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U.S.-EUROPEAN COOPERATION ON CHINA AND THE BROADER INDO-PACIFIC

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON ASIA, THE PACIFIC, CENTRAL ASIA, AND NONPROLIFERATION

and

SUBCOMMITTEE ON EUROPE, ENERGY, THE ENVIRONMENT AND CYBER

OF THE

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U.S.-EUROPEAN COOPERATION ON CHINA AND THE BROADER INDO-PACIFIC

Tuesday, July 20, 2021

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA, THE PACIFIC,
CENTRAL ASIA AND NONPROLIFERATION JOINT WITH THE
SUBCOMMITTEE ON EUROPE, ENERGY, THE
ENVIRONMENT, AND CYBER
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittees met, pursuant to notice, at 2:06 p.m., via Webex, Hon. Ami Bera [chairman of the subcommittee on Asia] presiding.

Mr. BERA. The Subcommittee on Asia, the Pacific, Central Asia, and Nonproliferation will come to order. Without objection, the chair is authorized to declare a recess of the committee at any point and all members will have 5 days to submit statements, extraneous material, and questions for the record subject to the length limitation in the rules.

To insert something into the record, please have your staff email the previously mentioned address or contact full committee staff. Please keep your video function on at all times, even when you are not recognized by the chair. Members are responsible for muting and unmuting themselves, and please remember to mute yourself after you finish speaking.

Consistent with remote committee proceedings of H.Res. 8, staff will only mute members and witnesses, as appropriate, when they are not under recognition, to eliminate background noise. I see we have a quorum and will now recognize myself for opening remarks. And as mentioned earlier to the witnesses unfortunately, we may have votes get called at some point during this hearing, in which case we will take a recess and then reconvene after votes.

I would like to thank my chair, Bill Keating, and the Europe Subcommittee staff for partnering with us on this important hearing, and welcome our witnesses and members of the public for joining us this afternoon.

Last month, the APCAN Subcommittee held a hearing on the role of liberal norms and values in U.S. foreign policy for the Indo-Pacific. In that hearing, our witnesses reaffirmed the importance of having a positive agenda and redoubling our commitment to the democratic values such as respect for the rule of law, for free markets, freedom of navigation, human rights, human dignity that really have been a key source of U.S. strength and competitiveness.

If we think about our history post-World War II and the transatlantic relationship, as we came together and built a strong relationship between the United States and our European allies and

partners, we not only created the most dynamic regions in the world, the most innovative regions of the world, but we advanced a common set of shared values.

Again, values that I just mentioned of democracy; values of human dignity; values of free market and entrepreneurship and competition. Values that not only served the United States and Europe well, but also served the rest of the world as we created a partnership and a relationship that really led one of the most peaceful times in world history but also lifted millions of people around the world out of poverty.

As we move forward into the 21st century we do see threats to that liberal, competitive, democratic order. We see the rise of authoritarianism in parts of the world, and much of this was discussed at the recently concluded G7 meetings which also included four additional advanced democracies around the world.

And as you look at that communique, it does recognize the vibrancy of what is happening in the Indo-Pacific region, and the purpose of this hearing is to talk about how the United States and Europe can work together not just to continue what really has been a thriving partnership, but also to look at the other dynamic areas of the world, in this case, particularly the Indo-Pacific, and how we can advance through our partnership and like-minded values, a set and a construct that will serve us well in the 21st century, again building on those values of free markets, freedom of navigation, competition, human dignity, human rights and democracy.

It is not a given which set of values will prevail in the 21st century, but it is incumbent upon us as friends and longtime partners to continue to work together not just on the transatlantic relationship, but now on the transpacific relationship and how we bring those two partnerships together.

I also would like to take the opportunity to recognize the work of Chairman Meeks who has been a leader in supporting the transatlantic partnership on a number of issues including climate change and infrastructure, and at this time, I would ask unanimous consent to enter Chair Meeks' June 28th foreign policy oped on the Build Back Better World partnership into the record.

Hearing no objections, we will enter that into the record.

[The information referred to follows:]

The Build Back Better World Partnership Could Finally Break the Belt and Road

When nations are freed from China's oppressive debt practices, economies across the world can achieve sustainable growth through trade, stability, and collective prosperity.

By Gregory W. Meeks, chairman of the House Foreign Affairs Committee.

JUNE 28, 2021, 2:39 PM

U.S. President Joe Biden's first trip abroad showcased America's return to the world stage, where it is once more leading the vanguard of like-minded trans-Atlantic allies—tied together by shared values of democracy, human rights, and the rule of law. However, to say this was simply a "return to normal" is selling it short.

Following the G-7 meeting in the United Kingdom early in Biden's trip, the White House announced an agreement to form the Build Back Better World partnership—or the B3W—which would leverage the G-7's development finance tools in investments in low- and middle-income countries around the globe.

Today, the developing world faces a staggering $40 trillion infrastructure investment gap that undermines global development and sustains poverty. Without critical infrastructure—like stable power grids, hospitals, high-speed internet, environmental resilience, roads, and ports—economies around the world are unable to modernize or provide for their populations. And when infrastructure projects are announced, they are too often doomed to fail because they fall short on funding; are mired in corruption; do not consider or adequately incorporate critical areas such as climate, health, and digital technology; or suffer from a lack of clear governance standards.

Under the last administration, the United States retreated into an America-alone policy that ceded leadership to rival nations that were more than eager to fill the void. Not only did American diplomacy devolve into grievance politics that alienated the United States' closest allies—damage Biden worked to mend on his trip—but the United States also pulled back from developing countries.

In contrast, China's Belt and Road Initiative is set to invest more than $1 trillion across more than 60 countries around the world to meet the glaring need for infrastructure. Of course, Belt and Road loans come with significant strings attached and a model utterly lacking in transparency, good governance, and labor or environmental standards. And China's infrastructure investments are a Trojan horse to help it expand its political, economic, and military reach at tremendous cost to host nations and at America's strategic expense.

Yet, with a United States retreating behind its own borders, it is hard to be critical of governments willing to take the only offer on the table. That's especially true now, given the destructive COVID-19 pandemic that has devastated economies around the world and put greater strain on already stressed health infrastructures.

These realities underscore why B3W is an opportunity for the wealthiest like-minded countries to mobilize their collective capacity for spurring private investment where it is most needed. Mobilizing capital will be B3W's primary challenge, but it is time for the United States to move from promises to tangible action. The United States and its G-7 partners must develop new tools to spur market-driven investments. They also need to coordinate with multilateral development banks and financial institutions to crowd in sustainable, private capital.

