2013; the creation of the Asian Infrastructure Investment Bank (AIIB) in 2014; and the release of "Made in China 2025" in 2015.

Belt and Road Initiative

Launched in 2013 as One Belt One Road (OBOR) and renamed Belt and Road Initiative (BRI) in 2016, BRI is China's most ambitious "going out" effort to date. According to Chinese state media, over 125 countries have signed BRI cooperation documents. In April, Italy became the first Group of 7 (G-7) country to sign-on to the BRI, while its incorporation into the Communist Party Constitution in 2017 underscores the importance President Xi places on the initiative. Given the fragmented nature of projects under BRI, it has been difficult to estimate the total capital invested in BRI projects. Data provided in the U.S.-China Economic and Security Review Commission's 2018 report suggest that BRI equity and debt funding topped half a trillion dollars through end-2017, coming from a mix of Chinese policy banks, Chinese state-owned commercial banks, the Silk Road Fund, as well as the multilateral AIIB and New Development Bank (NDB). Last month, People's Bank of China (PBOC) Governor Yi Gang estimated that Chinese financial institutions have provided more than $440 billion for BRI, while Chinese capital markets provided another RMB500 billion ($87 billion) in equity financing for BRI projects.

To date, European interests under BRI are most directly implicated in Central and Eastern Europe. Through its "16+1 format," initiated in 2012 and recently expanded to "17+1" with Greece's participation, China has increased its activities in the region. According to CSIS data collected before the group's most recent meeting, 70 percent of China's announced deals have been in non-EU member states even though they make up only 5 of the 16 (now 17) participants and only 6 percent of the group's collective GDP. This disparity reflects the higher bar that Chinese firms face within the EU, where procurement and environmental standards are higher and alternative sources of investment are more abundant.

In the longer term, Europe's interests may also be impacted by the New Eurasia Land Bridge (NELB) Corridor, and to a lesser extent, the China-Central Asia-West Asia Economic Corridor (CCWAEC), two of six geographic corridors under the BRI. However, analysis conducted by CSIS's Reconnecting Asia project last year found no significant relationship between corridor participation and project activity, with the exception of the China-Pakistan Economic Corridor. While five years may be too early to judge the results of a longer-term effort, the analysis underscores the challenges of capital deployment and project completion for infrastructure investing, notwithstanding Chinese involvement.

It is possible that BRI projects will ultimately deliver economic benefits to recipient countries; however, in addition to the modest tangible results suggested by the analysis to-date, criticism of the BRI has mounted particularly in the areas of transparency and debt sustainability. One

cautionary example is Montenegro, the most recent country to join the North Atlantic Treaty Organization (NATO), which has taken on a Chinese-financed highway project that has sent its debt soaring and could allow China to access land as collateral. Individual countries, as well as the European Commission and international financial institutions have called on China to develop "a clearer overarching framework governing BRI investment, better coordination and oversight, more focus on debt sustainability of the partner countries, and a transparent mechanism for dealing with project disputes, non-performance and debt service problems, as well as more open procurement and greater transparency over contracts."

That collective response implies that the first phase of BRI – one characterized by speed, scale and easy access to financing with few visible conditions attached – is likely over. At last month's Belt and Road Forum in Beijing, Chinese officials addressed criticisms dogging BRI projects, including charges of corruption and privileged treatment of Chinese companies on BRI projects. PBOC Governor Yi Gang announced that China will henceforth "let the market play a major role" and called on various stakeholders to "work together" to finance the BRI. China's revised approach may well make traditional obstacles to infrastructure investment more binding in the BRI context. Attracting third party investment will require enhanced disclosures and improved project transparency, including of financing terms, and should also force more disciplined decisions on the part of creditors and investors. Of course, these promises will require further monitoring.

Made in China 2025 and its Aftermath

When announced in 2015, Made in China 2025 (MiC 2025) aimed to upgrade China's economy and establish it as a global leader in various innovation industries. Unlike BRI, which aims to project Chinese influence outward, MiC 2025 focused domestically and included date-specific targets for the domestic content of certain products sold in China. The program sought to strengthen China's competitive position in sectors such as next-generation information technology and advanced robotics through domestic supports as well as technological acquisition. A report from the Council on Foreign Relations in March notes that Chinese companies, both private and state-backed, have been encouraged to invest in foreign companies to gain access to advanced technology, while much of Chinese investment abroad is directed by state-owned enterprises or companies backed by the Chinese government.

In response to external pressure including from the United States and Europe, China seems to have abandoned the formal MiC 2025 slogan earlier this year. However, there is little doubt that China will continue to prioritize domestic innovation, not least to reduce its reliance on imports of advanced technology.

The 2014 acquisition of German robotics company KUKA is widely seen as a wake-up call to German industry as well as policymakers across Europe with regards to MiC 2025 and China's strategic ambitions. Since KUKA's acquisition by Chinese electrical appliances company Midea, and the subsequent dismissal of KUKA's Chief Executive Officer in 2018, concern has been building in Europe that Chinese investment may ultimately undermine European companies as China acquires the capacity to domestically produce the high-end components it previously imported. In addition, there is concern that China, with its protected market and access to state support, will be able to compete on non-market terms, thereby taking global market share and

driving foreign competitors out of business. Critics of China point to Chinese overproduction in steel and solar panels as examples of China's strategy to dominate global markets which could play out again in high tech sectors.

Europe's "Calibrated" Response

Europe's unique governance structure – with national security authorities vested in individual EU member states but much of the capacity to track trends and protect the integrity of the single market residing in Brussels – presents a unique challenge and distinguishes EU members from other countries in Eurasia. Notwithstanding significant efforts to take a more consistent approach to China, it remains to be seen if Europe can maintain a unified front, a point underscored by Italy's recently announced participation in BRI, Greece's membership in "16+1" and ongoing discussions related to next generation (5G) communications networks. Having said that, in recent months Europe has sharpened its approach towards China while maintaining constructive engagement in areas of common interest.

EU-China Strategic Outlook

In March of this year, the European Commission (EC) delivered a Strategic Outlook to the European Parliament and European Council ahead of President Xi's visit in April. The report references "a growing appreciation in Europe that the balance of challenges and opportunities presented by China has shifted." It calls on China to accept greater responsibility for upholding the rules-based international order, as well as greater reciprocity, non-discrimination and openness of its system. It also calls for a calibrated approach to China which would simultaneously deepen engagement to promote common interests; seek more balanced and reciprocal conditions governing the economic relationship; and strengthen Europe's own domestic policies and industrial base.

Most significantly, the report refers to China as "an economic competitor;" and a "systemic rival promoting alternative models of governance", echoing language from the National Security Strategy (NSS) of the United States which refers to "competitors such as China" and calls out China's ambitions to "expand the reaches of its state-driven economic model". It also warns that China is gaining a strategic foothold in Europe by expanding unfair trade practices and investing in key industries, sensitive technologies, and infrastructure; and it commits the United States to working with allies and partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies. Overall, the language in the EC's Strategic Outlook represents a meaningful departure from the Joint Statement of the 20th EU-China Summit in 2018, which sought synergies between BRI and the EU and marked the 20th Anniversary of the EU-China Science and Technology Cooperation Agreement.

Investment Screening

A new EU-wide foreign investment screening mechanism entered into force in April and will be fully applied starting in November 2020. The final decision to allow or not a foreign investment will remain with the individual member states; however, the EU mechanism mandates information sharing in certain circumstances, which in turn incentivizes all EU members to develop the capacity to review transactions. In addition to the EU-wide reform, some EU members with established mechanisms have recently tightened them, reflecting concerns

stemming from Chinese as well as Russian investment. A joint report from the Mercator Institute for China Studies and the Rhodium Group found that Chinese investment in Europe declined again in 2018 after peaking in 2016 due in part to greater regulatory scrutiny in recipient countries as well as conditions in China.

Given the nature of the potential national security threat and focus on cutting-edge and dual-use technologies, coordination among U.S. allies and partners is essential to ensure potentially problematic investments are not simply diverted from one economy to another. Such cooperation can take the form of greater information sharing, including of classified intelligence as well as privileged company information, but only under strict conditions that protect the confidential nature of information shared.

Export Controls

With the investment screening mechanism now in place, focus has shifted to the adequacy of export controls to address potential risks from "outbound investment," namely the sale or licensing of technology or other sensitive information. While multilateral regimes already exist to control certain items (e.g., nuclear technology) on a multilateral basis, emerging technologies are too new to appear on existing control lists. Delays in listing and controlling a technology can pose a potential national security risk; while a decision to control a technology absent coordination with other countries is likely to be ineffective. As indicated in the EC's Strategic Outlook, European policymakers are considering modalities to address national security risks stemming from "outbound" investment and emerging technologies in particular to address the challenges of different jurisdictions between member states, the EU, and other advanced technology exporting economies.

World Trade Organization Reform

Europeans are outspoken in their support for multilateralism, which they fear is under threat from China and its distortive industrial policies as well as from the United States and its "America First" policies. U.S. reliance on questionable national security rationales for the imposition of tariffs including on U.S. allies undermines trust in the United States as a reliable partner. China has capitalized on U.S. rhetoric and actions, positioning itself as the unlikely champion of globalization. China's ability to portray itself as globalization's defender extends beyond trade. As just one example from last month's BRI Forum, the PBOC's Yi Gang asserted that "while the BRI originates from China, its opportunities and results belong to the world." To reset the narrative, the United States should remove steel and aluminum tariffs imposed under Section 232 and end the threat of new 232 tariffs on autos and auto parts, especially on U.S. allies and partners.

Europe appears committed to working with China on WTO reform while at the same time calling on China to endorse and adhere to stronger disciplines on industrial subsidies. Alongside these efforts, Europe should continue working in the trilateral context with Japan and the United States to advance reform; and should be open to sectoral arrangements, for instance in digital trade, as the best way forward. Europe, the United States and other allies and partners should keep reciprocity on the table, mindful of the costs and benefits of such an approach. Unified pressure, for instance on China's self-declaration as a "developing country" and failure to notify all subsidies may be the most effective way forward.

Cooperation is Key

Cooperation between the United States, Europe and other like-minded countries will maximize the chances of shaping China's behavior and protecting U.S. interests. There are reasons to believe that unified approaches, including pressure on China, can work (see for example, changes announced at the Belt and Road Forum to "ensure debt sustainability"). A unified and consistent approach could also yield results on difficult issues such as Chinese membership in the Paris Club and data disclosure, as reformers in China may well see such actions as also in China's best interest.

At the same time, we should be realistic about the limitations of external pressure to shape China's actions. China will not act in a way that it believes to be counter to its interests. Cooperation on these issues – for instance, disciplining China's behavior in the areas of subsidies, self-designation and even digital trade – is not only desirable but essential in terms of shaping global outcomes.

Again, I thank the Subcommittee for the opportunity to offer these thoughts, and I look forward to answering Members' questions.

Mr. KEATING. Thank you, Ms. Segal.
Dr. Kendall-Taylor?

STATEMENT OF ANDREA KENDALL-TAYLOR, SENIOR FELLOW AND DIRECTOR, TRANSATLANTIC SECURITY PROGRAM, CENTER FOR A NEW AMERICAN SECURITY

Ms. KENDALL-TAYLOR. Chairman Keating, distinguished members of the subcommittee, thank you for the opportunity to be here to discuss China's influence in Europe. I want to begin my statement by briefly highlighting four overarching ideas that I think should shape Washington's approach to competing with China and Europe.

First, is the issue of prioritization. As the United States develops its approach to Europe, it must recognize that in the coming decade China will be our No. 1 challenge. To effectively compete with China, the United States will need strong and cohesive relations with Europe. On the security front, the United States and Europe must divide and conquer. The U.S. needs Europe to do more to provide for its own security and defense to free up Washington to focus on the Indo-Pacific.

Outside the security realm, the United States and Europe must stand together. The U.S. needs Europe as a partner to confront China on economic, democracy, and human rights issues globally. This arrangement will require a new deal with Europe. Washington will have to accept that greater European autonomy will inevitably transform the transatlantic alliance. And, finally, Washington must realize that now is the time to engage Europe and China. As has been said, in the last 2 years and in particularly in recent months, Europe has grown more attuned and concerned about China.

So what does China seek to accomplish in Europe? First and foremost, China is pursuing its economic interest, but it is looking to translate its investment into greater political influence. China seeks to use its investment to secure support for China's interests or at least prevent the EU from taking a unified position that is at odds with China.

China is also looking to undermine Western cohesion, weaken democracy norms, and is looking to access European innovation including technologies, intellectual property, and talent that it can use to upgrade its industrial capacity. China goes about advancing these interests in a number of ways. I elaborate on these tactics in my written statement, but they include things like using divide-and-rule tactics to weaken European cohesion, leveraging U.S.-Europe fissures, and constructing networks among European politicians, businesses, media, think tanks, and universities to create support for pro-China positions.

I also want to call attention to one additional tactic and that is the growing synergy between China and Russia. Relations between China and Russia are deepening. Although their approaches to Europe are different and seemingly uncoordinated, taken together they are having a more corrosive effect than either would have singlehandedly. So what will China's growing influence mean for U.S. interests? The bottom line is that China's economic influence in Europe will translate into political leverage. This will affect U.S. in-

terests in a number of areas like U.S. prosperity and competitiveness. It will affect global values and norms from rules governing data and privacy to internet freedom, AI, and governance.

And it is on the issue of democracy where the synergy between China and Russia is especially problematic. Russia's assault on democratic institutions weakens some actors' commitment to democracy, but it is the alternative model of success that China presents and especially the revenue that it brings that gives countries the capacity to pull away from the West.

China's rising influence also has implications for NATO. China does not pose a direct military threat to NATO, but Beijing's growing presence will interfere with NATO mobility. China's investments in European ports and its construction of rail lines in particular could hamstring NATO's ability to move troops and equipment across Europe. This is yet another area where China-Russia synergy is concerning. It is not hard to imagine a scenario, for example, where China uses its control of key infrastructure like ports and rail to delay a NATO response to Russian aggression.

And, finally, is 5G. Allowing China to build Europe's 5G network would introduce systemic risk, making Europe more vulnerable to things like intellectual property theft, and weaken data privacy, things that enable China to continue to steal the know-how that enhances its competitiveness.

So what can be done? There are number of approaches the U.S. can take to check Chinese influence. The U.S. should enhance cooperation and coordination with Europe to combat China's unfair and illegal trade and investment practices. By combining our shared heft, we can exert much greater leverage on the Chinese.

The U.S. should engage on norms in new spaces, cyber, artificial intelligence, and space. The U.S. should encourage EU and European defense and security initiatives that would better enable the United States to prioritize the Indo-Pacific. To counter the adverse effects of the Belt and Road, Washington should capitalize on growing disillusion with the Belt and Road, particularly in Central and Eastern Europe, and work with Europe to provide alternatives to Chinese investment in Europe and beyond.

And, finally, Congress should enable the U.S. Government to consider China and Russia together as well as separately. Given the trend toward deepening China-Russia relations and the significant implications that a more robust partnership would pose to U.S. interests, policymakers will have to account for the ways in which these players are working together.

In sum, it is clear that the United States must do more to stand up to Chinese threats to U.S. interests, but to do that effectively Washington must work with its European allies. Thank you.

[The prepared statement of Dr. Kendall-Taylor follows:]

Center for a
New American
Security

May 9, 2019

Prepared statement by
Andrea Kendall-Taylor
Senior Fellow and Director, Transatlantic Security Program
Center for a New American Security

Before the
U.S. House Subcommittee on Europe, Eurasia, Energy, and the Environment

Hearing on "China's Expanding Influence in Europe and Eurasia"

Chairman Keating, Ranking Member Kinzinger, distinguished members of the subcommittee, thank you for the opportunity to talk with you about China's increasing influence in Europe. In the last decade, and especially since 2014, great power competition has returned to Europe. Russia, through its meddling and aggression, and China, through its efforts to expand economically, are vying for influence and seeking to break the historically strong bonds between the United States and Europe.

In this testimony I address China's goals and tactics in Europe. While the focus is on China, I note throughout the testimony the growing synergy between China and Russia. I identify the key implications of China's growing influence in Europe for U.S. national interests and outline recommendations for policy.

Before I begin, I briefly highlight the overarching ideas that I think should guide Washington's approach to great power competition in Europe.

The United States must prioritize China. As the United States develops its approach to Europe, it must recognize that in the coming decade, China will be the most critical national security and foreign policy challenge.

To effectively compete with China, the United States will need strong and cohesive relations with Europe. On the security front, the United States and Europe must divide and conquer. The United States needs Europe to enhance its military capabilities to better provide for its own security and defense (and take on a greater role in places like North Africa). This will free up the United States to focus its efforts on the Indo-Pacific. Outside the security realm, the United States and Europe must stand together. The United States needs Europe as a partner to confront China on economic, democracy, and human rights issues globally.