To counter the Belt and Road model, the United States should work with partners to emphasize and demand transparency and high standards from the outset of the Build Back Better World initiative. Countries around the world are starting to see the value in prioritizing equity and sustainability within their economic growth and development models. B3W should embrace those principles by ensuring that environmental and labor protections and transparency are built into the partnership's processes as safeguards against corruption and poor governance. Pushing for a common set of standards across the major multilateral institutions and development banks would go a long way in ensuring infrastructure projects adhere to recognized safety and environmental standards, and that there is pressure on China to change its

practices as well. The United States and its allies must also consider opportunities to strengthen and expand technical assistance where needed to support developing countries in implementing transparency and good governance mechanisms around infrastructure projects and trade.

B3W also provides an opportunity to rethink what infrastructure looks like in today's world. The United States should ensure that investments are reliable, affordable, and sustainable. In addition to this, the United States must consider how technical and human capital limitations in many low-income and lower-middle-income countries present unique challenges in transitioning to clean energy sources. It is important we ensure a just transition that supports sustainable economic growth in developing countries as we work with them to address climate change and facilitate power sector reform. The international community must assist developing countries with knowledge and technology transfers to build out diversified and reliable critical infrastructure and human capacity in these sectors. Supporting the Green Climate Fund is one critical component in achieving this goal for a just and sustainable transition.

B3W must not invest simply to compete with China but because a high-standard, transparent, and environmentally and financially sustainable approach will benefit countless nations around the world, bolstering governance and global economic stability. Indeed, it would be a mistake to view the developing world solely through the prism of great-power competition with Russia and China. The United States needs to engage, for example, African nations on their own merits, understanding that cooperation on economic growth, development, and good governance practices serve each country's mutual interests. That means refraining from a top-down approach and working with regional organizations, civil society, and diasporas to drive investments.

Mr. BERA. I am going to keep my comments short so we can actually get to the witnesses and hopefully get to as many members as possible. And with that I want to recognize my good friend from Ohio, our ranking member, Representative Steve Chabot, for any opening comments he may have.

Mr. CHABOT. Thank you, Mr. Bera, and thank you for the witnesses. Mr. Chairman, a defining story of the 20th century was the transatlantic solidarity in the face of existential threats to our most closely held values. That was back in the 20th century. The wars that our democracies fought together, the order that we helped shape in their aftermath vanquished the tyrants—principally, socialist tyrants, I would note—who sought to create a world in which individual liberties were subjugated to the interests and ideologies of the State. A world in which the sovereignty of smaller, weaker, or just plain unlucky States was trodden on by would-be hegemons.

Regrettably, the 21st century has presented us with a new socialist challenge perhaps of comparable scale. Xi Jinping has emerged as the most power-hungry leader of the PRC since Mao Zedong, and under his regime the Chinese Communist Party isn't even trying anymore its goal of imposing—it is not making it a secret anymore.

They are not trying to hide it, their goal to impose their authoritarian model of governance on the rest of the world and crush the free and open rules-based international order. Indeed, Xi has advertised the CCP's totalitarianism as a "new option for other countries and nations who want to speed up their development," while the CCP foreign policy chief has publicly ridiculed what he refers to as the so-called international order championed by a few countries.

In the face of this challenge, the United States and Europe need to stand together once again to defend the democratic order our parents and grandparents sacrificed so much to defend. And while there are reasons to be optimistic, much remains to be done.

This week's announcement of a global grouping of democracies to counter cyber-attacks illustrates the advantage that like-minded democracies have over the PRC, assuming we pose real consequences on the perpetrators of cyber-attacks including against any countries that condone those cyber-attacks, yet there is much more work as I said that we need to do and the stakes couldn't be higher.

On his first foreign trip last month, President Biden sought to rally our European allies in support of his efforts to confront the CCP. We saw growing recognition of the threat posed by the CCP in the joint statements and communiques that came out of the G7, NATO and the U.S.-EU summits. Of course, rhetoric is not enough. Commitment and concrete action that results in Europe charting a tougher, more clear-eyed approach toward Beijing is what it will take. For example, the transatlantic alliance must provide a values-driven, high-standard, transparent alternative to the predatory investments offered by the CCP.

The launch of the U.S.-initiated Build Back Better World initiative—which could have used, I think, a better name—at the G7 summit to compete with PRC's Belt and Road Initiative is a step

toward such an alternative. Yet without serious commitments from our European allies, this initiative will be ineffectual, enabling the CCP to continue buying political influence for investments and trade across the globe.

Unfortunately, despite acknowledging the PRC as a systemic rival, the EU agreed to enter into a new investment agreement with China at the end of last year, further tying Europe to a regime willing to use any economic length as a tool of coercion. Retaliatory CCP sanctions on European officials who have criticized the regime's human atrocities and Biden's trip to Europe have thus far failed to convince key European member States to end their support for the agreement's ratification.

And I really do look forward to hearing from our expert witnesses here today on additional concrete steps that the alliance can take. We must work together with our allies across the Atlantic to ensure that democracies prevail over the threat posed by the CCP. And so again, Mr. Chairman, I appreciate you holding this hearing today and look forward to hearing all the testimony and asking questions. Thank you and I yield back.

Mr. BERA. Thank you, Mr. Chabot. I now yield 5 minutes to my friend, Representative Bill Keating, the chair of the Subcommittee on Europe, Energy, the Environment and Cyber for any opening comments he may have.

Mr. KEATING. Thank you, Mr. Chairman.

For the first time ever, at last month's summit in Brussels, NATO members agreed that China's stated ambitions and assertive behavior presents systemic challenges to the rules-based order, clearly demonstrating the extent of the challenge China poses to the transatlantic alliance. But I believe also it shows and exemplifies the determination of the U.S. and our European allies to rise to this challenge.

It is this determination that inspired Chair Bera, Ranking Member Chabot, Ranking Member Fitzpatrick, and I to organize this hearing today, where we will seek to better understand the current State of European engagement with China as well as how we might cooperate more closely in the greater Indo-Pacific region.

The question of how to respond to a rising China has consumed foreign policy debates in recent years, but a number of the recent developments bear closer examination. Economically, China has made a concerted effort to expand its global influence through the Belt and Road Initiative. In 2020 alone, China invested $65 billion in countries around the world and that number is only expected to grow in the coming years. Many of these investments lack transparency and accountability, particularly in the energy and transportation sectors, and they are often predatory in nature, putting nations around the world into grave financial danger.

On the military front, the People's Liberation Army has grown increasingly assertive throughout the Indo-Pacific. From border clashes with India to illegal island building in the South China Sea to increasing frequent incursions around Taiwan, China continues its efforts to provoke maritime military conflict. At the same time, China's continued development with nuclear capabilities and military applications for emerging technologies like artificial intelligence remain firmly under wraps.

This lack of transparency only further fosters distrust. We could talk for much of the time that we are allotted today on many of the pitfalls of a rising China, but we also need to take action. That is why the House Foreign Affairs Committee passed the EAGLE Act out of the markup last week to be voted on the House floor.

This comprehensive piece of legislation calls for the revitalization of American diplomacy, leadership, and investments, globally, in response to the policy changes that are posed by China. Fortunately, the United States does not stand alone in its concern about these developments. In June, the leaders of the G7 joined President Biden in announcing the Build Back Better World initiative, a project that will advance both infrastructure and democratic development around the world. Further, the European Commission is currently drafting a comprehensive Indo-Pacific strategy, one that will encompass trade, security, and climate change mitigation and more.

Finally, cooperation is coalescing in the Indo-Pacific as well. Just last week, President Biden attended the APEC leaders virtual retreat where he discussed ways to unleash the economic power of the region and to deepen U.S. economic engagement throughout the Indo-Pacific, including the recently announced Build Back Better World partnership.

All these developments represent a growing consensus among liberal democracies that countering China's authoritarian model will require a concerted effort on all our parts. The question now is how the United States and Europe can coordinate and cooperate to maximize the impact of their policies together in the Indo-Pacific region.

To answer this critical question, my colleagues and I have invited a group of incredibly knowledgeable experts with diverse ranges of professional experiences. They include Heather Conley and Matthew Goodman, both senior vice presidents at the Center for Strategic and International Studies; the Mercator Institute for China Studies' head of China Research Matt Ferchen; and the Hudson Institute's Peter Rough. As longstanding experts in the field, you will be able to give us concrete recommendations on how the U.S. and EU can bolster cooperation in areas such as infrastructure development, security, and economic strategy, and we thank you all for being here today.

Without a doubt, China presents a fundamental challenge on multiple fronts, but I am confident that working together we are more than up to the task. History tells us that democracies are strongest when united and they are the weakest when they are divided. Countering China and developing a cohesive strategy in the Indo-Pacific are bipartisan concerns here in the U.S. and in Europe, and I hope we can use today's hearing to think about how we can bring together our country's policy and present a united front.

I look forward to the testimony and to a productive discussion with all of you, and I turn now to Ranking Member Mr. Fitzpatrick for his opening statement.

Mr. FITZPATRICK. Thank you, Chairman Keating, also Chairman Bera, Ranking Member Chabot, for holding this hearing today, and to our panel of witnesses for being here.

Forging a united coalition with our democratic allies and partners to confront the autocrats in Moscow and in Beijing is a national security imperative. Both regimes have engaged in relentless attacks on the rules-based international order, our values, and our institutions. And to deter aggression from the Taiwan Strait to Ukraine's shared border with Russia, the United States will need to enlist the support of our allies. Only by rallying the transatlantic partnership can we ensure that our democracies win out in today's great power competition.

So today, we will focus on how to build transatlantic unity to counter the greatest threat of our time, the Chinese Communist Party. I was pleased to see the emphasis that the President put on this goal during his recent visit to Europe; however, that strong rhetoric that resulted from the world's leaders meeting at the G7, NATO, and the U.S.-EU summit demonstrated a historic level of convergence, yet the Administration's work is not even close to being done.

Now it must ensure that these words and sentiments are followed up with strong action. We must begin by acknowledging the strength in the transatlantic relationship. For decades, our European allies have been our closest partners in addressing shared challenges across the globe. The NATO alliance in particular has been the cornerstone of an unprecedented period of peace and prosperity, and I was encouraged that the final communication of the NATO summit this past June identified the Chinese Communist Party as posing "systemic challenges" to Euro-Atlantic security, and it asserted that China's—and this is a quote—"coercive policies stand in contrast with the fundamental values enshrined in NATO's founding treaty."

This recognition now requires every ally to assume greater responsibility for our collective security and resilience and, as such, the Administration must be willing to insist that our allies across the Atlantic meet the defense spending pledge agreed to at the 2014 Wales Summit, ensure the security of their telecommunications networks, the security of their ports and other critical infrastructure, and perhaps most significantly address supply chain vulnerabilities.

We must secure sectors from fundamental and emerging technologies to include PPE, pharmaceutical manufacturing, and perhaps most importantly, semiconductors. And I also hope that the Administration will continue to robustly support the Three Seas Initiative.

Following Lithuania's decision to exit the CCP's 17+1 initiative, the Administration now has a window of opportunity that it must take advantage of to provide key Central and Eastern European allies an alternative to the PRC's financing and trade through their Belt and Road Initiative. We must fight back against the CCP's attempts to divide Europe and sow discord in the transatlantic alliance at every turn.

The U.S., Europe, and the free world also share the collective goal of eradicating forced labor around the globe, and yet China continues to sponsor such activities in various regions. As expressed by this committee earlier this year through House Resolution 317, the CCP has committed crimes against humanity in geno-

cide against the Uyghurs. We must not be afraid to name, shame, and sanction any entity that engages with any supply chain compromised by forced labor and genocide. Moreover, despite the growing Chinese presence in Europe and U.S. markets, reciprocal access has not been granted in Chinese markets.

The CCP has blocked foreign investment in infrastructure, technology, and the financial services industries while increasing activity in these sectors abroad. While the EU-China Comprehensive Agreement on Investment seeks to address these issues along with the CCP's forced labor practices, it falls exceedingly short and I hope that the European parliament continues to block the agreement's ratification; that the remaining advocates in Europe who believe economic engagement with the PRC can transform into a responsible stakeholder that they will realize that this assumption is not only flawed but it is dangerous. We must remember that China's intent is not to sow balanced trade relationships across Europe, rather, it is to make the Western world into mere consumers.

And I am hopeful that the establishment of the U.S.-EU Trade and Technology Council, if used effectively, can provide a needed venue through which to address the points of friction in the transatlantic relationship that have impeded building a united coalition against the Chinese Communist Party. However, unless Europe is willing to cease targeting U.S. technology companies and be more clear-eyed about the threat posed by the Chinese Communist Party's unfair and illegal economic practices and its digital authoritarianism, this Council could end up being nothing more than talking shop that achieves little.

It is my hope that our witnesses today can address what more can be done to transform the strong rhetoric on the threat posed by the CCP in a necessary and united action. The time is now to build that unified front.

Mr. Chairman, I yield back.

Mr. BERA. Thank you, Mr. Fitzpatrick. And again, I would like to add my thanks to the witnesses to what Mr. Keating had mentioned and welcome Mr. Matthew Goodman from CSIS as well as Heather Conley from CSIS, Dr. Matt Ferchen from the Mercator Institute, and Mr. Peter Rough from the Hudson Institute. I want to thank all of you for participating in today's hearing.

I will now recognize each witness for 5 minutes and, without objection, your prepared statements will be made part of the record. And again, my staff has informed me that Mr. Goodman has a hard stop at 4 p.m. this afternoon so we will keep that in mind. And with that, Mr. Goodman, let me call you for 5 minutes of your testimony.