Working effectively with Europe to address a rising China (and an assertive Russia) requires a "New Deal." As Europe plays a greater role in security and defense and in confronting China, Europe will in turn expect to have the latitude to pursue the policies of its choosing in other dimensions. Some of these policies might diverge from those of Washington. Washington will have to accept that greater European autonomy will inevitably transform the transatlantic alliance.[1]

While the transatlantic relationship will have to evolve, there are certain dimensions which must be upheld. The United States and Europe must recommit to the democratic foundations upon which the partnership rests. Research shows that not only do democratic countries enjoy unusually good relations, but that democracy is the foundation for resilient alliances. Upholding our shared commitments to democracy, in other words, will be key to sustaining strong and effective alliances in Europe. Likewise, upholding democracy will be key to maintaining the West's competitive edge. Other ways of building influence, through economic coercion (China) or military might (Russia), for example, are expensive, unsustainable, and unpopular.[2] The West's ability to shape and influence the world through the power of attraction and shared values, rather than coercion and payments, will be key to the United States' continued, long-term global success.

Washington must realize that now is the time to engage Europe on the China challenge. In the last two years—and particularly in recent months—Europe has grown more attuned to and concerned about China.[3] There is a growing appreciation that the "balance of challenges and opportunities presented by China has shifted" and that China represents a "systemic rival promoting alternative models of governance."[4] A number of factors have driven this change. The implementation of Made in China 2025—a ten-year plan to speed the development of high-tech industries—and several Chinese takeovers of sensitive European firms have convinced many Europeans that China is unlikely to reform its economy or allow greater access to its markets. The increasing personalization of the Xi regime, the human rights crisis in Xinxiang, and the growing surveillance of its citizens have clarified the repressive and authoritarian nature of the current Chinese regime.

China's Goals of Concern in Europe

As with other authoritarian regimes, the Chinese Communist Party's (CCP) approach to Europe is motivated by its desire to maintain its hold on power. To that end, China pursues a number of goals

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[1] Benjamin Haddad and Alina Polyakova, "Is Going It Alone the Best Way Forward for Europe? Why Strategic Autonomy Should Be the Continent's Goal," *Foreign Affairs*, October 17, 2018, https://www.foreignaffairs.com/articles/europe/2018-10-17/going-it-alone-best-way-forward-europe.
[2] Stephen M. Walt, "Alliance Formation and the Balance of World Power," *International Security* 9, no. 4 (1985): 3–43. See also Andrea Kendall-Taylor and Julie Smith, "The United States' Greatest Strength Over Russia and China Is Its Alliance with Europe," Text, The National Interest, November 9, 2018, https://nationalinterest.org/feature/united-states-greatest-strength-over-russia-and-china-its-alliance-europe-35782.
[3] See Andrew Small, "Why Europe Is Getting Tough on China," *Foreign Affairs*, April 3, 2019, https://www.foreignaffairs.com/articles/china/2019-04-03/why-europe-getting-tough-china.
[4] European Commission, High Representative of the Union for Foreign Affairs and Security Policy, "EU-China – A Strategic Outlook" (Brussels, Belgium: European Commission, March 12, 2019), https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.

in Europe intended to support regime stability. I highlight those goals that are of most concern to U.S. interests.

1. ***Increasing economic opportunities—especially those that translate into greater political influence.*** Beijing is interested in a stable, albeit malleable, EU and the large single market that underpins it.[5] The Belt and Road, for example, offers an outlet for excess industrial capacity, and connectivity to European markets can accelerate growth in China's outlying, underdeveloped provinces.[6] But more than just its pursuit of economic interest, Beijing also seeks to translate its economic influence into lasting diplomatic leverage in Europe, as it does in other regions of the world.

2. ***Using investment to secure support—or at least prevent the EU from taking a unified position against—China's interests.*** China feels it is increasingly able to prevent European nations from taking action that directly violates China's core interests, including on human rights issues like Tibet, on Taiwan issues, and on the South China Sea. The Xinjiang issue only underscores for China the continued importance of cultivating European countries to prevent trouble at the UN and elsewhere. Greece, for example, blocked an EU statement at the United Nations criticizing China's human rights record in 2017, almost certainly because of China's growing economic investment in the country.

3. ***Undermining Western cohesion.*** Beijing realized early on that its rising economic clout would lead other countries to balance against it. China, therefore, has sought to keep Europe "on the fence" by preventing Europe from firmly aligning with the United States—a dynamic that has become increasingly important as the United States has taken a harder line on China. Alignment between China and the EU on issues like climate change, multilateralism, and the Iran nuclear deal provide fodder for their cooperation. Moreover, disagreement within Europe and between Europe and the United States diminish the attractiveness of the Western democratic model and enables China to portray its centralized authoritarian model as more effective than the divisiveness that democracy brings.

4. ***Weakening global democratic norms.*** China, like Russia, views liberal democracy as a threat to regime stability and considers Western efforts to promote it as little more than thinly veiled attempts by the West to spread influence. Central in this shared view is the belief that weakening democracy can accelerate the decline of Western influence and advance both China's and Russia's geopolitical goals. China seeks to cultivate relationships with European countries to gradually get them to acquiesce to China's efforts to neuter democracy and human rights protections at the UN and remove the "liberal" from the global order.

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[5] Thorsten Benner and Thomas Wright, "Testimony to U.S. China Economic and Security Review Commission, Hearing on: "China's Relations with U.S. Allies and Partners in Europe and the Asia Pacific"," § U.S. China Economic and Security Review Commission (2018), https://www.uscc.gov/sites/default/files/USCC%20Hearing_Thorsten%20Benner%20and%20Thomas%20Wright_Written%20Statement_April%205%2C%202018.pdf

[6] Daniel Kliman and Abigail Grace, "Power Play: Addressing China's Belt and Road Strategy" (Washington, D.C.: Center for a New American Security, September 2018).

5. ***Accessing innovation.*** China seeks to dominate the innovation industries of the future. China views technological innovation as central to domestic economic growth and military modernization—Xi seeks to transform the People's Liberation Army into a fully modernized force by 2035. Beijing seeks to use Europe as a source of technology, intellectual property, and talent that it can use to upgrade its industrial capacity, especially in domains in which it has not yet established its own technological leadership.

China's tactics in Europe

China pursues the following tactics and approaches to advance its goals in Europe:

1. ***Using divide and rule tactics to weaken European cohesion.*** China is undermining the EU by negotiating with European governments bilaterally and through the 16+1, which facilitates China's ties with Central and Eastern European countries (11 of which are EU members). Likewise, the Belt and Road Initiative is weakening European cohesion on China policy as less-wealthy countries in Southern and Eastern Europe welcome Chinese investment while Western Europe and Brussels remain cautious. Italy's endorsement of the Belt and Road in March 2019 introduced another obstacle to European cohesion on China.

2. ***Leveraging U.S.-European fissures.*** China is leveraging tensions in the Western alliance over U.S. economic policies, including sanctions on European countries and Washington's approach to the trade war with China, climate change, multilateralism, and the Iran nuclear deal to paint itself as the responsible player on these issues.

3. ***Building support for pro-China positions.*** The Chinese government advances support for its policies by suppressing voices beyond China's borders that are critical of the Chinese Communist Party and promoting supportive ones. Beijing fosters networks among European politicians, businesses, media, think tanks, and universities to create layers of active support for Chinese interests. These efforts span from the overt to the covert.[7]

4. ***Opportunistically leveraging vulnerabilities to expand ties.*** China has gone after country-specific vulnerabilities to increase its economic footprint. Broadly speaking, China has leveraged economic crisis (Greece), disenchantment with the persistence of unequal development across the European Union (the 16+1 countries), the discontent of illiberal leaders who are frustrated with Western conditions for aid and investment (Serbia), and pressure to find new economic partners post-Brexit (the UK) to expand its influence.

5. ***Acquiring European know-how to enhance the competitiveness of Chinese products.*** China is acquiring foreign technology through legal and illegal means with the objective of dominating the innovation industries of the future. China uses a range of tools to access European innovation, including selective foreign investment, by importing technology and talent through mergers and acquisitions—for example a Chinese firm acquired German high-tech

[7] Benner and Wright, "Testimony to U.S. China Economic and Security Review Commission, Hearing on: "China's Relations with U.S. Allies and Partners in Europe and the Asia Pacific."

robotics manufacturer Kuka in 2016—or joint ventures with Western firms. Industrial espionage is also a tool in the Chinese innovation toolbox.

6. ***Generating synergies with Russia that amplify their individual efforts.*** Relations between China and Russia are deepening. The growing alignment of their values and vision of how the world should be ordered raise the prospects that Moscow and Beijing will increasingly coordinate their efforts to undermine U.S. influence. Already, Russian and Chinese foreign policy tactics are converging in Europe in new and synergistic ways. Although their approaches are different—Russia is brazen and China more subtle and risk-averse—and seemingly uncoordinated, taken together, they are having a more corrosive effect than either would have single-handedly.[8]

Implications of China's increasing economic and political influence

China's growing economic influence in Europe will translate into political leverage. As China's economic and political influence grow, it is likely to impact the following U.S. interests in Europe.

1. ***U.S. prosperity and competitiveness.*** If China's influence continues to grow, it would pose a direct threat to U.S. prosperity and competitiveness. Greater Chinese economic and political influence would facilitate China's efforts to change the economic and legal rules of the game and other standards in ways that privilege Chinese interests. In particular, a lack of U.S.-European cooperation on China's illegal and unfair trade and investment practices would compromise America's position as an innovation leader, which is so central to U.S. economic dynamism. Likewise, a lack of coordination with Europe on trade rules would facilitate a China-centric economic order that privileges Chinese firms at the expense of U.S. companies.

2. ***Values and norms.*** China's rapidly increasing political influencing efforts in Europe and the self-confident promotion of its authoritarian ideals pose a significant challenge to America's way of life. Although China's economic investments address a genuine demand for infrastructure, Beijing's strategy is designed to lay the foundation for an alternative order and is already eroding international norms and standards. If China's influence continues to grow, Beijing will seek to have a greater say over rules governing data and privacy, Internet freedom, AI, and governance.

   The complementarity of China and Russia's actions in Europe is especially problematic for democracy.[9] Russia's assault on democratic institutions, including electoral interference, the spread of corruption, and disinformation campaigns, weakens some actors' commitment to democracy. But it is the alternative model of success that China provides and, more importantly, the revenue it brings to struggling governments that give weak democracies the capacity to pull away from the West. In a similar way, China's engagement would likely be less potent without Russian efforts to weaken democratic institutions and loosen commitment to democracy. As

[8] Andrea Kendall-Taylor and David Shullman, "How Russia and China Undermine Democracy: Can the West Counter the Threat?," *Foreign Affairs*, October 2, 2018, https://www.foreignaffairs.com/articles/china/2018-10-02/how-russia-and-china-undermine-democracy.
[9] Kendall-Taylor and Shullman, "How Russia and China Undermine Democracy: Can the West Counter the Threat?"

China and Russia continue to pursue their shared values and goals, Western democracy will be tested.

3. ***NATO.*** China does not pose a direct military threat to NATO. Nonetheless, Beijing's growing presence poses challenges that the Alliance will have to address. Most importantly, China's investment in European infrastructure has the potential to interfere with NATO mobility—the ability for NATO to move its troops, tanks, and other equipment across Europe—which is a critical issue that NATO Allies are working to improve. China has significantly increased its investment in European ports, most notably in Greece's Port of Piraeus where the state-owned China Ocean Shipping Company owns a majority share of the port. China's investment in other infrastructure, like rail, could also diminish NATO mobility. If, for example, Chinese rail lines aren't built to carry heavy equipment, this too would hinder NATO mobility.

   In the longer term, a sustained deepening of Russia-China relations could create challenges for NATO. For example, Russia and China could coordinate the timing of hostile actions in their peripheries. If China made moves in the South China Sea at the same time that Russia made further incursions into Ukraine, it would seriously complicate U.S. forces'—and therefore NATO's—ability to respond effectively. Less directly, it is not hard to imagine a scenario in which China's economic tactics converge with Russian hybrid tactics in ways that could undermine Article 5. For example, China could use its control of key infrastructure like ports and rail to delay a NATO response. Beijing could also use the economic leverage it has amassed to quietly dissuade an already reluctant NATO member state from responding to a sub-Article 5 Russian attack, eventually serving to discredit the principle of collective defense.

4. ***5G.*** 5G will undergird most of the technical applications of the future, including artificial intelligence, the internet of things, self-driving cars, and smart cities.[10] Chinese government subsidies have allowed Huawei to unfairly undercut its rivals, which means that alternative technologies are nearly one-third more expensive, based on reported discounts of between 20 percent and 30 percent globally. Although less expensive, allowing China to build Europe's 5G network would introduce systemic risk from Chinese companies, making Europe more vulnerable to intellectual property theft, weakened data privacy, hacking, and other disruptions. These vulnerabilities would enable China to continue to pillage technological know-how and other information that would enhance China's competitiveness.

   Moreover, allowing China to build Europe's 5G network would give Beijing influence over Europe's critical infrastructure and new opportunities for surveillance and cyber-espionage. There is a very real risk that vulnerabilities in networks, whether the result of poor security practices or the deliberate introduction of a backdoor or a bugdoor—a seemingly benign security flaw hidden in programming and that could be introduced via software updates—could be weaponized for leverage and coercive purposes, particularly in a crisis or conflict scenario. These vulnerabilities could undermine NATO efforts in Europe.

Policy recommendations

[10] Kara Frederick, "The 5G Future Is Not Just About Huawei," Foreign Policy, May 3, 2019, https://foreignpolicy.com/2019/05/03/the-5g-future-is-not-just-about-huawei/.

This Administration has rightly recognized that the United States must do more to stand up to Chinese threats to U.S. interests. But while building a national strategy around strategic competition is wise and warranted, the United States is falling short in its execution of that strategy. If the United States is going to retain its competitive edge over countries like China (and Russia), Washington must more effectively leverage its European Allies. The current shift in European attitudes towards China presents the United States with an opportunity to more effectively engage Europe on China.

In developing its response to China's rising influence, Congress should consider the following:

1. ***Enhance cooperation and coordination with Europe to combat China's unfair and illegal trade and investment practices.*** The United States and the EU command about 40-percent of the world's global economy. By pooling its resources and influence with Europe, the United States would be far better positioned to compel China to revise its economic policies. To enhance Washington's position vis-à-vis China, the United States should work with Europe to coordinate policies and approaches on: investment screening tools, including strategies and rules to protect indigenous research in sensitive sectors; export controls; and the alignment of tariffs.

2. ***Engage on norms in new spaces.*** The United States and the EU, along with democratic U.S. allies in Asia, should lead efforts to develop standards and rules for emerging domains, such as space, cyber, and artificial intelligence.[11]

3. ***Encourage EU and European defense and security initiatives.*** The United States should encourage EU and European efforts to enhance European capabilities, capacities, and readiness, including Permanent Structured Cooperation (PESCO), the European Defense Fund (EDF), and the European Intervention Initiative (E2I). These efforts are meant to complement, not undermine, NATO and would enable European nations to more efficiently and effectively pool resources to enhance their security. The United States, therefore, should encourage rather than discourage these efforts because they would better enable the United States to prioritize the Info-Pacific region.

4. ***Capitalize on growing disillusionment with the Belt and Road.*** There is already growing disappointment with the Belt and Road in Central and Eastern Europe. The recent 16+1 Summit in Croatia revealed growing disenchantment with China's inability to make its intentions clear, offer the assurances its partners needed, and ultimately to deliver on many of its promises.[12] The United States should take advantage of these concerns and continue to highlight the drawbacks and risks associated with some Belt and Road projects, including subpar labor and environmental standards.

5. ***Bolster the democratic resiliency of European countries most at risk of Chinese influence.*** This would include supporting the development of independent, in-country expertise

[11] Benner and Wright, Testimony to U.S. China Economic and Security Review Commission, Hearing on: "China's relations with U.S. allies and partners in Europe and the Asia Pacific."
[12] Andreea Brinza, "How China Blew Its Chance in Eastern Europe," Foreign Policy, April 11, 2019, https://foreignpolicy.com/2019/04/11/how-china-blew-its-chance-in-eastern-europe/.

on China and bolstering investigative journalism and civil society, which can shine a light on authoritarian influence and national leaders co-opted by it. The stronger a country's regulatory environment, civil society, political parties, and independent media, the less effective China's (and Russia's) attacks on democratic institutions will be, and the less appeal the authoritarian narrative and model will have.[13]

6. ***Work with Europe to provide alternatives to Chinese investment in Europe and beyond.*** The United States should coordinate with European allies and partners to prioritize locations and infrastructure projects in countries in Europe and beyond that are most at risk of predatory Chinese investment.[14] The United States and Europe should also work to develop international standards for high-quality infrastructure.

7. ***Enable the U.S. government to consider China and Russia together as well as separately.***[15] China and Russia represent their own distinct challenges to U.S. interests in Europe. But given the trend toward deepening China-Russia relations and the significant implications that a more robust partnership would pose to U.S. interests, policymakers will have to account for the ways in which these powers are working together. The U.S. government is not institutionally configured to deal with the challenge posed by greater collaboration and coordination between Russia and China. There is expertise on Russia and China, but there are few if any efforts that analyze and address the nexus of the combined challenges and threats.

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[13] Kendall-Taylor and Shullman, "How Russia and China Undermine Democracy: Can the West Counter the Threat?"
[14] Kliman and Grace, "Power Play: Addressing China's Belt and Road Strategy."
[15] Robert Sutter, "U.S. Policy Opportunities and Options," in *Axis of Authoritarians: Implications of China-Russia Cooperation*, ed. Richard J. Ellings and Robert Sutter (Washington, D.C.: National Bureau of Asian Research, 2018).

Biography

Andrea Kendall-Taylor
Senior Fellow and Director of the Transatlantic Security Program, Center for a New American Security

Andrea Kendall-Taylor is a Senior Fellow and Director of the Transatlantic Security Program at the Center for a New American Security (CNAS). She works on national security challenges facing the United States and Europe, focusing on Russia, populism and threats to democracy, and the state of the Transatlantic alliance.

Prior to joining CNAS, Andrea served for eight years as a senior intelligence officer. From 2015 to 2018, she was Deputy National Intelligence Officer for Russia and Eurasia at the National Intelligence Council (NIC) in the Office of the Director of National Intelligence (DNI). In this role Andrea led the U.S. intelligence community's strategic analysis on Russia, represented the IC in interagency policy meetings, provided analysis to the National Security Council, and briefed the DNI and other senior staff for White House and international meetings. Prior to joining the NIC, Andrea was a senior analyst at the Central Intelligence Agency (CIA) where she worked on Russia and Eurasia, the political dynamics of autocracies, and democratic decline.

Andrea is an adjunct professor at Georgetown University's School of Foreign Service. Her work has been published in numerous political science and policy journals, including the Journal of Peace Research, Democratization, Journal of Democracy, Foreign Affairs, the Washington Post, the Washington Quarterly, and Foreign Policy.

Andrea received her B.A. in politics from Princeton University and her Ph.D. in political science from the University of California, Los Angeles. She was a Fulbright scholar in Azerbaijan and Kazakhstan, where she conducted dissertation research on oil and autocracy.

Mr. KEATING. Thank you very much.
Dr. Cooper?

STATEMENT OF ZACK COOPER, RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. COOPER. Chairman Keating and other distinguished committee members, it is an honor to join you today. I believe that the growing transatlantic divide on China policy is a serious challenge not just for our policy on Europe, but also for broader American grand strategy. Our greatest strength in the competition with China is our global network of allies and partners and increasingly we are finding that network put under pressure.

The good news is that there is an emerging and largely bipartisan consensus in Washington on the challenges that the Chinese Communist Party poses. The bad news, however, is that this consensus is not yet shared with many of our European allies. Furthermore, there is still no agreement either on this side of the Atlantic or the other or on the Pacific as well about what kind of China strategy we should be pursuing.

Although the United States has identified China as a strategic competitor, it has not yet adopted a clear set of objectives for that competition. In my written testimony, I describe three areas that are undermining transatlantic unity on China, Chinese investments with noncommercial aims, targeted technology acquisition, and coercive economic Statecraft. Most notably, our European allies, as has been discussed, have largely chosen a strategy of mitigation rather than exclusion with regard to the Belt and Road Initiative and 5G infrastructure as evidenced by recent decisions in London, Berlin, Rome, and elsewhere.

During a recent trip to Europe to discuss Chinese activities on the continent, European leaders expressed concern and frustration with some U.S. policies. In particular, they singled out the administration's criticism of allies and its embrace of unpredictability as sources of concern. These divisions make clear that we must do more to fashion a united transatlantic strategy on China.

And with this in mind, I want to suggest three ways in which the Congress could help bridge the transatlantic divide on China. First, Congress could work with the administration to empower our allies and partners to better mitigate the risks of Chinese investment and broader economic Statecraft. Many countries are choosing to accept Chinese investments and infrastructure and technology regardless of U.S. objections. We may not agree with these decisions, but we should be helping to mitigate the risks. Therefore, Congress could work with the administration to help provide greater technical assistance to allies and partners, not just in Europe but elsewhere, to help them manage Belt and Road and 5G technology challenges.

Second, Congress could encourage cooperation with allies and partners on an overall China strategy with clear aims and objectives. We should forge a common position on critical issues such as intellectual property theft, market access, technology standards, foreign investment review, and human rights concerns. I am encouraged that the House Foreign Affairs Committee is holding five hearings this week on China alone and its role globally, and U.S.

strategy on China in particular, and I think including allies and partners in these discussions is absolutely critical.

Third, Congress could continue to forge a bipartisan consensus on China and increasingly to try and broaden that consensus by including the American people in the debate. The BUILD Act, FIRRMA, and the Asia Reassurance Initiative were all important signals of America's ability to execute a coherent long-term strategy. But polls suggest that a gap is emerging between views in Washington and those in much of the rest of the country. Discussing China policy more directly with constituents would ensure that our policies are supported not just inside Washington, but outside as well.

And, finally, while we must be clear-eyed about the challenges that China poses. We should always acknowledge that our concerns have to do with the actions of the Chinese Communist Party, not with the aspirations of the Chinese people. Upholding the principles of freedom, democracy, and rule of law will strengthen our united position and send a clear signal about the seriousness and the sustainability of our strategy.

So I thank you for holding this important hearing and providing me the opportunity to testify, and I look forward to your questions.

[The prepared statement of Mr. Cooper follows:]

AMERICAN ENTERPRISE INSTITUTE

Statement before the House Foreign Affairs Committee
Subcommittee on Europe, Eurasia, Energy, and the Environment
on China's Expanding Influence in Europe and Eurasia

Bridging the Transatlantic Divide on China

Zack Cooper
Resident Fellow, Asian Studies

May 9, 2019

Chairman Keating, Ranking Member Kinzinger, and other distinguished committee members, it is an honor to join you today to discuss China's expanding influence in Europe and Eurasia.

I believe that the growing transatlantic divide on China policy poses a serious challenge—not just for America's relationships with its European allies and partners, but for US grand strategy more generally.

The United States' greatest strength in the competition with China is our global network of alliances and partnerships. It is vital that the United States pursue policies that unite these allies and partners in support of our shared interests and a rules-based international order.

In my view, the greatest challenge to a united transatlantic approach is the growing influence of Chinese economic statecraft in Europe. In my comments, I will focus in particular on two elements of Chinese economic statecraft—the Belt and Road Initiative and 5G technology—that are producing discord in our transatlantic relationships.

I should note at the outset that Congress has long shown leadership on Asia policy, most recently through the bipartisan BUILD Act, the Asia Reassurance Initiative Act (ARIA), and the Foreign Investment Risk Review Modernization Act (FIRRMA). To this end, I will suggest a number of actions that Congress might consider to bridge the transatlantic divide on China.

The Transatlantic Divide on China

Over the past two years, the US debate on China has changed rapidly. The good news is that there is an emerging and largely bipartisan consensus in Washington on the challenge that the Chinese Communist Party poses. The bad news, however, is that this consensus is not yet shared with many of our allies in Europe.

Furthermore, there is still no agreement on either side of the Atlantic (or the Pacific, for that matter) about what China strategy we should pursue. Although the United States has identified China as a strategic competitor, it has not yet publicly adopted a clear set of objectives and desired end states for its China policy.

Without a clear set of US objectives, many European allies and partners have found themselves unsure of how to respond to China's rise. Recently, the Trump administration has attempted to convince European countries to reject China's Belt and Road Initiative as well as Chinese companies' involvement in domestic 5G networks. To date, however, both of these efforts have had mixed results, at best.

During a recent trip to several European capitals to discuss Chinese activities on the continent, European government officials and business leaders expressed frustration with US policies. In particular, they singled out the administration's criticism of allies and its embrace of unpredictability as sources of deep concern.

My view is that the center of gravity in the US competition with China is the alignment of key regional and global players. If this is right, then the success of our policies on China should be judged largely by their effectiveness in building a robust coalition of like-minded countries. The divisions between the United States and our European allies and partners make clear that we must do more to build an effective transatlantic strategy on China.

The Role of Chinese Economic Statecraft

China's economic statecraft poses the greatest challenge to a united American and European strategy. In recent years, Beijing has developed a series of economic strategies designed to pursue its security and economic interests, often at the expense of the United States and its allies and partners. China has undertaken both licit and illicit activities in the following areas:

Investments with Noncommercial Aims. Some Chinese investment practices pose strategic challenges for the United States and its partners because they aim to fulfill state objectives—such as the Communist Party's political or military objectives—rather than commercial ends.

- *Geostrategic Influence Accumulation.* Some Belt and Road projects appear to be motivated by a geostrategic logic, providing leverage over decision makers in recipient countries.

- *National Champion Industries.* China often uses its industrial policies to support domestic industries at the expense of foreign firms, including in sectors with military applications.

- *Dual-Use Facilities.* Some Chinese infrastructure investments have multiple possible uses, providing China with potential overseas military basing options.

Example: China has used its economic leverage with individual European Union member countries to restrict statements on human rights and others contentious issues. In 2017, the EU drafted language criticizing China for its human rights record. The statement was intended to be released at the United Nations Human Rights Council, but for the first time the EU failed to agree on a public statement. Public reports suggested that Greece and Hungary led efforts to block the statement, with the Greek foreign minister opposing "unconstructive criticism of China." Both countries took similar actions in 2016 to prevent an EU statement criticizing China's South China Sea policies. After one successful Greek intervention, the Chinese Foreign Ministry publicly congratulated "the relevant EU country for sticking to the right position." Observers believe that Chinese funding for projects in Greece and Hungary have provided Beijing leverage to disrupt a united European policy on China. Some worry that China could use additional leverage through the emerging "17+1" grouping or other bilateral and multilateral ties to similarly divide Europe.

Targeted Technology Acquisition. China's theft or forced transfer of intellectual property and technology is a growing concern among governments and businesses worldwide, but it has been a particular concern in the United States and Europe.

- *Industrial and Cyber Espionage*. China has engaged in commercial espionage, including state-directed hacking, to strengthen domestic industries. Chinese technology companies and state-owned enterprises have reportedly assisted in some of these activities.

- *Disguised Capital Funds and Shell Companies*. Chinese involvement in acquisitions and investments, particularly in high-technology startups, have allegedly been hidden to obscure ties to foreign organizations.

- *Market Access Restrictions*. Many companies have been forced to choose between Chinese market access and the transfer of critical technologies or trade secrets to Chinese firms.

Example: Germany and China are engaged in a high-technology economic competition as China attempts to execute its Made in China 2025 vision, which is modeled on Germany's Industrie 4.0 plan. German experts have suggested that China has conducted industrial espionage against the car manufacturing, renewable energy, chemistry, communications, optics, X-ray technology, machinery, materials research, and armaments industries. Several cases of Chinese espionage have reached German courts, and many other cyber intrusions have been reported against German companies. Yet, most incidents do not reach the press because companies do not wish to disclose their vulnerabilities or risk business opportunities in China. In recent years, the German government has taken more aggressive defensive steps, including publicly stating that a Chinese hacking group was behind intrusions against high-technology German firms. In just one month, a single German telecommunications firm reported more than 30,000 Chinese cyber intrusions. Similar behavior also continues elsewhere in Europe and around the globe.[1]

Coercive Economic Statecraft. China has used its economic influence—including Chinese market access—to pressure foreign leaders, presenting a strategic challenge to its trade partners.

- *Deliberate Corruption Campaigns*. China has allegedly paid individuals and interest groups to influence political processes in foreign countries, including on US territory.

- *Deniable Trade Measures*. China has engaged in disguised embargoes and boycotts to influence foreign businesses and governments on security matters.

- *Explicit Economic Pressure*. China has openly used economic leverage to force other countries to alter their foreign policies, often pressuring specific foreign companies and sectors.

Example: In 2010, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo. At the time, Liu was in jail for "inciting subversion of state power" by calling for political reforms in China. In response to the Nobel Prize award, the Chinese government

[1] For a deeper discussion of Chinese economic statecraft, see Zack Cooper, *Understanding the Chinese Communist Party's Approach to Cyber-Enabled Economic Warfare*, Foundation for Defense of Democracies, September 2018, http://www.fdd.org/analysis/2018/09/05/understanding-the-chinese-communist-partys-approach-to-cyber-enabled-economic-warfare.

instituted economic punishments against Norway. Subsequently, the Norwegian Seafood Council claimed that Norway's share of the Chinese salmon market fell from 92 percent to 29 percent. Furthermore, Beijing stopped negotiations with Oslo on a free trade agreement, and China reportedly denied some Norwegian individuals visas. Relations between the two countries did not improve until 2016, when Chinese Foreign Minister Wang Yi stated, "Norway deeply reflected upon the reasons why bilateral mutual trust was harmed, and had conscientious, solemn consultations with China about how to improve bilateral relations." A Norwegian scholar concluded, "The Chinese government can effectively use economic sanctions to affect the foreign policy positions of democratic governments... China has become too big to fault." China has conducted similar economic coercion campaigns against most US allies in Asia, so we should expect that these types of activities will continue and could increasingly target Europe.

Bridging the Transatlantic Divide on China

Many policymakers in Washington are deeply concerned about the impact of Chinese economic statecraft, both at home and abroad. In particular, China's Belt and Road Initiative and the growing role of Chinese companies in 5G networks have triggered substantial anxiety. For a variety of reasons, Chinese companies are unlikely to build major infrastructure or 5G networks in the United States, so the focus has shifted to Chinese activities in Europe and elsewhere.

Most European countries have taken a different approach; they are focused on mitigation rather than exclusion. For example, the United Kingdom and Germany appear to be adopting mitigation strategies with regards to Chinese involvement in 5G networks. And Italy has recently become the first G7 country to sign on to the Belt and Road Initiative. Smaller European powers have also welcomed Chinese investment and sought to mitigate the risks, with varying levels of success.

How can Congress ensure that the United States and Europe develop a more unified approach on China?

First, Congress could work with the administration to *empower our allies and partners to better mitigate the risks of Chinese economic statecraft*. Many countries are choosing to accept Chinese investment in infrastructure and technology, regardless of US objections. Therefore, the United States should help our allies and partners to better mitigate the risks inherent in these types of projects. In a recent report, I worked with scholars from the Center for a New American Security and the Brookings Institution[2] to describe seven concerns with Chinese infrastructure projects:

- *Erosion of National Sovereignty*. In a number of cases, Beijing has obtained control over foreign infrastructure through equity arrangements, long-term leases, or multi-decade operating contracts.

- *Lack of Transparency*. Many projects feature opaque bidding processes and financial terms

[2] Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, *Grading China's Belt and Road*, Center for a New American Security, April 8, 2019, http://www.cnas.org/publications/reports/beltandroad.

that are not subject to public scrutiny.

- *Financial Unsustainability.* Chinese lending has sometimes increased the risk of debt default or repayment difficulties, while certain completed projects have not generated sufficient revenue to justify the cost.

- *Local Disengagement.* Projects often use Chinese firms and labor for construction, which does little to transfer skills to local workers, and sometimes projects involve inequitable profit-sharing arrangements.

- *Geopolitical Risks.* Some projects financed, built, or operated by China compromise the recipient state's telecommunications infrastructure or security architecture.

- *Environmental Damage.* Some projects have proceeded without adequate environmental assessments or have caused severe environmental damage.

- *Corruption.* In countries that already have high levels of kleptocracy, Chinese projects have reportedly involved payoffs to politicians and bureaucrats.

To guard against these dangers, Congress should work with the administration to ensure that our allies and partners have access to technical assistance and support in their negotiations with Beijing and with Chinese enterprises. The goal should be to ensure that any Chinese projects adhere to the same standards and expectations that we would have of other actors. This means that countries should permit only high-quality projects that are sovereignty upholding, transparent, financially sustainable, locally engaged, geopolitically prudent, environmentally sustainable, and corruption resistant. Funding additional engagement by experts capable of providing technical assistance in Europe and elsewhere could therefore prove highly beneficial.