STATEMENT OF MR. MATTHEW GOODMAN, SENIOR VICE PRESIDENT FOR ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. GOODMAN. Thank you, Mr. Chairman, and thanks to you and Chairman Keating and the ranking members for inviting me here today for this opportunity. And I apologize about that 4 p.m. hard stop, but just unavoidable I am afraid.

In my written statement for the record, I offered more detailed thoughts on U.S.-EU cooperation on China and the Indo-Pacific.

Here, I just want to make one basic point which is that the United States needs a credible and affirmative economic strategy in the Indo-Pacific region. I say that for three reasons.

First of all, because that is where the money is, as Willie Sutton might have said. Second, because we have critical strategic interests in the Indo-Pacific that our military presence alone cannot address. It needs to be complemented with a long-term economic commitment to the region. And third, because it is in the Indo-Pacific that economic rules and norms are most fiercely contested and where we have to up our game.

It is on this third issue that I think Europe's perspective on the region has shifted most. Increasingly, Europeans are seeing the Indo-Pacific not just as a place of economic opportunity, but as a theater of what the European Commission itself has called systemic rivalry. Americans and Europeans do not agree on everything, but there is a growing convergence of views on the shared interests and values we have at stake in the Indo-Pacific.

The coordinated statements yesterday on the cyber hacking by China is an example of some of this convergence, I believe. It was also visible on President Biden's recent trip to Europe both in the G7 Summit in Cornwall and in the NATO and U.S.-EU summits.

Let me just single out two promising areas of cooperation from the long list of important issues discussed at those summits. First, the establishment of U.S.-EU Trade and Technology Council provides an important platform to align transatlantic views and policies on protecting and promoting critical technologies, supply chains and, importantly, on data governance. The rules around data in particular, data flows and privacy and security of data are critical and the U.S. and EU need to find common ground in this area and then align with partners in the Indo-Pacific.

A second promising area of cooperation from the Biden trip was infrastructure as has been mentioned. As you know, G7 leaders agreed to launch a new Build Back Better World or B3W initiative. In essence, B3W is about offering a high standard, transparent alternative to China's Belt and Road Initiative in meeting the 40 trillion dollars-plus of needed infrastructure in the developing world.

The key to this initiative lies in mobilizing the 100 trillion dollars-plus of pension and insurance funds and other private capital in G7 countries to invest in infrastructure projects around the world. But infrastructure is a difficult business even here in the United States, or so I am told, and governments are going to have to put skin in the game if they want to pull private capital in.

Three specific areas where government resources could be usefully directed: First, project preparation facilities offered by multilateral development banks, the EBRD. The European bank has a great program, for example, in this area in project preparation, but also bilateral agencies like the USTDA does this as well. This is important to developing a pipeline of so-called bankable projects that private investors will want to put their money in.

A second area is first loss guarantees and insurance programs offered by MDBs and the U.S. Development Finance Corporation to compensate investors if losses exceed a certain level. Third, is capacity building in recipient countries. In my written statement, I mention the promising initiative launched by the Trump adminis-

tration called the Transaction Advisory Fund, under which we drop lawyers and aid officials into countries to help them negotiate contracts. This is a great idea. The amounts of public money to do all these things are not huge, certainly not by comparison with China's spending on Belt and Road or with the potential U.S. private capital that could be unleashed.

Let me conclude by going back to my first point about a credible economic strategy in the Indo-Pacific. To me, credibility depends both on what we have to offer and how we go about offering it. Honestly, the United States has been on the back foot in the Indo-Pacific since we withdrew from the Trans-Pacific Partnership in 2017. First best, in my view, would be to get back to something like TPP. But if we are not going to do that we need an array of economic policy offerings in infrastructure, in clean energy, in women's economic empowerment, or other issues that resonate in the region.

As for the how, two points here. First, we need to get some things going quickly to demonstrate our credibility, whether pilot infrastructure projects under B3W or docking onto the data governance work that is already underway in the Indo-Pacific, as I suggested in a recent piece that I wrote. The other point about the how is that we need to work with allies and partners on all of this. The issues are too big and the competition too great to go it alone.

Working with our European partners is a great place to start, which is why I welcome the subject of this hearing. Thank you for your attention and I look forward to the discussion.

[The prepared statement of Mr. Goodman follows:]

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Statement before the House Foreign Affairs Subcommittees on Asia, The Pacific, Central Asia, and Nonproliferation, and Europe, Energy, the Environment and Cyber

"U.S.-European Cooperation on China and the Broader Indo-Pacific"

A Testimony by:

Matthew P. Goodman

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July 20, 2021

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Chairman Bera, Chairman Keating, Ranking Member Chabot, Ranking Member Fitzpatrick, distinguished Members of the Subcommittees, thank you for this opportunity to offer my thoughts on U.S.-European cooperation on China and the broader Indo-Pacific region.

I was asked to focus my comments on the Group of Seven (G7)'s Build Back Better World (B3W) global infrastructure initiative and how the United States and its European partners can work together to put it into motion. In doing that, I will draw extensively from a brief analysis of the initiative I published last month with my CSIS colleague Jonathan Hillman,[1] as well as the work we have been doing over the past six years on global infrastructure issues through the CSIS Reconnecting Asia project.[2] But before discussing B3W, I would like to lay out the broader context for U.S.-European cooperation in the Indo-Pacific region.

Opportunities and Challenges in the Indo-Pacific

For both the United States and Europe, the Indo-Pacific region[3] exerts a strong gravitational pull on their political, security, and economic interests. The region accounts for roughly half of the world's population, gross domestic product, and trade. It includes a number of security flashpoints, from territorial disputes to nuclear proliferation concerns. It is a region prone to both seismological and climate-related disasters. And, perhaps most important for today's discussion, the Indo-Pacific region is where global rules, standards, and norms that will shape our security and prosperity over the coming decades are most fiercely contested.

At the heart of this story is China. In just four decades, the country has risen from abject poverty to become the largest economy in the Indo-Pacific and second largest in the world. On many levels, China's rise has been an enormously positive development—certainly for the hundreds of millions of Chinese citizens who have joined the middle class, but also for others in the region and beyond that have benefited from China's growth as a market, as a key link in global supply chains, and increasingly as a source of advanced technological know-how.

But China's rise has also brought with it substantial challenges for the international system. China is now the world's largest source of greenhouse gas emissions and other forms of environmental damage, for example to the Lower Mekong Basin. Over the past two decades, a series of global health crises—from the SARS epidemic of the early 2000s to the Covid-19 pandemic today—have originated in China.