Second, Congress could help *encourage cooperation with allies and partners on an overall China strategy.* The lack of agreement, not only between the United States and Europe but also among other allies and partners, threatens our ability to protect our interests and uphold the rules-based international order. Too often we have allowed China's strategy to divide the United States from some of its allies and partners. Nowhere has this been more evident than in Europe over the past few years. China has been nimble in adapting its messaging, so we must also be more deft in our diplomacy.

Congress has an important role to play in forging a new strategy, and I am greatly encouraged that the House Foreign Affairs Committee is holding five hearings this week alone on China's global role and US strategy. Broadening these efforts by including allies and partners in these discussions is a logical next step. At the end of the day, Europe and the United States share similar interests regarding intellectual property theft and market access restrictions in China. We should be working together through the World Trade Organization and other international organizations—including the G7—to forge a common position on these issues. Similarly, we should be coordinating closely on technology standards, foreign investment restrictions, and

human rights concerns. Congress has a central role to play in these discussions, and I am encouraged by this committee's renewed focus.

Third and finally, Congress should *continue to forge a bipartisan consensus on China policy and to broaden that consensus by directly engaging the American people*. Our allies and partners want a consistent approach that endures across the US government and from administration to administration. In this regard, the BUILD Act, ARIA, and FIRRMA are important signals of America's ability to execute a coherent long-term strategy. Ensuring that China policy remains an area of largely bipartisan agreement is crucial to retaining the support of allies and partners; it should therefore be a top priority in the years ahead.

One area of particular concern is whether a gap is opening between Washington's views of China and perspectives in the rest of the country. Several recent polls have found that the American public is less concerned about China's rise than are leaders in Washington. Therefore, American political leaders must discuss China policy directly with their constituents. This would help ensure that our China policy is broadly understood and supported not just inside Washington, but outside as well.

Congress and the administration's recognition of the long-term character of strategic competition with China has been commendable and underscores the importance of securing the enduring support of the American public at large. While we must be clear-eyed about the challenges, we should also acknowledge that our concerns have to do with the actions of the Chinese Communist Party, not the aspirations of the Chinese people. Upholding the principles of freedom, democracy, and rule of law will strengthen our position in this long-term competition. Doing so will also send a signal about the seriousness and sustainability of a more realistic approach to China's rise and set American policymaking on a surer footing over the long term.

Thank you for holding this important hearing today and providing me the opportunity to testify. I look forward to your questions.

Mr. KEATING. Thank you, Dr. Cooper. I will now recognize myself for 5 minutes for questions.

And I would like to get back to what I mentioned in the opening statement that about the screening process that is now underway, and in particular what can the U.S. do, if anything, to be more influential in that process themselves so it is just not a unilateral EU process in screening?

Mr. Le Corre?

Mr. LE CORRE. Thank you, Mr. Chairman. I do believe the lack of information has been an issue for the past few years when it came to Chinese investments in Europe and infrastructures, especially in ports, airports fields. I do believe there is a lack of knowledge about the political system in China as well as the economic strategy. The Belt and Road Initiative which has been mentioned a few times already today is still a fairly vague project that originally targeted Europe, but now is looking at across the world.

And I think some of the sort of work that has been done in Washington and other parts of America on sort of looking forward to this new superpower that is China, it could be, you know, it could be shared with Europeans where the level of sinology, unfortunately, is not what it was. So, generally, I think more information on what China is about and on the risks in the technology fields, for example, as well as infrastructures, what it would mean to have, you know, the Suez Canal——

Mr. KEATING. So, essentially, it is information from us that——

Mr. LE CORRE. Yes.

Mr. KEATING [continuing]. Would be helpful as well.

So, I am just curious too, just anyone that might want to comment on this. It was referenced about Italy's decision as just being a memorandum of understanding and trying to downplay that. But what risks does that take and with Italy moving forward? Anyone that wants to jump in on that would be helpful.

Dr. Cooper?

Mr. COOPER. Yes, so I was just in Rome right after the decision on the memorandum of understanding was made, and I think Philippe is absolutely right that, yes, it is just a memorandum of understanding and the real question will be what kinds of projects do we see the Italians engaging in.

But I think the question that many of us should be asking is whether the Italian Government has the support it needs to actually be able to provide the oversight for those projects. And when I was in Rome, there were a lot of questions asked about the government's ability to do that and so this is where I think we can be very helpful. We know a lot about some of the challenges we have seen with Belt and Road, with the lack of transparency, with environmental protections, financial arrangements, and we should be helping our allies like Italy that are engaging in Belt and Road projects so that they make sure that, fine, they sign a memorandum of understanding, but let's actually make sure that the projects they get are high-quality, high standards, just like the projects that we would expect from any other country.

Mr. KEATING. Yes. It was mentioned too, if I could just skip topics too a little bit, would the reaction—I was just in Europe, I think, about 6 weeks ago, myself. And I cannot understate the feel-

ing of the European leaders—I do not think we recognize that fully—with the tariffs imposed. Not just the tariffs themselves, but the rationale that was given that they are a security risk of the U.S. and they are taking that to heart, frankly, and how deep is that fissure?

And, No. 2, if we move ahead with automobile tariffs or something, how much more deeply will the fracturing occur between the U.S. and the EU countries in that respect and what will be the ramifications, in your opinion?

Ms. Segal?

Ms. SEGAL. So, if I could also go back just to the question you asked about the concern or the implications of Italy signing the MOU, I would like to highlight the fact that it is a G7 country. And when we think about different mechanisms for coordination, to have what could be a potentially dissenting voice in the G7, I think, is another thing that is problematic.

As far as the impact of tariffs and how deeply it is felt, I have had a similar impression in our trips to Brussels and also to member States and I think, there, it is important to recognize that when Europe looks at the risks stemming from China, they may have less of a focus on national security risks as compared to the sentiment here in the United States, but there is more of an emphasis on the economic security risks.

And if their main concern with China is its ability to use its State-driven model and to push that out to distort global markets and trading relationships, the fact that the United States is then relying on tariffs imposed under the guise of national security, I think in their perception that has the same sort of distortive effect on the trading relationship and that is their rationale for why they see that so problematic.

Mr. KEATING. Great. My time is past and I will now recognize the ranking member, Mr. Kinzinger.

He was here a minute ago. The chair will recognize Representative Pence.

Mr. PENCE. Thank you, Chairman Keating and Ranking Member, for convening this. To all the witnesses, I say thank you for being here today.

Dr. Kendall-Taylor, I was very intrigued by an article you and your colleague, Dr. Shullman, wrote titled, "How Russia and China Undermine Democracy." In this article, you both wrote, "Russia and Chinese actions are converging to challenge a U.S.-led global order." You do not argue that China and Russia are acting in a coordinated manner with one another, but that their actions are converging in new and synergistic ways.

Your example of Serbia was well taken. I think you described quite well how Russian and Chinese actions there are destabilizing and reinforcing one another. While you and your co-author used Serbia as an example, it is not unique in facing this challenge. Russia and Chinese actions are undermining the sovereignty of countries across Europe. While this is something Europe is waking up to, I am concerned about the potential for Russia and China's currently uncoordinated and unintentional strategies becoming just that coordinated.

As you say in your article, "The countries' strategies have become mutually reinforcing in power, if perhaps unintended, in different ways." Dr. Cooper, you stated that Congress could help encourage cooperation with allies and partners on an overall Chinese strategy. Republican leader McCaul and Chairman Engel, Championing American Business Through Diplomacy Act, H.R. 1704, is a good step in countering Chinese debt-trap diplomacy and I am a proud co-sponsor of the legislation.

My questions are to all of you. What would be the implication for U.S. policy in Europe and beyond if the currently unintended efforts of Russia and China become unintentional, and what specifically should Congress's response be to a coordinated Russian and Chinese effort in Europe?

Ms. KENDALL-TAYLOR. Thank you for the question. I also share your concern. And of the issues that I think that I am looking at today, the growing relationship between Russia and China, I think, is one that causes me the most concern. So when we look down a whole kind of spectrum, all areas, all dimensions of their relationship, the trajectory is toward closer relations.

So in economic terms, China has become Russia's single, most important trading partner. They are the single, largest purchaser of Russian oil and gas. Military ties, Russia continues to sell China advanced military systems. They are exercising together for the first time with the Vostok–2018 exercise where Russian and Chinese soldiers exercise together.

Certainly, the political ties between Putin and Xi are very close, but it does not stop there. We increasingly see this grow into deeper levels of government in ways that provides, I think, a very kind of solid foundation. And the key is, so we have thought of this as an issue where Russia and China are united in their discontent, that they have these shared grievances, but my concern is that as we see these repeated interactions that this relationship turns into something more deep, meaningful, and sustainable.

And you can think about Russia's relationship with Iran as an example. That had historically been a relationship where there was significant mistrust. But given their interactions over the JCPOA and in close operations on the battlefield in Syria, that is now a very close relationship.

So my point is that it is because of the repeated interaction, this has the ability to turn into something. And I will also note that the DNI in his annual threat assessment has marked this as an issue where we are seeing increasing coordination and collaboration between the partners.

Simple solutions to drive wedges between them will be ineffective. Russia looks at the United States and is more suspicious and concerned about our efforts to destabilize his regime. There is a very immediate threat that he feels and the immediacy of that threat is more important than the much longer-term threat that I think he views coming from China.

And so, he would prefer to trade that risk and he has put his lot in with the Chinese. And particularly after 2014 he sees no opportunities in the West, and so I think you see Mr. Putin increasingly willing to become the junior partner. So given his deep sus-

picions of the United States, driving a master wedge between Russia and China is going to be a very difficult thing to do.

And so, I think this is an issue that needs more investigation and more thought because certainly labeling both as adversaries, although is an important and I think right strategy, it also has the unintended consequence, I think, of pushing them closer together.

So one of the things I highlight is to look for opportunities to drive mini-wedges, and so the Arctic could be one such place where they have interests that are at odds, perhaps in the Middle East where they compete for energy and military sales and other things. I think it is a series of things that the United States will do some kind of careful diplomacy I think will be required to put the brakes on the relationship.

And also, I highlighted in my testimony today for the Congress to enable the U.S. Government to look not just at Russia and at China, but to consider them in a combined framework so that we are thinking through how what we are doing might affect the relationship between them.

Mr. PENCE. Well, thank you, Doctor. I yield back.

Mr. KEATING. The chair recognizes the vice chair of the committee, Representative Spanberger.

Ms. SPANBERGER. Thank you very much, Mr. Chairman. Thank you to the witnesses today for being here.

To followup a little bit on what Dr. Kendall-Taylor has written, you recently wrote in the Foreign Affairs that empowering U.S. ally populations to stand up against foreign subversion would be the most effective weapon against Chinese and Russian influence. And the success of the strategy does rely on the strength of our historic transatlantic ties and our shared value.

But I am very concerned over the fact that of February 2019, Gallup poll across 133 countries showed that Chinese leadership had a higher approval rating than in the United States. And then in pivoting over to what Mr. Le Corre was saying, my question is as we are looking at many of the larger EU States such as France and Germany, and as they wish to adopt a coordinated EU approach to China that allows their countries to effectively stand up to China as an equal partner, and Mr. Le Corre in your testimony you talked about the European Commission's recently issued strategic outlook when they look at China as a systemic rival and a strategic competitor, my question is, what should the U.S. role be in supporting or facilitating the coordinated EU approach which would provide a greater opportunity to mitigate China's influence in Europe, and ideally by extension positively impact the United States' challenges that we are facing with China? And I will open it up to Mr. Le Corre or Dr. Kendall-Taylor or the other two witnesses as well.

Mr. LE CORRE. Thank you, Congresswoman. I think, you know, the EU remains the most efficient body that we have in Europe when it comes to advocating values and democracy and the rule of law and norms which are—in fact, Congressman Pence was referring to Serbia earlier. Serbia is not part of the European Union and that is one of the reasons why both Russia and China are using it as some kind of playing field.

In Western Europe and I would say in the whole of the EU, you have a difference set of values. And the fact that the high-speed train project between Hungary and Serbia has not even started has a lot to do with the fact the European Commission started an investigation in Hungary when Hungary did not actually go through the normal competition rules, and therefore on the Serbian side they have not even started either.

I think, you know, again the fact that all of the EU members supported the screening mechanism, supported the EU-Asia Connectivity Strategy is a sign that people are sort of waking up in many cases. I would say as well that if you look at things from a Chinese perspective, they are trying to sort of divide the EU by dealing with countries on a separate basis, the 16+1, now 17+1 mechanism, and a good example. The U.K. is another good example if the U.K. is to leave the European Union. And then they also tried to have a 5+1 mechanism with Southern Europe.

So by having the EU as a strong sort of entity—and the European Commission is actually mainly a trade body but is now handling investment quite interestingly, it was not part of its mission originally—I think that is the best thing that the United States could do.

Ms. KENDALL-TAYLOR. Maybe I will just chime in with a much broader point on the cohesion issue. And I mean, I think it is probably recognized here, but the cohesion and the unity between the United States and Europe is key. Both Russia and China want to break it. Those are both kind of explicit goals. Both Russia and China seek to break the transatlantic unity. And I think Russia, but especially China, realized very early on that its rise would trigger balancing in the West and it has done everything that it can to influence Europe to make sure that Europe sits on the fence.

The worst thing from China's perspective is if Europe is firmly aligned with the United States and so where there is that break in unity, that is a good-news story from China's perspective, because if the United States and Europe could combine our collective heft, we hold, the U.S. and the EU, 40 percent of global GDP. So if we are going to lean on China to change its unfair trade practices and all of these other things that we are so concerned about, it has got to come from a unified position.

And I think the problem is just as you say, the trust for the United States right now is really stymying cooperation, and what we see then in Europe is that they are looking to kind of go it on their own. So far, I think their attitude has been that they are going to look to improve their own capacity and not build a joint approach with Europe. And that is going to be problematic, because as China is putting pressure on both of us, if we fill some holes, they are going to pop up somewhere else. And so, you know, in terms of stealing technology and global supply chains it has got to be a unified approach.

Ms. SPANBERGER. Thank you very much. I am out of time. But I did want to State for the record that, Dr. Cooper, I will be submitting another question to you because I was particularly struck by your comment that there is a bipartisan consensus related to China within Washington, within the government, but we really

need to bring the American people into that conversation. I look forward to following up with you on that. Thank you. I yield back.

Mr. KEATING. The chair recognizes the ranking member, Mr. Kinzinger.

Mr. KINZINGER. Thank you, Mr. Chairman. And again, thank you all for being here. I will get right to it. The access to Chinese 5G from companies like Huawei in Europe remains a primary concern for the United States.

Dr. Cooper, what would 5G inclusion in NATO-member countries mean for transatlantic security?

Mr. COOPER. Well, I think we are going to see that it means when we are deploying forces abroad, especially flowing them through Europe, that there are going to be greater risks to those forces because Russia, potentially, could gain access to that information as Dr. Kendall-Taylor said. And the Chinese likely will have some access to that information depending on which parts of the 5G backbone Huawei and ZTE are involved in.

But I would say that I think that is going to be a reality. Even if the Brits and the Germans go along with us on 5G, which is looking unlikely at the moment, other countries in Europe are going to accept them. So we are going to have to come up with a mitigation strategy to manage that risk.

Mr. KINZINGER. Thank you. Expand a little on what the potential harm to NATO operations could be in that case.

Mr. COOPER. Well, there has been a statement recently by a number of retired four-star commanders both in Europe and in the Pacific suggesting that increasingly our forces will use battle networks that include 5G networks. Those 5G networks obviously it would be better if we and our allies and partners controlled them. I think the reality though is if you are looking in Eastern Europe, Huawei is already in a lot of those networks, inside the 3G and 4G networks, and they are definitely going to be inside the 5G networks that are going to buildupon them.

So the Chinese are going to have some access to technology about U.S. forces as they flow through Europe and maybe through Asia as well.

Mr. KINZINGER. There has been a controversy surrounding the firing of British Defence Minister Gavin Williamson as he took the fall for the leak of a potential deal between Britain and Huawei on 5G integration.

Dr. Cooper, what should this action tell us about Britain's relationship with China?

Mr. COOPER. Well, I do not know all the details and of course there has been a lot of speculation in the press about what happened with the firing. I think one question is what the decisions are being made within GCHQ on 5G technology. There has been some discussion that suggests that the British feel confident that they can manage the 5G challenge of having Chinese companies inside their 5G networks because they think they have been able to manage the 3G and 4G challenge. I think we do not know yet because we have not seen the public statements exactly where GCHQ has come out, but I hope that we will have a better understanding. And I know Secretary Pompeo is just returning from a trip to London to talk about those issues.

Mr. KINZINGER. And what do you think that means for the future of British and Chinese economic engagement on controversial topics?

Mr. COOPER. Well, there has been no question that the British have been trying to get increased Chinese investment in London. I think we have seen the same thing in Berlin and elsewhere and that is going to be a challenge. And we have seen this outside of Europe as well, where the Chinese have substantial economic involvement, they gain substantial leverage and they are often willing to use it.

And so, we should not be surprised when many of our friends are put in a difficult position and they are basically offered either Chinese investment or technology, or the decision to side with us on security issues. So I think increasingly our friends are going to be put in this kind of tough position and we are going to have to work to make sure that they make the decisions we want, but also that we keep the alliances together by not putting too much pressure on them politically that puts them in a difficult position.

Mr. KINZINGER. And Montenegro has seen their debt rise from 63 percent to 80 percent over the past few years as the result of a deal with China to construct a 103-mile long highway from the Adriatic to Belgrade. Unfortunately, the project is not complete and the IMF has warned Montenegro to avoid any further loans.

And a question again for you, Dr. Cooper, what would be the ramifications of China making Montenegro default on its loans for the bridge project?

Mr. COOPER. Well, this is the much-discussed debt-trap diplomacy question and I think many of us will have views. Some people think that we have not seen a lot of debt-trap diplomacy other than a few cases. But what we definitely have seen is an increase in debt that the Chinese often hold that allows them to gain access to infrastructure and in some cases to either gain leases for 99 years on that infrastructure or to basically take over ownership.

And so, we should all be very concerned, I think, about the kind of debt agreements that countries make in making sure that the recipient countries when they enter into agreements know whether they can handle the debt level or not. And I think in Serbia and Montenegro this has been one of the major issues with the Chinese investment. The debt levels are very high and it is not clear that the payoff and the infrastructure is going to be worth the sacrifice those countries are making.

Mr. KINZINGER. Thank you. And again, even though my questions were just to you, I thank all four of you for being here and providing your expertise. And I will yield back to the chairman.

Mr. KEATING. Thank you very much. The chair recognizes Representative Cicilline from Rhode Island.

Mr. CICILLINE. Thank you, Mr. Chairman. And thank you to you and the ranking member for this important hearing. Thank you to our witnesses.

I think we all recognize that the United States must have a clear-eyed approach to China that seeks cooperation where we can, but also ensure that we are able to compete where we must, and of course defend our interests where necessary. We have to be smart and we have to continue to invest in education, infrastruc-

ture, technology, and job training here at home and we need to work with like-minded countries in Europe and elsewhere to stand up for international norms, our rules-based world order, and defend fundamental human rights.

Sadly, working on a coordinated approach with Europe is difficult given the Trump administration's erratic policies and often confusing rhetoric toward Europe, but I think this is where Congress has a particularly important role to play and make clear that we will not allow any transatlantic rift to prevent transatlantic cooperation in the face of an emerging China.

And so, my first question is, the Chinese Government sponsors intellectual property theft through means such as forced technology transfer and cyber espionage and it has caused an estimated tens of billions of dollars in annual losses for American companies. Efforts by the United States thus far to deter these practices have had little or no impact. And I am wondering what steps European governments might be taking to address this issue if there is an opportunity for more cooperation between the United States and some of our European allies to help protect U.S. intellectual property.

Are there things that Congress should be doing in this regard? Maybe Dr. Taylor, if we could start?

Ms. KENDALL-TAYLOR. I do not focus explicitly on the kind of economic coercion side of this, but as we have been talking about with the investment screening mechanisms and the need for coordination between the United States and Europe, I would say that is kind of the most important, from my perspective, is that we are kind of sharing information about what the nature of the threat.

In a lot of these countries too there is not a lot of good capacity and area expertise on China, so kind of working with especially at the country level vice at the European level, if we are working at the national level of government, helping to build the capacity in-country to understand the nature of the threat to help improve their kind of national level legislation. But I think, really, it is the coordination piece that we are in lock-step so that we can break down that kind of squishing mechanism, I would say, or seeping mechanism.

Mr. CICILLINE. Thank you.

Ms. KENDALL-TAYLOR. But I will let my colleagues who might have some more specific ideas.

Mr. CICILLINE. Sure.

Ms. SEGAL. I would just add on trade-related issues and economic issues and I would include the protection of IP, that it is important then for the United States to be working with other like-minded countries. There is a trilateral mechanism between the United States, Japan, and the European Union to address a number of trade related issues including some in the digital economy space, and I think we need to leverage those mechanisms. Because as has been pointed out previously, our ability to influence China's behavior is going to be maximized by bringing together allies and partners and really isolating China when it is behaving poorly and is a bad actor.

Mr. LE CORRE. I would just add, Congressman, that the fact the Europeans and the Chinese are now looking at a bilateral invest-

ment treaty as are the Americans and the Chinese, although I understand it is not making much progress, is an interesting opportunity for both sides of the Atlantic to cooperate on IP as well as technology, the issue of technology transfers which is as damaging to European companies as to American companies.

And, in fact, referring to reports by the American Chamber of Commerce in China as well as the European Union Chamber of Commerce in China, you have the same feeling that companies are both affected, I mean on both sides affected by this issue. So I think it is the right moment to start a kind of conversation on norms and on market access.

And I understand there is some, you know, potential there from the Chinese side as well since the recent session of the Chinese Parliament that they might actually reduce technology transfer requirements to certain investments inside China.

Mr. CICILLINE. Thank you.

And, finally, Freedom House has ranked China as not free. And, actually, in Freedom House's 2019 survey of democracy around the world, China ranked as one of the least free countries in the world, as you know, stamping out dissent, throwing those who speak out in prison, and extraordinary surveillance and an effort to stamp out free speech and free thought, and while at the same time gobbling up lots of data about its citizens.

And as China emerges as a growing power, the United States, in my view, has to speak out against these violations of human rights. But sadly, in many instances, European Governments have been more vocal than the United States. I wondered if you would share what your thoughts are on the impact and the kind of message it sends when the United States fails to speak out forcefully and what can Congress do to promote stronger transatlantic condemnation of human rights abuses and the kind of role that as China's power rises and as they emerge, this human rights record of course has a greater impact on a greater number of people.

Mr. LE CORRE. Congressman, I think it is a serious issue that needs to be addressed and perhaps in the context of the G7. Unfortunately, the United Nations has become a complicated venue for big nations to express their views on this for reasons that were expressed earlier with, you know, interference and setting the role of China and Russia as permanent members of the Security Council.

I think, you know, again, in Brussels there is a will to express strong views on Xinjiang, on human rights records in China, and again there should be some kind of discussion on both sides of the Atlantic to make it a stronger stance.

Mr. CICILLINE. Thank you. I see my time has expired.

Thank you, Mr. Chairman. I yield back.

Mr. KEATING. The chair recognizes Mr. Wright from Texas.

Mr. WRIGHT. Thank you, Mr. Chairman. I thank all of you for being here today.

Ms. Segal, you mentioned something earlier that had been discussed a great deal and that is the impact of the tariff situation on our allies. We need to maintain strong alliances and not create a situation that would make dealing with China more appealing. At the same time, we have an obvious need to from time to time review all our trade agreements and trade situations to make sure

that they are working the way they were intended and, more importantly, to make sure that they are fair to the American people.

So how do you suggest we reconcile those two goals that we maintain strong alliances, but we also have these agreements that are fair to the American people?

Ms. SEGAL. Thank you very much for that question, because I agree a hundred percent with the fact while the U.S. is looking out for national security interests as it should, it also needs to look out for its economic security and its economic interests. My comment was more related to the mechanisms that we use, and in particular the mechanism of the 232 tariff is one that is based on a national security concern.

So to the extent that that is the rationale for the imposition of those tariffs, I think that is one of the pieces that is of concern to Europe, but also of concern to many of us that look at the impacts of that on the system. And here there are spill-over effects to the United States invoking national security concerns as the basis for a protectionist policy and there is concern that once the United States does that, that basically opens the floodgates for others to do it and to use it against us, which would be not in our best interest economically.

Mr. WRIGHT. Right.

Dr. Cooper, would you have any comment on that?

Mr. COOPER. Well, the only thing I would add is I was in Europe, and overnight before some of our meetings the U.S. Trade Representative put on tariffs on some of our European allies. And I have to tell you, it made the discussions the next day much more difficult on asking the Europeans to work with us on 5G and on Belt and Road. And so, I think everything that Ms. Segal said is exactly right. We have got to think hard before we put tariffs on our friends.

And I understand what the President's logic is, but the downside in Europe is that often it looks like the Chinese are coming with money and with technology and investment, and we have got to provide something positive in response and I just do not think tariffs are the right way to do that.

Mr. WRIGHT. OK.

And, Dr. Kendall-Taylor, I have a large Czech population in my district and I am co-chair of the Czech Caucus. And we know that the Czech President is very cozy with the Chinese, but that is mainly a ceremonial office. Do you see any—and I will also open this up to you, Mr. Le Corre—concern there that the President of the Czech Republic is so cozy with them?

Ms. KENDALL-TAYLOR. I think, broadly speaking, what is of concerning is where we see democratic backsliding in Europe leading to closer relationships with Russia and China. So even in the academic research there is some good research that demonstrates that kind of shared regime-type provides a solid foundation for cooperation. And so, when we are thinking about the democratic backsliding and the rise of populism in Europe, it is not just a democracy and human rights issue, it is a national security issue.

And I think we will have to be highly attuned to where we see some of this backsliding taking place, whether or not that is creating kind of shared foundation where maybe it did not exist before

for closer relationships between those countries and countries like Russia and China. So, yes, it is a concern.

Mr. WRIGHT. Thank you.

Mr. Le Corre?

Mr. LE CORRE. Thank you. If I may just add, I think there is actually a debate going on in Prague, a much stronger debate than in many European countries, about the relationship with China. The fact the Czech President has had dealings with China through a number of advisors, one of them being Chinese and currently under house arrest in China, has sort of raised an awareness among the media and the think tank community in the Czech Republic, which I think is quite healthy. On top of the fact the Czech Republic is in, you know, situated in the middle of Europe, Eastern Europe, and there is a new government, and the Prime Minister has expressed very different views about China and Russia than the President who, as you suggested yourself, is more of an honorary figure.

Mr. WRIGHT. OK, great. Thank you very much and I yield back.

Mr. KEATING. Thank you. The chair recognizes Representative Wild from Pennsylvania.

Ms. WILD. Thank you, Mr. Chair. And thank you to the witnesses for being here this morning.

I have, as I know many people do, significant interest and concern about cybersecurity and the use of surveillance by the Chinese. Recently, in my home district office, I was visited by a young family who are Uyghurs and—I think I am pronouncing that correctly—it was a husband, a wife, and their three young daughters, two of whom had been born in China, one of whom was born in Pennsylvania. And they described for me that the wife parents have been sent to a detention camp where they are—where they have both lost considerable weight, are receiving some kind of daily injections, are being generally mistreated.

They shared with me that the Uyghurs make up approximately 11–1/2 million of the Chinese population. And they described for me the use of facial recognition technology that is being widely used to recognize the Uyghur people and that according to them, many are being taken right off the streets of China and sent to these detention facilities, or I do not even know if that is the right word. I honestly knew nothing about this until I had the visit from these people.

But it caused me to do a little bit of followup reading and my understanding is that Chinese authorities and companies have developed and deployed tens of millions of surveillance cameras as well as facial, voice, iris, and other biometric collection equipment. And these technologies are believed to be used to target and track movements and internet use of ethnic Tibetans and Uyghurs, among others, and reports that I have seen suggest that Chinese companies have exported these kinds of systems to 18 countries at least.

So my question is this and for Dr. Cooper or Dr. Kendall-Taylor or whoever feels qualified to answer it, what are the risks associated with these Chinese exports especially with respect to jeopardizing information that we share, the U.S. shares with our allies in Europe, as well as with respect to global human rights and indi-

vidual privacy rights and what can we do in the cybersecurity and surveillance space to prevent this technology from being used in an abusive way?

Mr. COOPER. Well, thank you for the question, Congresswoman. I think this is an important issue and something we have not talked about enough in the last few years. And I think the human rights community has done an amazing job of bringing this to light and some pretty courageous journalists as well.

It is incredibly difficult to report now in Xinjiang. Even for the best reporters based in China, there are a lot of roadblocks to them reporting on the kinds of stories that you are talking about. And the U.S. Government's estimates at the moment are that between one and three million Uyghurs are in detention in northwestern China, which is a tremendous number of people, and it is hard to believe that this story hasn't garnered more attention. I think we do not——

Ms. WILD. That by the way was exactly my reaction.

Mr. COOPER. Yes, exactly. And I think the human rights community here has been working incredibly hard to bring attention to this issue. I do not think we have seen a lot of great policy answers from anyone around the world other than bringing more transparency to the behavior that we are seeing occurring. And the one area where I think this touches the most on Europe is the current concern that some of us have that whether the Chinese are using the 17++1 institution or it is Germany or Italy or London's desire to have more Chinese investment, that we might see European countries not being as willing to speak out on these issues as we would want them to be. So I hope that we can address this in a coherent, united manner with our European allies.

Ms. KENDALL-TAYLOR. And could I just add one point?

Ms. WILD. Sure, please do.

Ms. KENDALL-TAYLOR. I agree with everything that Zack just said. But it really, I mean it is such an important question and I am so glad that you raised it, because China is exporting its authoritarian tactics and that will create an environment more conducive to authoritarianism all around the globe.

And so—and we should also note that in addition to the Belt and Road Initiative, there also is a component of this they are calling the Digital Silk Road and that will be an important vehicle through which they will be able to export and share some of these surveillance and other authoritarian best practices.

And the other concern here is 5G. So why would we allow the Chinese Government to be building our 5G networks? Why would we put that responsibility in the hands of a government that has a long track record of surveillance and a track record of human rights abuses, and so that should raise concerns for all of us.

And so if we are hesitant or it seems like the direction that this is going particularly in Europe is that some of these countries for obvious reasons do not want to outright ban Huawei, but if we can move toward kind of an objective list of criteria for selecting vendors that would address some of these issues and that are true to our values in the United States and Europe, that provides a more objective way, I think, for making decisions.

And that would, because of all of the abuses that you have highlighted, effectively screen out Huawei and other providers.

Ms. WILD. Thank you for that very useful information. I have dozens of questions I would love to ask you, but unfortunately my time is up. But I would like to followup at some point. Thank you.

Mr. KEATING. Thank you, Representative Wild, for those insightful questions. The chair recognizes Representative Burchett.

Mr. BURCHETT. It is Burchett, Mr. Chairman.

Mr. KEATING. Burchett, sorry.

Mr. BURCHETT. Burch like the tree, and ett like I just ett breakfast.

Mr. KEATING. This is the European influence, I think.

Mr. BURCHETT. I guess it is.

Mr. KEATING. It is overtaking me this morning, I apologize.

Mr. BURCHETT. That is all right.

And thank you all for being here. I guess I would, you know, dealing with China, it seems that they have a tendency, maybe it is just my opinion, but they exploit either our stupidity, greed or arrogance, or a combination of all those things. And, Dr. Taylor, and I note you all are on the screen and currently I am on the screen, and I am wondering if that screen is made in China.

But, Dr. Taylor, in your testimony you mentioned the importance of European initiatives such as permanent structured cooperation, PESCO, and the European Defense Fund to better prioritize issues pertaining to China in the Indo-Pacific region. These two initiatives and a potential EU army seem to be more duplicative and a competitor to NATO. Would it not make more sense for our NATO allies to just to pony up and spend more than 2 percent of their GDP on defense rather than waste money on silly and unworkable initiatives?

Ms. KENDALL-TAYLOR. I agree that the 2-percent is an important benchmark that all our European allies should be working toward. I think even when you talk to NATO officials that most of them are confident that the initiatives that I have talked about, PESCO, the European Defense Fund, and others, are not duplicative, but complementary to what NATO is achieving. And as long as they are rolled out in ways that are consistent and supportive and not redundant with what NATO is doing, then I think the United States should be encouraging rather than discouraging European efforts to do more for their own security and defense.

I will also note that things like the EI2 initiative, France's European—what is it, EI2—European Intervention Initiative, also has the goal of doing more and allowing Europe to play a greater role in places like North Africa. Again, the more that our European allies can help us police and secure not only Europe, but places like North Africa, it allows the United States to pivot and focus more on the Indo-Pacific.

Mr. BURCHETT. OK. And this is, I guess, for the entire committee. I am not sure who would be the most qualified to answer, but anybody that feels like they should, please do.