Moreover, with its greater strength has come a troubling turn toward more authoritarian and assertive behavior by Beijing that poses a severe threat to the regional and global order. The administration of Xi Jinping has tightened internal political controls and sharply constricted personal freedoms, notably in Xinjiang and Hong Kong. In the economic realm, Beijing has largely abandoned the path of reform and opening pursued by Xi's predecessors and doubled down on market-distorting industrial policies, including massive subsidies, forced technology transfers, and data protectionism. Externally, Beijing has violated international law and norms through island-

[1] https://www.csis.org/analysis/g7s-new-global-infrastructure-initiative
[2] https://reconasia.csis.org/
[3] Defined here to include the 21 economies of the Asia-Pacific Economic Cooperation (APEC) forum, plus India, the three non-APEC members (Cambodia, Laos, and Myanmar) of the Association of Southeast Asian Nations (ASEAN), and the Pacific island states

building and other illegal activities in the South and East China Seas, and through recurring examples of economic coercion against neighboring countries.

Even where China's policies are not as overtly disruptive to the global order as the examples above, Beijing is offering alternatives to established institutions, rules, and norms long championed by the United States and its allies and partners. The foremost example is Xi Jinping's signature Belt and Road Initiative (BRI), which has provided hundreds of billions of dollars of Chinese financing for infrastructure projects around the world, while raising a number of concerns including lack of transparency around China's lending, corruption, unsustainable debt, adverse environmental and social impacts, and projects with dual-use potential. I will come back to BRI later.

Meanwhile, Beijing is portraying its version of authoritarian state capitalism as a more effective model of governance than the free-market, democratic approach offered by the United States and its allies. While this is a highly debatable proposition, the perception has gained some traction in the Indo-Pacific region and beyond. For the next decade at least, it seems clear that we are in a fierce competition with China over whose vision of regional and global order will prevail.

Answering the China Challenge

How should the United States and its allies respond to this multifaceted challenge? Containing China or broadly decoupling from it are not realistic options; every country, including the United States, has some level of interdependence with China, much of it mutually beneficial. Moreover, given China's central role in transnational challenges like climate change, pandemics, and proliferation, the United States and its partners have no choice but to engage with Beijing if we are going to find meaningful solutions to these problems.

To create space for that engagement while ensuring that we manage competition with China, four lines of effort are required, two defensive and two offensive. First, we need robust policies to protect critical technologies and supply chains. The strengthening of U.S. investment screening and export control regimes in recent years has been broadly helpful in this regard, as have efforts to ensure the resilience and integrity of critical supply chains and international research collaboration. The key in implementing these policies is to maintain openness—whether of trade, investment, or scientific collaboration—as the preferred option, with restrictions applied only where there is an identified threat to national security.

Second, we need to defend existing rules and norms. Where China violates existing trade rules, we should challenge them in the World Trade Organization (WTO) or under domestic laws. Where it engages in massive subsidization or other market-distorting practices, we will need to develop new rules and policies to constrain this behavior. Where China's lending practices encourage unsustainable debt, we should push for greater transparency. Responding effectively to China's economic coercion, though challenging, is also critical.

To compete with China, we also need to play better offense. This means, first of all, running faster. We need to invest more in the underpinnings of our own competitiveness, including education and workforce skills, research and development, and sustainable infrastructure. The various pieces of legislation moving through both houses of Congress that address these issues are broadly encouraging. We also need to up our game in international standard-setting and in championing a

U.S.-preferred system of data governance, both of which require legislative and/or organizational changes at home.[4]

The other critical aspect of good offense in this context is offering an affirmative vision and credible policies and programs to implement it. Even if China were not challenging today's order, the United States would have a national interest in upholding and updating high-standard rules and norms that promote its security and prosperity. This is particularly true in the Indo-Pacific region, where the opportunities are greatest, the rules are most contested, and the demand from allies and partners for demonstrations of long-term U.S. commitment to regional affairs is strongest.

Frankly, the United States is currently on the back foot in this regard. U.S. withdrawal from the Trans-Pacific Partnership (TPP) in early 2017 and the failure since then to offer a compelling alternative approach to regional economic integration have created skepticism among allies and partners about our commitment to the region and an opening for China to advance its vision. As I argued in a recent commentary,[5] we need either to rejoin an effort like TPP or offer a credible economic strategy to replace it.

The Importance of Working with European Partners

In all four of these lines of effort, the United States needs to work with its allies and partners. This is a practical point, not a sentimental one. Our efforts to protect critical technologies or enforce existing rules will be ineffective if China or others can take advantage of gaps between the United States and its partners. The success of our investments at home and affirmative policies abroad also rests on support from like-minded countries.

Transatlantic partners are especially important in this regard. The European Union is the world's largest economic unit after the United States, the United Kingdom remains the world's fifth-largest individual economy, and the interests and values of these partners are closely aligned with those of the United States.

European views of Asia, and particularly China, have evolved significantly in recent years. Once seen primarily as a lucrative market, production base, and source of investment, China is now viewed in Europe with far greater ambivalence. I first detected this shift about five years ago when the so-called "16+1" (since expanded to 17+1) forum between China and a group of Eastern and Southern European countries was gaining prominence, and contacts in Brussels told me of their alarm about China's skirting EU procurement rules in its BRI offerings to these countries. Adding to these concerns have been acquisitions of household-name European companies by Chinese investors, Beijing's aggressive industrial and technology policies, and its recent sanctions against EU parliamentarians and think tanks.[6] All of this has hardened views in Europe to the point that in a March 2019 report, the European Commission declared China a "systemic rival."[7]

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[4] For policy recommendations in these and related areas, see the work of the CSIS Trade Commission on Affirming American Leadership: https://tradecommission.csis.org/.
[5] https://www.csis.org/analysis/depa-and-path-back-tpp
[6] https://www.csis.org/analysis/we-stand-merics
[7] https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf

Still, there is not yet in Europe the kind of bipartisan consensus on the China challenge that has emerged in Washington in recent years. The governments of the four largest European economies—Germany, the UK, France, and Italy—have all wavered between accommodation and confrontation of China, for example on whether or not to ban Huawei equipment from their telecommunications networks.[8] Moreover, broader rifts between the United States and EU during the past several years—over Trump's tariffs and Biden's "Buy American" policies on one hand, and Brussels' aspirations for "strategic autonomy"[9] and "technology sovereignty"[10] on the other—raise doubts about the scope for transatlantic cooperation.

Against this backdrop, President Biden's trip to Europe in June was constructive in conveying a sense of U.S.-EU solidarity on the economic policy front. In addition to setting aside their longstanding aircraft subsidies dispute, the two sides agreed to set up a new high-level Trade and Technology Council (TTC)[11] to coordinate their bilateral and global economic policies. The TTC's agenda is expansive but includes a number of promising areas for cooperation, including on technology standards, data governance, export controls and investment screening, and unfair trade practices by non-market economies. These align well with the four lines of effort I enumerated earlier. As always with these bilateral consultation mechanisms, the proof of the pudding will be in the determination of both sides, once the political spotlight has moved on, to work through their differences and make tangible progress toward joint action.