You know, in Tennessee I was in the State legislature and there was an initiative to have these toll roads put in. And I am not going to debate the merits of those, one way or the other, but there was—I actually had put an amendment on the bill that said that

they needed to be, at least one end of the toll road needed to be owned by an American entity, and immediately the support for the bill dropped. And that made me wonder too about the reports that Chinese companies currently own and have access to about 10 percent of the ports in Europe.

And I was fortunate enough to go to Israel for 4 days and I noticed that their deepwater port was, in fact, constructed by the Chinese, which to me is very alarming. What is behind their strategy to gobble up these ports in Europe? Is it purely economic or do they have some long-term security interests? I think I probably know the answer to that, but I would like to hear what you all say.

And could you all discuss the specific security risk to NATO allies of Chinese access to these European ports? Thank you all.

Ms. SEGAL. Thank you for the question. I can start and maybe others will have their own views on this. I think the fact that China is investing abroad and has increased its investment abroad in and of itself is not the primary concern. The concern are the potentially strategic motivations behind that investment. And the difficulty then for recipient countries, including the United States and in Europe, is to differentiate which are those investments that an entity in China is making for its own economic interest and the recipient country is benefiting because it is getting capital that then fuels its economy, and which are the investments that actually go beyond that are of geostrategic import and have a strategic interest.

And that is what these whole, the motivation behind these investment screening mechanisms like CFIUS like what has been adopted now at an EU-wide level in Brussels, that is what those mechanisms are designed to suss out. And so, I think it is important to differentiate those two. And the fact that this debate is being had and that the recipient countries are not sensitized to look out for what might be the strategic motivations behind these investments, that is the important balance to strike between progrowth investments and investments——

Mr. BURCHETT. Excuse me, but, you know, it is kind of like up here when we talk about we are going to form a study committee and do some studying and is just going to sit on some shelf somewhere. Are they actually doing anything when they say that or is it just the money that they are getting? Because I have read some reports that some of the ports and projects that they have done, they will pull out or they will do subpar labor that what we would consider the standard here by our labor folks in this country.

Ms. SEGAL. Right. And so those are related issues. One are the strategic kind of national security concerns which these mechanisms would pick up, the other is the quality of that Chinese investment. And the concerns behind Belt and Road investments are of both categories, but is actually that quality question and the debt sustainability question that is also something for recipient countries to think about.

And so, among the initiatives that the U.S. has taken both to encourage allies to strengthen investment screening mechanisms is also an effort to get countries to strengthen their mechanisms for just evaluating the economic worth of such projects. So if what China is offering is an investment but one that comes with it

strings that require Chinese workers to be used, come with it returns back to China that actually make the project not viable in the country, those are things that recipient countries when they are making their decisions about who to award the contract to, they should be sensitized to that and then make their decisions based on that sort of information.

Ms. KENDALL-TAYLOR. And maybe just really quickly to highlight the security concerns as we talked about, NATO mobility will be key when we are talking about Belt and Road infrastructure, so with the ports and rails in particular Chinese investment in those provide the capacity for China to slow a NATO response that makes it. They have the ability then to leverage to complicate our movement of people and troops across Europe and that is something that NATO is going to have to grapple with.

Mr. BURCHETT. Thank you.

Mr. Chairman, I apologize for running over, brother. Thank you.

Mr. KEATING. Those were great questions. I think also that we could followup beyond the ports and look at the rail and the testimony that was given before about how that screening mechanism did help or has helped delay and give greater scrutiny to the rail line between Hungary and Serbia too. So it would be interesting to see how that has worked and been effective.

Representative Costa from California?

Mr. COSTA. Thank you very much, Mr. Chairman. I appreciate this important hearing.

I am one of those that believe that Russia and China's interests do align and they are increasingly so. While they may not as you have testified today be coordinated to the degree that would further make their efforts more effective, clearly, I think we need to be concerned about it. I have some questions that really deal with the comments that I think the four of you made, and that is that for a more effective use of our ability to deal with both China and Russia that we need to be coordinated with our European allies. I think there was a consensus by all of you in that statement. And certainly, we know that Russia, going back to 2013 when General Gerasimov was talking about their strategies to undermine Western democracies by using the election process in Europe to destabilize that economy and also to undermine NATO as a defensive for all us, not only the Europeans but for the United States, and they have done that. They have been interfering in European elections for years and of course in our elections in 2016.

So, I want to understand with all the challenges that Europe is facing with populism, with nationalism, with the refugee challenges that they are getting from the Middle East and from Africa, how you believe we can better coordinate our efforts with our European allies—they are not our adversaries, they are our allies where we share so many common values—in the backdrop of the comments that we have been making about NATO? Even though three administrations have agreed that 2 percent-plus is necessary for the NATO countries to commit to, but you add as you testified the steel and aluminum tariffs, you know, commenting that the basis is national security when these are our NATO partners. Very contradictory not to mention insulting, the potential of imposing auto tariffs, which is crazy, I mean the largest export of cars made in

America is BMW, and that the statement that Europe is an adversary by our President, and then you add to that the cheerleading of Brexit that has taken place in this country by some, how can any of you on the panel articulate what our current administration's policy is toward our European allies?

Mr. LE CORRE. I can start to have a go at it, but it is not an easy answer to make.

You know, I think, there is no evidence that there is coordination between Russian and Chinese actions in Europe. That there is a Chinese sort of——

Mr. COSTA. No, but there could be in the future.

Mr. LE CORRE. There could be. And certainly, if you look at Greece, for example——

Mr. COSTA. There interests align in a number of areas.

Mr. LE CORRE. Right, so the issue is really for countries such as Greece, Portugal that are NATO members as well as members of the——

Mr. COSTA. And Italy.

Mr. LE CORRE. And Italy, they have been repeating that they remain, you know, involved in the alliance and the EU, but there might be some discussions to be having at NATO level on what it means for countries that are selling some of their national assets including, for example, the National Grid of Portugal——

Mr. COSTA. Right.

Mr. LE CORRE [continuing]. To a nation like China, or to sell some of its territories in the Azores in the middle of the Atlantic to a Chinese scientific center.

Mr. COSTA. We have been very concerned about that, many of us, and we have tried to make those concerns known to the Department of Defense on that. But please, what is our policy? Can you articulate our policies toward Europe, our allies?

Ms. SEGAL. I do not know if I want to articulate our policy not being a member of the administration, but I do think what you have identified is that there is a tension between the security issues and how we should be engaging with European partners and economic issues on how we engage.

Mr. COSTA. I think the Secretary General when he spoke to a joint session of Congress put it well. It is nice to have friends. And these relationships that we have had with our European allies for decades, the longest peacetime period in Europe, the last 70 years, in over 1,000 years is the result of these coordinated alliances that we have with NATO, with the European Union.

And so I mean, I think you are struggling to suggest what the policy is part of the problem. We do not have a coordinated, clear policy toward our European allies. If we did, we would have a much more, I think, thoughtful address toward China and how we are dealing with China. I mean, I think that is the answer to the question.

Mr. COOPER. Can I just make one very brief comment? I think there is a philosophical question about what we think leads to greater alliance cooperation and contributions. I think the administration's belief is you get more alliance coordination and cooperation when the leader of the alliance pushes its allies hard. I think

a lot of the academic literature would say that you get allies cooperating more when they think there is a higher threat.

So I think that is where a lot of this disjuncture is between the administration's strategy and what we are actually seeing from Europe. So as the Europeans get more concerned about Russia, they will contribute more to NATO. If they are not deeply concerned, they are not going to contribute up to the 2-percent level or beyond.

Ms. KENDALL-TAYLOR. Maybe just a really quick comment. I think what the strategy has been and it has been articulated by people like Assistant Secretary of State Wess Mitchell before he resigned, I mean, so this administration has rightly set out this vision of strategic competition putting China front and center. But where we break down and fall apart is by not prioritizing Europe and that relationship.

And there has been a belief that we have to go after our European allies and correct imbalances in our relationship and once we correct those imbalances, then this administration, I think, incorrectly believes that we can pick up where we were and move on to confront China. So I think in my mind that is what the policy has been, China front and center, but with the incorrect assumption that if we bash our allies and correct the imbalances that then we are in a better place to address China.

Mr. COSTA. Well, and I think that is the feeling that you are receiving that the chairman and I receive when we go to Europe. We have been there two or three times this year and this is the constant questions that we are asked as to what really is our policy toward our allies to, you know, we used to be consistent in terms of our approach and they could always count on us, and there is a deep feeling today that that is no longer the case.

And then therefore why should we cooperate with you if you are not going to be that friend, as the Secretary General stated last month that it is nice to have friends. And now that is all being undermined, I believe, and it is being questioned, unnecessarily so. No one disagrees with the 2-percent expenditure.

Let me just ask one final question, if I might, Mr. Chair?

Mr. KEATING. It is all right. Mr. Guest.

Mr. COSTA. Because this is something that you and I have talked about. Would it—do you think if this subcommittee worked closer together with the European Parliament, they are having elections this month, and the European Commission as we go forward to address some of these issues that we are talking about today that that would be constructive and more helpful in terms of our partnership?

Mr. LE CORRE. If I can answer to that I think it would be an excellent idea for one simple reason. I believe many of the new mechanisms that have been introduced, which I was describing earlier, were originated in the European Parliament. The status economy, the market economy status that was denied to China by the EU 2 years ago originated, again this decision originated by the European Parliament and there are strong members of the European Parliament that have been sort of supporting, you know, actions for China, for example, especially on the reciprocity issues and intellectual property.

So I think, you know, obviously this is a transition year, Congressman. There is going to be elections very soon. This country knows about elections too. And so it is going to be a difficult year for engaging with the European Parliament, but I believe from October again there will be new committees and people that will look very thoroughly into the issue of Chinese influence in Europe.

Mr. COSTA. Well, the chairman and I have expressed interest in doing so and I thank you for—I have exceeded my time, but we will followup on that.

Mr. KEATING. Thank you, Mr. Costa, for your work. And the chair thanks Mr. Guest for being patient through that questioning, and now the chair recognizes Mr. Guest from Mississippi.

Mr. GUEST. Thank you, Mr. Chairman.

Before I begin my question, I have a report from the Center for International Private Enterprise entitled, "Channeling the Tide: Protecting American Democracies Amid a Flood of Corrosive Capital." This was published last fall. This report examines the impact on the government norms, practices, and economic values in the countries that have received Chinese investment.

I ask by unanimous consent this report be inserted into the record.

Mr. KEATING. Without objection.

[The information referred to follows:]

Mr. GUEST. My question to the witnesses on the panel, as I understand it, the Chinese are using basically a multifaceted approach to either gain or to expand influence not just in Europe but around the world, things such as investment, trade, technology, education through the Confucius Institutes, but what I would like to talk about and focus my question on is the growing Russian-Chinese relationship.

Of course, we see that in Latin America, particularly as it relates to Venezuela, where you have an unholy alliance, if you will, between Russia, China, and Cuba as they are continuing to prop up the Maduro regime. But I believe at least two of the witnesses here spoke of that in your written testimony.

Ms. Kendall-Taylor, I think you said on page 5, you said "The relationship between China and Russia are deepening. The growing alignment of their values and visions on how the world should be ordered raises the prospect that Moscow and Beijing will increasingly coordinate their efforts to undermine U.S. influence."

And it was also addressed by you, Mr. Le Corre, I think on page 7, you actually referred to it as the "emergence of a Russia-Chinese nexus and it directly affects NATO's primary mission. The relationship should not be exaggerated, but the two countries have conducted joint naval exercises." You also talk about military exchanges or military leadership exchanges.

And so, my question to the panel and anyone can answer is, how concerned should we be about this growing nexus, as you referred to it, Mr. Le Corre, between China and Russia as we can see them continuing to work together and to work against American interest?

Mr. LE CORRE. Thank you, Congressman. I think, you know, the issue is to be looked at not just in Europe, but globally. Certainly if you look at the Belt and Road Initiative a lot of it has to do with

Central Asia, for example, and parts of Asia that are under Russian influence. So I would say there is a real concern there.

And the people of some of the Central Asian countries are very wary about the rise of China and the economic rise of China, and somewhat the Russian umbrella that used to be their protectorate, you know, and I am thinking of Kazakhstan and Tajikistan, for example, is no longer there because it is basically this collusion going on with China.

As far as Europe is concerned, I think, you know, America should basically, you know, rise again in the eyes of many of these European citizens and offer an alternative narrative to the authoritarian narrative that is now sort of coming up in, you know, from China or from Russia. And, you know, this is like Greece, should basically look toward Western values and not toward, you know, authoritarian values, and unfortunately these are the values that China is bringing when investing in some of these countries.

Ms. KENDALL-TAYLOR. We talked about it a little bit earlier kind of all of the ways in which the relationship is growing, and I think as has been talked about the implication of that growing relationship is significant and I would put that close to the top of the No. 1 issue, or close to the top of the issues that I am concerned about.

So in a world of great-power competition, there are three and the United States is not going to be alone on the side with one. We have talked about how the growing relationship, I think, is serving to undermine democracy particularly in Europe, but it is also the way that they are creating an alternative to democracy.

China in particular demonstrates that the road to prosperity and democracy no longer runs through the United States. They are exporting their best practices. President Putin is showing other leaders that if, you know, that you can stand up to the United States and it is emboldening other leaders across the world.

But it is more than a democracy and human rights issue. It is very much a national security issue. And I have given a couple of examples, I think, of how that synergy or how their coordination could affect the United States. But, really, at the most basic level you could imagine a scenario where Russia and China decide to make moves in their respective spheres of influence at the same time.

So what happens and the United States would, and NATO in particular would struggle to respond to coordinated moves between Xi Jinping in the South China Sea and Putin in Europe. That would severely strain U.S. military capacity to respond to those challenges.

So I think these are the types of things—that certainly is a long way off, but I think these are the types of things that policymakers need to be thinking about now, because we have to plan for those contingencies and also work to prevent the closening relationship from coming to fruition in ways that would have that much of a consequence.

And I think there, when we talk about the importance of values and democracy, I mean getting our own house in order and providing an alternative, an attractiveness of a democratic model that other countries will want to emulate I think is one of the most important ways, that is kind of a two-for-one. It helps deter all of the

kind of a hostile, malign actions that both Russia and China are taking both in the United States and Europe.

So it is a two-for-one, but these are the types of things that I think we need to be thinking about now.

Mr. GUEST. Thank you. I yield back, Mr. Chairman.

Mr. KEATING. Thank you very much. The chair recognizes and we are going to let him—give him a chance to sit down, Representative Gonzalez from Texas. Thank you for joining us. I know it has been a busy morning. Representative Gonzalez.

Mr. KEATING. Thanks. He is yielding back.

Just following up with what Representative Guest said, I think one of the key aspects of this morning's, among many, testimony from our witnesses was the concern for this growing relationship coordination and collaboration between Russia and China. And I think it makes the issue even more compelling from a U.S. standpoint of why we have to work hard to strengthen our existing relationship with our European Union coalition partners, that we have control over more than we do dealing with the activities of China and Russia.

And I think that is one of the more important messages of this morning, also even beyond Europe and Eurasia to have the U.S. proactively get involved in providing alternatives and having a stronger role to try and combat that growing influence together it is important.

I would just as part of my closing, and then I know that the vice chair has some final comments and perhaps a question as well, just one thought I had digging down to a specific and I am worried about the fractures that occur and that I see occurring in Europe. I understand Congress has a critical role going forward and we are exercising that in this committee and in the larger Foreign Affairs Committee. We are doing it in Armed Services and so many of our other committees trying to project that and actually have been, I think, in this short period of time very successful in doing so.

But I want to give an example of something I hear from time to time and it is nothing to undercut our alliance with the U.K., our great ally, but we hear conversations from the administration, even from other members, talking about having a bilateral trade agreement with U.K.

And even though they have to wait for Brexit to get over for anything like that to occur, having these discussions and having discussions about, you know, fast tracking when the time comes or prioritizing a bilateral agreement with U.K. but not having that kind of discussion with the rest of the EU, I see that as a growing concern of mine in terms of how that can fracture our relationship particularly during these difficult times of dealing with the Brexit issue.

Could you comment on how that kind of discussion, although it might be well-intended, could have an unintended effect of further fracturing our relationship with the rest of the EU, which after all is 80 percent of our trading partners in Europe? If anyone wants to comment on that.

Mr. LE CORRE. Mr. Chairman, I do not know if you are referring to the missed opportunity of a meeting between the Secretary of State and the German Chancellor, but that was certainly not well

taken in Germany. But meanwhile, I understand Secretary Pompeo went to London.

Obviously, from my point of view as somebody looking at China, I think there are real concerns about the bilateral relationship between China and the U.K. As we have discussed earlier, the level of Chinese involvement, economic involvement in Britain is much higher than in any European country already, and the U.K. is certainly the U.S.', you know, oldest ally and there is a very strong link between the two countries.