Let me note here the importance of Washington and Brussels' pulling other allies and partners into these cooperative efforts, particularly as they relate to rulemaking and norm-setting in the Indo-Pacific region. Foremost among these partners are Japan and the UK, the third- and fifth-largest economies in the world, each with substantial technological prowess and aligned values and interests. Japan has been a leader in promoting high-standard rules and norms in the Indo-Pacific and beyond, including in bringing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to conclusion and in winning G20 leaders' endorsement of two useful concepts: "quality infrastructure"[12] and "data free flow with trust."[13] Japan also joined the United States and EU in a promising trilateral initiative launched by the Trump Administration to try to rein in China's massive industrial subsidies and other market-distorting policies.[14] For its part, the UK is seeking a new global role post-Brexit and is hoping to join CPTPP and other Indo-Pacific initiatives.[15]

Assessing B3W

Alongside the U.S.-EU and NATO summits, the G7 Summit in Cornwall was an important highlight of President Biden's recent trip to Europe. Having been riven by internal differences and eclipsed by the G20 in recent years, the G7 proved at its June meeting that it retains value as a

[8] https://www.reuters.com/article/us-britain-huawei-europe/as-britain-bans-huawei-u-s-pressure-mounts-on-europe-to-follow-suit-idUSKCN24F1XG
[9] https://ecfr.eu/special/independence_play_europes_pursuit_of_strategic_autonomy/
[10] https://sciencebusiness.net/technology-strategy-board/news/decoding-europes-new-fascination-tech-sovereignty
[11] https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/15/u-s-eu-summit-statement/
[12] https://www.mof.go.jp/english/policy/international_policy/convention/g20/annex6_1.pdf
[13] https://www.csis.org/analysis/governing-data-asia-pacific
[14] https://www.csis.org/analysis/trade-trilateral-targets-chinas-industrial-subsidies
[15] https://www.chathamhouse.org/2021/03/why-joining-cptpp-smart-move-uk

forum for the world's largest advanced market democracies to discuss and find common cause on global challenges—including managing the rise of China.

In addition to major announcements on Covid-19 vaccines, climate change, and global tax, this year's G7 meeting was notable for one major outcome that gave tangible form to allied cooperation in response to the challenge from China: the Build Back Better World infrastructure initiative. A White House fact sheet[16] described B3W as "a values-driven, high-standard, and transparent infrastructure partnership led by major democracies to help narrow the $40+ trillion infrastructure need in the developing world." The core of the initiative involves catalyzing private capital to invest in global infrastructure, with a focus on four areas: climate, health and health security, digital technology, and gender equity and equality.

Motivating B3W are shared concerns among the United States and other G7 countries about China's Belt and Road Initiative since it was launched by President Xi Jinping in 2013. As mentioned earlier, these concerns include lack of transparency, corruption, unsustainable debt, adverse environmental and social impacts, and projects with dual-use potential. The Biden Administration was explicit in framing the initiative as a response to BRI, noting in its fact sheet: "Today President Biden met with G7 leaders to discuss strategic competition with China and commit to concrete actions to help meet the tremendous infrastructure need in low- and middle-income countries."

Unmet global needs are another primary driver of B3W. China's BRI has significantly pulled back in recent years, underscoring Beijing's challenges in managing the endeavor and presenting an opportunity for G7 countries to offer competing alternatives. To be sure, BRI was never as big as sometimes portrayed, reaching into the hundreds of billions rather than trillions of dollars. A lack of transparency, and the absence of official criteria for projects, makes it difficult to track BRI with precision. But the overall trend is clear: as the list of countries participating in BRI has ballooned, the resources being made available to those countries have plummeted. The Covid-19 pandemic has further increased needs in the developing world while reducing the ability of many countries to borrow.

B3W adds to a proliferation of proposed alternatives to BRI, few of which have yet produced tangible results. As mentioned earlier, as host of the G20 in 2019, Japan won endorsement by leaders to a set of principles for quality infrastructure investment. The same year, Japan and the European Union announced a "Partnership on Sustainable Connectivity and Quality Infrastructure."[17] Just last week, EU foreign ministers agreed on a global infrastructure strategy entitled "A Globally Connected Europe."[18] Meanwhile, India announced the Asia Africa Growth Corridor with Japan in 2017[19] and is discussing a joint initiative with the EU.[20]

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[16] https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership/
[17] https://www.mofa.go.jp/files/000521432.pdf
[18] https://www.reuters.com/world/china/after-g7-pledge-eu-seeks-rival-chinas-belt-road-with-own-infrastructure-plan-2021-07-12/
[19] https://aagc.ris.org.in/
[20] https://www.ft.com/content/2e612c38-aba9-426a-9697-78e11ab1c697

For its part, the United States has gradually realized the importance of offering positive alternatives to BRI. In late 2019, United States, Japan, and Australia announced the Blue Dot Network (BDN)[21] to help operationalize the G20 principles.[22] The effort has received encouraging interest from the private sector and civil society, but it is still developing criteria for certifying projects that meet high standards. B3W could add urgency to announcing pilot projects and working toward expansion of BDN to include European partners.

B3W's global scope could allow partners to focus on different functional and geographic areas in line with their capabilities and interests. European partners, for example, are increasingly active in the Western Balkans, where Chinese projects have raised red flags in several EU-candidate countries.[23] Japan has been active in Southeast Asia, where it remains the incumbent provider of infrastructure projects.[24] U.S. involvement is likely to emphasize the Indo-Pacific, which will help respond to criticism that the Biden Administration lacks a credible economic strategy in the region. B3W's focus on mobilizing private capital stems from the G7's recognition that global demands for infrastructure cannot be met by public capital alone. During 2015-19, G7 countries provided nearly $113 billion in official development assistance for foreign infrastructure projects. That support is fundamentally different from most of China's BRI lending, which comes with higher interest rates and does not adhere to the Paris Club principles.[25] While remaining steady as BRI has declined, the G7's combined assistance is only a fraction of what the developing world needs. Developing Asia alone will require $26 trillion in infrastructure investment through 2030, according to the Asian Development Bank.[26]

The private sector is where the untapped financial firepower resides. Pension funds, mutual funds, insurance companies, and sovereign wealth funds are all looking for reliable, long-term returns. Wealth and money managers now handle over $110 trillion, more than 16 times the U.S. federal budget in 2020.[27] But only a small fraction of this vast amount is invested in infrastructure, and developing economies in particular have appeared too risky for many investors.

Mobilizing more private capital for global infrastructure will require designing incentives that shift investors' risk-reward calculus. As the CSIS Global Infrastructure Task Force[28] noted:

> *The challenge is that too often, especially in emerging markets, potential rewards are not commensurate with perceived risks. The list of overarching risks is long and varied: environmental, social, health, and safety risks; inflation, foreign exchange, and other macroeconomic risks; idiosyncratic decision-making, contract disputes, weak rule of law, and other legal and political risks. The complexity of projects should not be discounted, and there is an assortment of construction and operations risks… As a result of all of these*

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[21] https://www.state.gov/blue-dot-network/
[22] https://www.csis.org/analysis/connecting-blue-dots
[23] https://www.csis.org/programs/europe-russia-and-eurasia-program/european-security-politics-and-economics/red-flags
[24] https://www.bloomberg.com/news/articles/2019-06-23/china-no-match-for-japan-in-southeast-asia-infrastructure-race?sref=VZPf2pAM
[25] https://clubdeparis.org/en/communications/page/the-six-principles
[26] https://www.adb.org/news/developing-asia-needs-invest-more-5-gdp-over-next-decade-infrastructure
[27] https://www.pionline.com/money-management/global-aum-set-hit-almost-150-trillion-2025-report
[28] https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/190423_Hadley%20et%20al_HigherRoads_report_WEB.pdf

challenges, there is a shortage of "bankable" projects that can promise enough upside. Unlocking greater pools of U.S. private capital will require innovative ways, including multilateral or direct insurance products, to adjust the current risk-reward calculus.

Making B3W Real

In sum, B3W is a promising initiative that could offer a credible alternative to BRI and help address the gaping infrastructure needs of the developing world in a sustainable way. But it needs support from the Administration and Congress and their counterparts in other G7 countries to have real impact.

First and foremost, the United States and its partners need to invest in a system for developing a sustainable pipeline of bankable projects. Sharing information and improving coordination between public and private sector stakeholders, as the G20's Global Infrastructure Hub[29] was created to do, is necessary but not sufficient. Preparing projects will require putting some public money on the table. In developing countries, project preparation expenses often approach 5-10 percent of the total project cost. The European Bank for Reconstruction and Development's Infrastructure Project Preparation Facility[30] is one promising model to consider.

In our Global Infrastructure Task Force report, we made a number of suggestions for catalyzing private-sector finance for infrastructure, including encouraging development finance institutions like the U.S. International Development Finance Corporation (DFC) and multilateral development banks to use their grant monies to provide first-loss guarantees for projects and reimburse investors if losses exceed a predetermined amount; contributing funding to the Currency Exchange Fund (TCX), which helps mitigate exchange risk; and contributing to the World Bank's Global Infrastructure Facility (GIF), which aids recipient countries with project financing, planning, and preparation efforts.

The recently restructured DFC is a vital tool in U.S. global infrastructure strategy, and I applaud this Committee's recent efforts to strengthen the DFC and make the most of this important organization, especially its equity authority. Other institutions such as the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), and the U.S. Trade and Development Agency (USTDA) are also key to an effective infrastructure strategy and need to be adequately funded and staffed.

The United States and its B3W partners should continue to support capacity-building efforts in developing countries receiving infrastructure finance. Providing transaction assistance bilaterally and through multilateral institutions can help developing countries avoid unusual confidentiality clauses, inflated costs, and other risks.[31] Modest investments in these activities can have outsized outcomes, which will help countries negotiate for better financial and legal terms that meet accepted international standards. For example, helping more countries implement life-cycle cost assessments will also enhance the competitiveness of B3W offerings. In Senate testimony in May

[29] https://www.gihub.org/
[30] https://www.ebrd.com/infrastructure/infrastructure-ppf.html
[31] https://www.wsj.com/articles/u-s-goes-on-the-offensive-against-chinas-empire-building-megaplan-11554809402

2019, I highlighted a promising program launched by the Trump Administration, the Transaction Advisory Fund, that sought to offer this kind of assistance at relatively low cost.[32]

B3W needs to resonate with leaders in developing countries. Many will be eager to expand their options, and the B3W brand could carry prestige as a high-quality effort. But leaders will be cautious about tradeoffs that B3W projects might present—more public scrutiny, higher up-front costs, and longer timelines for project delivery. Competing against China's approach, which often promises speed and low up-front costs, will require fashioning effective incentives. The United States and its partners should consider targeted funding for pilot projects where the groundwork has already been laid and the benefits of the B3W's high-standard approach can be demonstrated relatively quickly.

Finally, the U.S. government needs a central coordinator for these efforts. The list of U.S. agencies with relevant expertise and capabilities is long, including not only State, Treasury, Commerce, and USAID, but also Defense, Homeland Security, Transportation, and smaller specialized agencies such as the DFC, USTDA, and the U.S. Export-Import Bank. President Biden's making the B3W a priority provides an opportunity to more effectively harness these capabilities. Coordination with other G7 countries as they implement B3W will also be critical, and this, too, points to the need for a central locus of coordination in the U.S. government.

Conclusion

What is encouraging about B3W and the various economic initiatives agreed between the United States and European partners during President Biden's recent trip is that they build out the last of the four lines of effort I described earlier: offering an affirmative vision of a global economic order that best serves the interests and values of the United States and other advanced market democracies. We cannot succeed only by playing defense or by trying to stop China or others dissatisfied with the current order from pushing out their preferred approach; we have to offer something better.

Again, this is especially true in the Indo-Pacific region, where many of the rules and norms of the global economy will be set over coming decades. The United States and Europe have a shared interest in working together in that critical region to ensure that our preferred approach prevails. While there is a long way to go, it is encouraging to see the first tangible steps being taken in that direction.

Thank you for your attention.

[32] https://csis-website-prod.s3.amazonaws.com/s3fs-public/congressional_testimony/190522_MattGoodman_Testimony.pdf (see footnote 26 on p. 9)

Mr. BERA. Great. Thank you, Mr. Goodman.

Let me now go to Dr. Matt Ferchen for your testimony.

STATEMENT OF DR. MATT FERCHEN, HEAD OF GLOBAL CHINA RESEARCH, MERCATOR INSTITUTE FOR CHINA STUDIES

Dr. FERCHEN. All right. Thank you to Chairs Bera and Keating, Ranking Members Chabot and Fitzpatrick, and to the distinguished members of both subcommittees for having me here today for this important discussion. My comments today will focus on growing interest in Europe and the Indo-Pacific region, how emerging European Indo-Pacific strategy is a factor into Europe-China relations more generally, and what this all means for U.S.-Europe cooperation on China and in the Indo-Pacific region.

First, a few words of background on rising European interest in the Indo-Pacific. Beginning in 2019, a number of European countries began to issue strategy documents on the importance of the Indo-Pacific. France was the first to issue such a document in 2019 and was then followed by Germany and the Netherlands in 2020.