On the other hand, as you pointed out, 80 percent of the trade is done with the rest of Europe. And there is an integrated European market that is working quite well, and in fact, the pro-European sentiment has increased over the past 2 years ever since the referendum in the U.K. decided for Britain to leave, apparently. But it hasn't been done yet and the process is not completed.

So I think, you know, looking at the European Union as a strong partner is something the U.S. should certainly do and the U.K. should try to be, I mean, you know, looked at as a European country not as a standalone country. It will remain part of Europe. In fact, you know, British officials do say that on a regular basis and I cannot see otherwise in terms of geographics. And, you know, vis-a-vis China or vis-a-vis Russia, I think, you know, the relationship will remain close between the EU and the U.K. and between the U.K. and the U.S. So, you know, I think these two things should be done in parallel.

Mr. KEATING. Great.

Ms. Segal?

Ms. SEGAL. Just to add to that, I think as your question references it has been a very complicated process between the EU and the U.K. ever since the Brexit vote and that issue is still not resolved. And I would make the argument also on the basis of what is in the U.S. national interest that we do not really want anything that is going to result in a destabilizing resolution of that issue.

So any sort of interference that actually complicates and potentially destabilizes the outcome of how that Brexit vote is resolved is actually harmful to the United States.

Mr. KEATING. Yes. Well, I hope that our friends in Europe know from this committee and from a very strong bipartisan standpoint that we are sensitive to the issues that they are dealing with, particularly with elections coming up and dealing with the Brexit issue.

And that as a Congress I can speak for this committee as well as the full committee, we are sensitive to that issue. We are not taking our relationship with our closest allies and our coalition for granted and we will continue to adopt that attitude, because the attitude is important too as substance in many instances as we see now.

I now yield to the vice chairman of the committee who may have a final comment and a question.

Ms. SPANBERGER. Thank you, Mr. Chairman.

We have talked a lot today about 5G technology threaded throughout the conversation, but I did want to followup just in a closing statement with a question.

So as we talk about 5G technology, recognizing the potential that it holds to transform telecommunications as we know it resulting in huge, potentially huge economic benefits to our citizens and American companies, we are facing challenges with companies that have close ties to the Chinese Government such as Huawei that are currently leading global competitors in early 5G equipment and software production.

According to NATO's Cooperative Cyber Defence Centre of Excellence, Huawei's growing influence as a leading supplier of 5G technology in Europe could be exploited by China to engage in espionage, monitor foreign corporations and governments, and ultimately support Chinese military operations.

My question as we close out this discussion is how can we ensure that the United States and our allies are not left behind by these technological advances and forced to choose between putting our data at risk and waiting around for the rest of the market to catch up, and how can we improve the competitiveness of U.S. companies in this space, specifically how can non-Chinese companies compete with Huawei given that its telecom networks typically cost 20 to 30 percent less than our competing products?

Ms. KENDALL-TAYLOR. So I think all of the kind of advantages that Huawei has you have rightly noted. Currently, the discounts that European companies are offered are somewhere in the realm of 20 to 30 percent. So Huawei is able to come in and because of the subsidies they receive from the State they are offering their services at a much discounted price.

They are also vertically integrated, I understand, which means that Huawei is providing a soup-to-nuts solution that other providers just are not doing and they are ready to go now. So there is very valid concerns in Europe, I think, that by banning Huawei that we would delay the deployment of 5G networks in Europe. So there are all of these considerations and figuring out how to counter it, I think, is something that will be and has to be front and center in terms of priorities now.

There is some really excellent work that is being done at the Center for New American Security and there should be a memo that is coming out soon that lays out a whole host of recommendations that would also address what the United States should be doing in terms of its own kind of domestic posture. And one of the things that you highlighted is rightfully making sure that the United States is prioritizing and investing in 5G as a foundation for American competitiveness. And we have to be able to offer an alternative and that is just not where we are at the moment.

And it also highlights the need to work very closely with like-minded countries in Europe to do things like as we have already talked about, creating this objective screening criteria. So if countries in Europe are reticent to taking sides, which they are, they do not want to have to be seen as choosing between the United States and China, then going down this route where we are coming up with these objective criteria that providers have to meet in order to be allowed to be the provider of choice. That is an objective approach then, which essentially would screen out Huawei given all of the human rights and surveillance considerations that you highlighted.

There are other opportunities too, making sure that 5G networks are secure by design from the start. And I think it is also incumbent on the United States to continue to make the case with Europeans about what our rationale is. Because there is obviously concerns by the Europeans that we are being protectionist, that we want to keep Huawei out, given the huge kind of economic and competitiveness implications that any country will have in being the 5G provider.

So leaning on the intelligence community perhaps to be more forward-leaning where they can in terms of sharing intelligence or the rationale for why we are making the decisions that we can. We have seen that was really useful, for example, with the INF treaty. It took the intel community a very long time to share the information and data that was ultimately able to get the Europeans to come along with us, so that could be kind of a best practices case study that we could learn from.

So, I think, generally speaking, there is a whole host and it is not a simple solution, but I would hopefully as soon as the CNAS report is out, would kind of recommend it to others because I think it has some really excellent suggestions.

Ms. SPANBERGER. Thank you, Dr. Kendall-Taylor.

Dr. Cooper?

Mr. COOPER. Just one more comment to add on this. I think one of the challenges here is that the U.S. approach has largely been to exclude Huawei and ZTE and others from the U.S. market and there are lots of good reasons for that. But the reality is, is that is not going to work in Europe. It will work in some places in Europe, but broadly I think the Europeans are going to decide to mitigate the challenges inherent in Chinese 5G technology just the way they have in 3G and 4G. And so, I think we are going to have to come up with an approach and we might not like it, but one that accepts that we are going to be in a risk-mitigation world.

And the problem we have is that we have spent so much time in the last few months explaining to our friends that you cannot mitigate the risk, that now when we come back and say, "Well, here, let us help you mitigate it," it is a little confusing to them. And so we have got to shift our strategy, I think, pretty quickly and be just as nimble as the Chinese have been in changing how they talk about Huawei and 5G technology in general.

Ms. SPANBERGER. Thank you.

Mr. Le Corre?

Mr. LE CORRE. Thank you. Just a few comments. I think I agree with what Dr. Cooper just said. It is very difficult to change Europe when it comes to dealing with Chinese telecommunication companies. They have been there for quite some time and in many cases they have invested. They have hired local people. Not very many, in fact, and that may be a point that should be underlined that they have not created a lot of jobs, for example, and it is mainly about bringing technology into Europe.

So investment might be the answer, because as we know Huawei was the first to invest in 5G technologies, you know, almost 10 years ago, and so the rest of the world and the West in particular has not done very much. So I would say that, you know, within each European country, especially those strong NATO allies of the

United States and strong EU members, you know, there is a debate inside these countries within the security agencies, the defense establishments, let's say, and also, you know, the foreign ministries, the economics ministries, and the business community.

But I would say sort of the sort of the very heavy-handed discourse coming out of China and which you pointed out yourself, or the other Congresswoman, I am sorry, the surveillance mechanisms, all this, this is not really helping China's image. And again, you know, information and explanation of what 5G actually is and what it is going to mean to live in a connected house in a connected city, smart city, that is something that people will need to know about and having, you know, counter offers will be critical.

Ms. SPANBERGER. Thank you. I yield back, Mr. Chairman.

Mr. KEATING. Well, thank you. I want to thank our witnesses. I will tell you, this was an excellent hearing, excellent testimony and in a time when the full committee is looking at many of the challenges coming from China, we spent most of this morning looking at what the future challenge will be, not just the present, and I think that was very helpful to us as a committee and certainly helpful as a Congress. So thank you very much for your participation and we will look forward to further communications and any questions the members might have in writing. Thank you.

[Whereupon, at 11:53 a.m., the subcommittee was adjourned.]

APPENDIX

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Europe, Eurasia, Energy, and the Environment

William R. Keating (D-MA), Chairman

May 9, 2019

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on Europe, Eurasia, Energy, and the Environment in Room 2167 of the Rayburn House Office Building (and available live on the Committee website at https://foreignaffairs.house.gov/):

DATE: Thursday, May 9, 2019

TIME: 10:00 am

SUBJECT: China's Expanding Influence in Europe and Eurasia

WITNESS:

Mr. Philippe Le Corre
Nonresident Senior Fellow
Europe and Asia Programs
Carnegie Endowment for International Peace
(Former Special Assistant for International Affairs to the French Defense Minister)

Ms. Stephanie Segal
Deputy Director and Senior Fellow
Simon Chair in Political Economy
Center for Strategic & International Studies
(Former Codirector of the East Asia Office at the U.S. Department of the Treasury)

Andrea Kendall-Taylor, Ph.D.
Senior Fellow and Director
Transatlantic Security Program
Center for a New American Security
(Former Deputy National Intelligence Officer for Russia and Eurasia in the Office of the Director of National Intelligence)

Zack Cooper, Ph.D.
Research Fellow
American Enterprise Institute
(Former Assistant to the Deputy National Security Adviser for Combating Terrorism at the National Security Council)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Europe, Eurasia, Energy, and the Environment* HEARING

Day *Thursday* **Date** *05/09/19* **Room** *2167*

Starting Time *10:00* **Ending Time** *11:52*

Recesses ____ (____to____) (____to____) (____to____) (____to____) (____to____) (____to____)

Presiding Member(s)

Keating

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

China's Expanding Influence in Europe and Eurasia

SUBCOMMITTEE MEMBERS PRESENT:

See attached

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Phillipe Le Corre's Testimony
Stephanie Segal's Testimony
Andrea Kendall-Taylor's Testimony
Zack Cooper's Testimony
"Protecting Democracies Amid A Flood of Corrosive Capital" Submitted by Mr. Guest
QFRs from Ms. Spanberger
QFRs from Mr. Pence

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *11:52*

Subcommittee Staff Associate

HOUSE COMMITTEE ON FOREIGN AFFAIRS

EUROPE, EURASIA, ENERGY, AND THE ENVIRONMENT SUBCOMMITTEE HEARING

PRESENT	*MEMBER*
X	William Keating, MA
X	Abigail Spanberger, VA
	Gregory W. Meeks, NY
	Albio Sires, NJ
	Theodore E. Deutch, FL
X	David Cicilline, RI
X	Joaquin Castro, TX
	Dina Titus, NV
X	Susan Wild, PA
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	Francis Rooney, FL
	Brian K. Fitzpatrick, PA
X	Greg Pence, IN
X	Ron Wright, TX
X	Michael Guest, MS
X	Tim Burchett, TN

RESPONSES TO QUESTIONS SUBMITTED FOR THE RECORD

Questions for the Record from Representative Greg Pence
Subcommittee on Europe, Eurasia, Energy and Environment
China's Expanding Influence in Europe and Eurasia
May 9, 2019

Question:

There has been a documented decline of Chinese investments in Europe since 2016.

- Is this investment decline primarily in state-owned enterprise?
- Is it possible that China has found or will find alternative vehicles of investment in response to growing awareness?

Answer:

Mr. Le Corre did not submit a response in time for printing.

Question:

According to documents publicly available on the Department of States Bureau of Energy Resources (ENR) website, "ENR works together with the European Commission and EU member states to promote projects that will increase diversity of supply. The European Union committed $363 million to priority infrastructure projects with the purpose of integrating European gas and electricity markets to achieve more efficient markets, more resilience to supply shocks, and improved energy security"[1].

However, in the China context, I am concerned that these projects are designed with the sole intent to reduce reliance on the source of the energy – Russia – and not also on potential Chinese control of the infrastructure transiting the energy throughout Europe. A focus on Russia is prudent and necessary but should not be the only concern.

The Three Seas Initiative[2] aims to realign Europe's energy infrastructure North to South away from the current East to West orientation i.e. from Russia into Europe. This is an important initiative.

Understanding that presently, most Chinese investments are in port, road, and rail infrastructure projects and digital infrastructure like 5G, with respect to energy infrastructure and your point about Russian and Chinese convergence and synergy - do we risk, as the saying goes, "winning the battle" with respect to Russia's coercive use of energy only to "lose the war" to China's control of Europe and Eurasia's energy infrastructure? If so, how do we make this point with our European and Eurasia partners and our NATO allies with respect to their energy infrastructure?

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[1] https://www.state.gov/documents/organization/279199.pdf
[2] https://www.atlanticcouncil.org/blogs/new-atlanticist/the-three-seas-initiative-explained

Answer:

Dr. Kendall-Taylor did not submit a response in time for printing.

Question:

There has been a documented decline of Chinese investments in Europe since 2016.

- Is this investment decline primarily in state-owned enterprise?

Answer:

Ms. Segal: According to data from China's State Administration of Foreign Exchange, total outbound foreign direct investment (FDI) from China increased in the wake of the Global Financial Crisis and peaked in 2016 at $216 billion. Since then, a combination of factors including tighter controls on capital outflows, changing macroeconomic and financial conditions in China, and more rigorous screening by recipient countries, have led to a sharp reduction in outbound FDI, to $138 billion in 2017 and $96 billion in 2018. In addition, starting in 2017 China's efforts to curb capital outflows appear to have also shifted the source of FDI flows toward state-owned enterprises (SOEs), especially those working under China's Belt and Road Initiative. Chinese FDI in Europe has followed a similar trend, but peaked in 2017 due to a single transaction: state-owned China National Chemical Corporation's (ChemChina) acquisition of Swiss agrochemical and seeds company Syngenta for $43 billion. Inclusive of this transaction, and based on data from Rhodium Group, Chinese FDI in Europe totaled $46 billion in 2016, $80 billion in 2017, and $23 billion in 2018.

Joint research by Rhodium Group and the Mercator Institute for China Studies estimate that roughly 60 percent of Chinese FDI in the EU since 2000 originated from Chinese state-owned or sovereign entities. The heightened scrutiny of foreign investments involving state-controlled entities under the EU's new foreign investment screening mechanism is likely to result in the decline of Chinese SOE and other state-backed investments in Europe.

Question:

- Is it possible that China has found or will find alternative vehicles of investment in response to growing awareness?

Answer:

Ms. Segal: The U.S. Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA), explicitly expands coverage of transactions subject to review by the Committee on Foreign Investment in the United States (CFIUS) to any "transaction, transfer, agreement, or arrangement, the structure of which is designed or intended to evade or circumvent the application of this section ('Definitions'), subject to regulations prescribed by the Committee".

Similarly, the European screening mechanism calls on member states to identify and prevent cases of "circumvention" with an eye to identifying non-EU ultimate owners. EU member states are also encouraged to consider risks from changes to the ownership structure and key characteristics of a foreign investor. Despite these efforts, minimizing circumvention through innovative transaction structures or other means will require ongoing official sector efforts to disseminate information to relevant parties and to incentivize compliance.

Questions for the Record from Representative Abigail Spanberger
Subcommittee on Europe, Eurasia, Energy and Environment
China's Expanding Influence in Europe and Eurasia
May 9, 2019

Question:

In your oral testimony, you mentioned there was bipartisan consensus on China and the challenges it presents from an economic and security perspective. However, you noted that to make progress in addressing these challenges, we need to bring the American people into the conversation.

- In your assessment, how can we broaden this conversation to include the American people and build their understanding of the threat that China poses?

Answer:

Dr. Cooper: The Trump administration's 2017 National Security Strategy called China a "strategic competitor" and suggested that China had sought to "erode American security and prosperity."[1] Yet, in 2018, more Americans said that China was a partner than a rival (by 50% to 49%).[2] Furthermore, only 39% of Americans responded that they viewed China as a critical threat, placing China behind international terrorism (66%), North Korea (59%), and Iran (52%). Conversely, half of international relations scholars believed that China's rise was one of the top three most important foreign policy issues, compared to just 16% for international terrorism and 18% for proliferation of weapons of mass destruction.[3] And 69% of international relations scholars thought East Asia would be the most important strategic region in 20 years).[4]

Why is there such a gap between public and policymaker perceptions? One reason is that when American leaders give major speeches about China, they tend to do so in foreign capitals or in Washington DC. What we need, however, is a deeper discussion at the local level about some of the challenges and opportunities that China's rise has created. The American people tend to worry first about local economic issues, rather than broader international concerns. For example, 72% of Americans report anxiety that a trade war will

[1] "National Security Strategy of the United States of America," The White House, December 2017, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf.
[2] Karl Friedhoff and Craig Kafura, "American Views toward US-Japan Relations and Asia-Pacific Security," Chicago Council on Global Affairs, April 17, 2018, https://www.thechicagocouncil.org/publication/american-views-toward-us-japan-relations-and-asia-pacific-security.
[3] "Snap Poll X (Embedded in 2017 Faculty Survey," Teaching, Research and International Policy (TRIP), December 6, 2018, https://trip.wm.edu/charts/#/fullreport/44.
[4] "Ibid.

hurt their local economy and 68% think that China is an unfair trade partner.[5] Therefore, addressing the local impact of China's economic rise should be the first topic on the agenda with the American public. This should include discussions of policies that can help protect American economic security, such as greater protections against intellectual property theft and unfair state subsidies that damage U.S. competitiveness.

Question:

- What topics or elements of this threat do you believe should, or could, resonate most with Americans?

Answer:

Dr. Cooper: As noted above, polls show that the American people are more concerned about China as an economic competitor than a security threat. According to a 2018 poll conducted by the Pew Research Center, Americans fear China's economic strength more than its military strength, by a 2-to-1 margin (58% to 29%).[6] More specifically, polls find that the following issues are the most serious concerns among Americans: China's holdings of U.S. debt (89%), cyberattacks (87%), environmental impact (85%), job losses (83%), trade deficit (82%), human rights policies (79%), territorial disputes (77%), and tensions with Taiwan (63%).[7]

There is little partisan divide in these views, but Republicans tend to express greater concern about job losses, debt levels, the trade deficit, and cyber attacks while Democrats worry more about China's environmental impact, tensions with Taiwan, and human rights. As of 2018, there was evidence that these concerns were converging as views of China became more unfavorable across the political spectrum.[8] Thus, it makes sense to talk with all Americans about the economic challenges posed by China's rise, while also connecting these to security and human rights concerns that are emerging simultaneously. One way to do so is to highlight issues that cross economic and security boundaries, such as intellectual property theft, joint venture requirements, market access restrictions, information security, and the spread of surveillance technology.

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[5] Karl Friedhoff and Craig Kafura, "China Not Yet Seen as a Threat by the American Public," The Chicago Council on Global Affairs, October 2018, https://www.thechicagocouncil.org/sites/default/files/report_china-not-seen-as-threat-by-american-public_20181012.pdf; Dina Smeltz, et. al., "What Americans Think about America First," *The Chicago Council on Global Affairs*, October 2, 2017, https://www.thechicagocouncil.org/publication/what-americans-think-about-america-first.

[6] Richard Wike and Kat Devlin, "As Trade Tensions Rise, Fewer Americans See China Favorably," Pew Research Center, August 28, 2018, https://www.pewglobal.org/2018/08/28/as-trade-tensions-rise-fewer-americans-see-china-favorably/.

[7] Ibid.

[8] "Americans and Favorability Ratings of 22 Countries (Trends)," *Gallup,* accessed May 21, 2019, *https://*news.gallup.com/poll/247562/americans-favorability-ratings-countries-trends.aspx?g_source=link_newsv9&g_campaign=item_247559&g_medium=copy.

Question:

- How can we, in Congress, do a better job of communicating both the threat that China poses and the need for certain actions to protect, sustain, and improve U.S. economic and security interests worldwide?

Answer:

Dr. Cooper: I believe the American people—and our allies and partners abroad—need to hear a clear and coherent message from their political leaders. One first step is for more elected leaders and policy experts to travel outside their capitals to listen to and talk with constituents about their concerns relating to China. The data suggests that the divide between the American public and the expert community is greatest outside the economic arena. Therefore, it is vital that American leaders connect the concerns surrounding China's economic behavior with issues relating to security and human rights. Standing up for key principles, such as the rule of law, freedom of expression, democracy, and fair economic exchange can demonstrate how American values are linked to American interests. Doing so also helps to make clear that our concerns are related to the actions of the Chinese Communist Party, not the aspirations of the Chinese people.

We should also make clear that these concerns are not just ours alone. We should be pushing back together against China for its unfair behavior, working hand in hand with our friends. Too often, U.S. concerns have been handled in a bilateral manner with China, leaving our allies and partners on the sideline. For example, we should be working together through the World Trade Organization to help foster a common position on issues like unfair state subsidies and market access restrictions. And we should be coordinating more closely to develop a coordinated approach to foreign investment screening and network security. Changing Chinese behavior in these and other areas will be difficult, especially if the United States is isolated from its allies and partners. We therefore need to engage not only the American public, but also the publics of like-minded countries, to build a strong and sustainable coalition.

ADITIONAL MATERIALS SUBMITTED FOR THE RECORD

CHANNELING THE TIDE

Protecting Democracies Amid A Flood of Corrosive Capital

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE SEPTEMBER 2018

INTRODUCTION & SUMMARY

BY ANDREW WILSON, CIPE EXECUTIVE DIRECTOR

CIPE | 2018CHANNELING THE TIDE

There is an alarming trend occurring worldwide that threatens democracy and free market principles. A growing volume of evidence indicates that many forms of capital emanating from authoritarian nations are having a corrosive effect on democratic institutions and private enterprise in recipient countries. The largest impact is seen in emerging markets and fragile economies.

China and Russia are among the most assertive donor nations offering funding and development assistance that appear to, not only exploit governance gaps in countries with weak or corrupt structures, but also make the gaps wider. In many cases, citizens in the recipient countries have no voice in the lending and spending deals, huge agreements are not well-documented, and countries have lost ownership of key resources to the donors. In short, few benefit and there is little oversight. It is also important to analyze patterns associated with foreign investment in developing democracies. China's overseas investments and funding pledges have increased by more than eleven thousand percent since 2001.1[1] Foreign investments by Russia appear to be on a much smaller scale and often are not well-tracked but seem highly strategic and typically leverage propaganda to amplify results.

The Center for International Private Enterprise (CIPE) uses the term "corrosive capital" to more clearly label financing that lacks transparency, accountability, and market orientation flowing from authoritarian regimes into new and transitioning democracies. This report by CIPE outlines top areas of concern to our experts on the ground and global partners and is supported by new proof and examples that show how "corrosive capital" is making fragile states more vulnerable to economic or political manipulation, and thus endangering democracy. The report also lays out potential actions to help mitigate the damage to foundations of democracy.

CIPE chose the term "corrosive capital" carefully, as the wording clearly reflects the wide-ranging effects opaque capital can have on developing democracies. These effects range from the relatively benign consequences associated with "high risk" capital (that may tolerate a degree of corruption) to highly corrosive government directed investment and finance, which advances authoritarian foreign policy goals at the expense of local institutions and western geo-political interests. The term "corrosive capital," therefore, recognizes that as with chemical acidity, authoritarian capital can have its own "pH" level when it comes to its effect on democratic institutions.

CIPE's approach to combatting the effects of corrosive capital centers around identifying specific governance gaps in countries where democracy is at risk, then working with local partners to design and implement local projects to help close the gaps, as well as Walker, Christopher and Jessica Ludwig,

foster dialogue among civil society, the private sector, and lawmakers. Frequent examples of governance gaps include: uneven enforcement of local labor and environmental regulations, unreliable rule of law, insufficient checks and balances over government decision-making and expenditures, and ineffectual or inactive civil society.

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[1] Charles Wolf, Xiao Wang, and Eric Warner, China's Foreign Aid and Government-Sponsored Investment Activities, RAND Corporation, 2013.

In the 2017 report Sharp Power: Rising Authoritarian Influence, the National Endowment for Democracy (NED) identified the subtle effect of the strategic use of soft power tools by authoritarian states on democratic institutions worldwide.[2] Corrosive capital, in its higher states of "acidity," has become an effective instrument to complement these efforts. Consequently, there is a pressing need in weak democracies for local projects that reduce the disruptive effects of corrosive capital. The goal of CIPE's projects, and others, is not to stem the flow of funds, but rather to create institutional safeguards in the recipient countries that make the continued receipt of potentially corrosive capital less disruptive to democratic governance and rule of law.

Proven policy responses to the threat posed by corrosive capital do exist and can be implemented at the local level. They include improved standards of informed consent by governments taking on foreign debt, greater transparency and fairness in public procurement, improved disclosure of sovereign debt, and higher standards for budget transparency. Policy advocacy by civil society, including the business community and other stakeholders, is an effective strategy for pushing governments to implement reforms that improve accountability and transparency, while creating a fair playing field for all businesses. By empowering these domestic reform constituencies to demand better governance, democracy programming can harness the positive effects of all capital, regardless of origin, and strengthen democratic institutions that safeguard the interests of citizens.

REGIONAL EXAMPLES **Europe:**

Russia is reasserting its influence in the Western Balkans. While Serbia, Montenegro, Macedonia, and Bosnia and Herzegovina have chosen to integrate with the European Union (EU) both politically and economically, Russia has been exploiting their still-weak governance to sway them away from Western integration. In the last decade, Russia has grown from a peripheral economic power to a significant player in the region. Although the share of Russian economic investment is small, ranging between 6.5% and 10% of the region's GDP, Russia's influence is disproportionate, due to high concentration in strategic sectors such as energy, banking, mining, infrastructure, and real estate.[3] Moreover, Russia exerts indirect control over the recipient countries, who depend on the import of Russian raw materials and owe debt to Russian banks.

An over-reliance on Russian energy imports and investments has made the governments of the Western Balkans particularly susceptible to pressure on strategic decisions. Examples include energy market diversification, economic liberalization, NATO and EU expansion, and Russian sanctions.

Balkan and international actors have underestimated the importance of Russia's economic footprint, resulting in a failure to recognize the extent of the associated risks. Russian FDI channeled through offshore zones and tax havens such as Cyprus remains largely hidden, which means that countries on the receiving side are not necessarily prepared for the potentially negative effects on governance. The Russian government's ability to use FDI as a foreign policy tool has been overlooked. Western investors cannot compete with Russia, which maintains control over its corporate citizenry. Also, while Western countries invest in diverse assets, Russian companies focus primarily on strategic and more vulnerable sectors.

In partnership with the Center for the Study of Democracy from Bulgaria, CIPE has begun working with civil society and business leaders throughout the Balkans to document the extent of Russian economic and political influence. CIPE has also identified governance gaps that Russian capital exploits. Moving forward, CIPE will work with stakeholders in the region to help engage in a systemic dialogue with respective governments to close these governance gaps. Such gaps are linked to both legislation and implementation of anti-corruption laws, competition policy, public procurement laws, and anti-monopoly laws.

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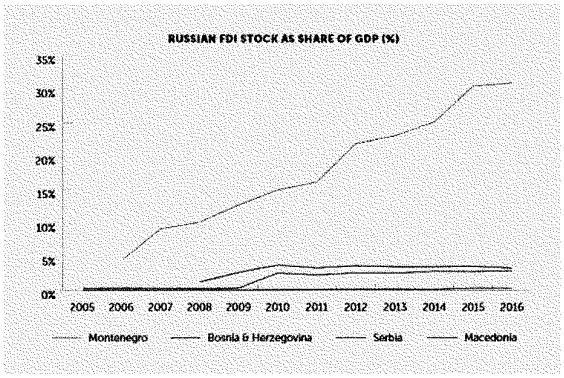
[2] "Chapter One: From 'Soft Power' to 'Sharp Power,'" Sharp Power: Rising Authoritarian Influence, National Endowment for Democracy: 2017, 22.

[3] Vladimirov et al, Russian Economic Footprint in the Western Balkans," 2018.

EXPLOITING GOVERNANCE GAPS

Russia's economic footprint in the four Western Balkan countries has visibly expanded over the past decade. Russian companies have invested close to $3 billion[4] in the four countries, half of which has gone to Montenegro, a hub for Russian investment in real estate and tourism. Russian FDI stock in Montenegro accounts for nearly 30% of the recipient country's annual GDP.

FIGURE 4: RUSSIAN INVESTMENT IN BALKAN COUNTRIES AND CORRESPONDING GDP ESTIMATES



SOURCE: CSD CALCULATIONS BASED ON NATIONAL CENTRAL BANKS AND UNCTAD COUNTRY STATISTICS

Moreover, Russian state-owned and private energy companies dominate the region's oil and gas sectors. These firms gained influence through a series of privatization deals for lucrative assets, such as Serbian companies Naftna Industrija Srbije (NIS) and Beopetrol, as well as the Bosnian firms Rafinerija Nafte Brod (oil refinery) and the Modrica motor oil processing facility. These countries remain almost entirely dependent on supplies of Russian natural gas, allowing the Russian state-owned company Gazprom to charge some of the highest prices for gas in Europe. Russian companies also have taken advantage of the closed nature of regional oil and gas markets to solidify their dominant position, successfully exploiting delays in market liberalization and an unwillingness to advance diversification projects. These are among the governance deficits Russian companies have exploited to their benefit. Further, Russia has attempted to lock regional governments into large scale energy projects that exceed their administrative capacities, such as the recently cancelled South Stream pipeline.[5] These projects not only sidelined efforts by regional governments to diversify but exposed them to significant financial risk. Non-transparent privatization procedures, in which asset valuations did not stem from objective economic assessments, have enabled Russian businesses to expand their economic presence in key industries. In most cases, these companies have not complied with the terms of privatization agreements, leading to losses for taxpayers and state budgets alike. Meanwhile, preferential regulatory treatment, including tax regimes and energy subsidies, allows Russian companies to register enormous profits, expand their market share and minimize tax payments.

[4] Vladimirov et al, Russian Economic Footprint in the Western Balkans, 2018.
[5] Ibid

To exploit these governance loopholes, Russia has attracted local power brokers by offering government-sponsored business opportunities at premium returns.[6] These intermediaries in turn have benefitted from further business opportunities or Russian support for their political objectives. Ultimately, the concentration of power in small, influential economic-political networks creates vulnerabilities that Russia can exploit to sway decision-making.

Finally, to amplify the effect of its economic footprint, Russia has deployed an array of traditional soft power instruments, including media presence, support for pro-Russian domestic civil society and political parties, and high-leve political visits and statements. These tools have been used to support both current governments and opposition groups, depending on what suits Russia's ends. In Bosnia and Herzegovina, Russian political support has exacerbated internal divisions on both the economic and political fronts, successfully diverting the country from its path toward NATO and EU accession.

SERBIA: Serbia is the most visible manifestation of Russia's economic footprint in the Balkans. Russian entities have gradually taken over the Serbian energy sector. Russian entities, directly or indirectly, affect as much as 10% of the economy, where corporate presence is measured by volume of revenues and assets controlled by Russian companies in Serbia.

There are two main interconnected factors in Russo-Serbian relations that have laid the foundations for Russia's expanded power in the country. One is Russian support for Serbia's non-recognition of Kosovo's declaration of independence, and the second is a 2008 energy agreement that included Gazprom's takeover of Serbia's largest state owned company, oil and gas firm NIS. The indirect Russian influence has different forms, including local companies' dependence on Russian raw material imports such as natural gas; debts accumulated for gas supply; and domestic companies' dependence on exports to Russia and Russian-controlled bank loans.

The Russian economic footprint is most obvious in the energy sector, where Gazprom and Lukoil dominate the oil and fuels markets. Serbia is almost fully dependent on natural gas imports from Russia, and local politically-connected intermediaries prevent supply diversification and market liberalization.

MONTENEGRO: The last decade has seen a significant level of economic engagement by Russian companies and individuals in Montenegro. Vital economic ties have been sustained despite the fact that bilateral political relations worsened as this small Adriatic country stepped up its efforts to complete the NATO accession process. The deterioration of political relations between the two countries culminated in an alleged failed coup attempt in 2016 and the Russian backing of the opposition Democratic Front(DF) party. Even so, Russian investment flows never dropped below 10% of total FDI and accounted for almost 30% of Montenegro's GDP, as noted earlier. [7]Russia has exploited governance gaps to take advantage of Montenegro's lucrative privatization opportunities and to extract state subsidies in Montenegro. In addition, Russia has assertively tried to meddle in Montenegro's domestic politics. Russia supports political parties, launches media attacks against Montenegro's government and allegedly organized street protests and attempted a coup d'état before the country joined NATO.

Montenegro's largest company, the Podgorica Aluminum Plant (KAP), was once part of the metal empire of an influential Russian private investor who is reported to have close ties to the Russian government. In 2014, bankruptcy procedures were initiated after KAP accrued more than $300 million in debt.[8] The aluminum plant, which used to contribute approximately 15% of Montenegro's GDP, 51% of exports, and employed 2.3% of the population, has shrunk significantly since then. A court claim involving hundreds of millions of USD was launched in late 2016 by the Russian businessman against the government of Montenegro and could put the country at serious financial risk.[9]

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[6] Ibid
[7] Ibid
[8] Dusica Tomovic, "Montenegro Sells Bankrupt Aluminum Plant," Balkan Insight, June 11, 2014.
[9] "Russia's Deripaska sues Montenegro for lost aluminum investment," Reuters, December 7, 2016.