Not to be outdone, post-Brexit U.K., just this March, announced its commitment to a revitalized role in the Indo-Pacific, declaring itself the best European partner for the region on trade, security, and values. Back in the EU, the French, German, and Dutch Indo-Pacific policy documents all argued for the importance of a coordinated EU-level, Indo-Pacific strategy. This push resulted with the European Council in April of this year issuing a draft EU strategy for cooperation in the Indo-Pacific.

To give you an idea of the aim of the proposed strategy, it begins by stating, "The EU should reinforce its strategic focus, presence, and actions in the Indo-Pacific with the aim of contributing to the stability, security, prosperity, and sustainable development of the region based on the promotion of democracy, rule of law, human rights, and international law."

This April policy document does not yet represent the conclusive EU strategy for the Indo-Pacific and EU officials will potentially finalize their approach this September, but the broad outlines are now in place. How does this renewed European emphasis on the Indo-Pacific fit into the broader Europe-China relationship and what is the significance for U.S.-European cooperation on China and in the Indo-Pacific?

To answer the first question, growing European emphasis in the Indo-Pacific takes place against the background of a broader rebalancing of Europe-China relations. Since at least 2016, the EU and member EU States have stressed the need to balance the benefits of economic engagement with China against the risks and challenges posed by China's authoritarian trajectory at home and abroad. The result was the EU's 2019 three-part formulation of China as a partner, competitor and systemic rival, a balance that also affects European calculations in the Indo-Pacific.

On the other hand, as the EU and different countries in Europe seek to strike a balance in their relations with China, a focus on the Indo-Pacific underscores the importance of the region beyond just China. For example, European Indo-Pacific strategies stress the economic vitality of ASEAN and of EU-Southeast Asia relations. Japan, Korea, and Taiwan also feature prominently in Euro-

pean discussions about options for enhanced supply chain resilience.

With an eye toward China, there is also a strong emphasis on working with like-minded partners in the Indo-Pacific to strengthen democratic governance, the rule of law, and defense of human rights. On the other hand, while China is clearly the elephant in the room in terms of European approaches to the Indo-Pacific, the EU and individual European countries have emphasized that their approach to the region is inclusive rather than exclusive, including openness to cooperation with China on certain issues such as climate.

Further, the EU's Indo-Pacific framework contrasts the need for cooperation in the Indo-Pacific against concerns about geopolitical competition in the region including U.S.-China rivalry that threatens to undermine regional security and stability.

With all this in mind, I will conclude with a few recommendations about areas of U.S.-European cooperation in the Indo-Pacific and also a caveat about potential friction points. Issues with the most potential for cooperation include the following: First, given already increased transatlantic coordination on human rights and values, including with respect to Xinjiang and Hong Kong, a joint U.S.-European focus on the Indo-Pacific could also pave the way for greater coordination on the ongoing political and humanitarian crisis in Myanmar, for example.

Second, in terms of Indo-Pacific regional stability and security, while the U.K. and France are the two European countries most likely to commit to NATO and other traditional security cooperation in the Indo-Pacific, the EU and countries like the Netherlands are keen to work with the U.S. and other partners to strengthen maritime rule of law, for example, as a key pillar in the maintenance of regional stability.

Third, there is a growing emphasis on the need for more coordination with the U.S. and other countries in the Indo-Pacific on enhanced supply chain resilience. Last, but definitely not least, in the wake of the G7 summit and the proposed Build Back Better World agenda, there is momentum for enhanced U.S.-European cooperation on infrastructure, financing, and construction in the Indo-Pacific, including in the areas of energy and digital infrastructure.

Let me close on a more sobering note about the most important potential stumbling block in U.S.-European collaboration in the Indo-Pacific. Any effort by the U.S. to explicitly frame cooperation with European partners in the Indo-Pacific as part of an anti-China coalition will likely receive a frosty response in Europe. Effective U.S.-European cooperation in the Indo-Pacific and on China require deft diplomacy and, above all, a solid understanding of complex realities within the Indo-Pacific region itself.

Thank you for your time and I look forward to our discussion.

[The prepared statement of Dr. Ferchen follows:]

Testimony before the

U.S. House of Representatives Committee on Foreign Affairs

Subcommittees on Europe, Energy, the Environment and Cyber; and Asia, the Pacific, Central Asia and Nonproliferation

Hearing on

U.S.-European Cooperation on China and the Broader Indo-Pacific

Testimony by Matt Ferchen

Head of Global China Research

The Mercator Institute for China Studies (MERICS)

July 20, 2021

Chairs Keating and Bera, Ranking Members Fitzpatrick and Chabot, distinguished Members of the Committees. Thank you for this opportunity to speak to you today about U.S. and European cooperation on China and the broader Indo-Pacific.

I will focus my testimony on recent European strategy discussions about the Indo-Pacific, how those discussions factor into the Europe-China relationship, and what this all means for U.S.-European cooperation on China and the Indo-Pacific. My testimony will highlight these key findings:

- European policymakers, both in the EU and in the UK, have increasingly focused on the Indo-Pacific region in recent years. In 2021 alone the EU and the UK have issued strategies outlining their priorities and goals in the region.
- The origins of the EU's focus on the Indo-Pacific go back to 2019 and a series of policy documents from countries like France, Germany and the Netherlands, all of which emphasized the importance of the region for European economic, security, values, and diplomatic interests.
- The timing of heightened European focus on the Indo-Pacific also overlaps with increased American emphasis on the strategic importance of the region in recent years. European policy discussions of the Indo-Pacific also reference policy frameworks generated from American allies and partners in the region itself, including from Japan and ASEAN.
- The timing of European statements about the importance of the Indo-Pacific coincides with an overall recalibration of Europe's relationship with China, officially encapsulated in the EU's tripartite formula designating China as simultaneously a "partner", "competitor", and "systemic rival". Yet European statements about the Indo-Pacific are

explicit in not framing their approaches to the region as targeting, or meant to exclude, China.

- Increased European focus and interest in the Indo-Pacific underscores a number of areas of potential cooperation with the U.S in the region, including on regional stability and security; human rights and democratic values; supply chain resilience; infrastructure and connectivity (including energy and digital); as well as combatting climate and health risks.
- Yet enhanced U.S.-European cooperation on the Indo-Pacific also faces a number of challenges and limitations, including European resistance to framing any such cooperation as part of a broader anti-China bloc; limited European interest and capabilities in focusing on military and traditional security issues in the region; and the potential for competition among U.S and European industrial policies in the Indo-Pacific.

Europe's Focus on the Indo-Pacific

Europe's rising focus on the Indo-Pacific, including a series of recent country and EU-level strategy documents, comes in the wake of a growing focus on the region among important European partners such as the US, Japan, ASEAN, Australia and India. At the country level, France has been in the lead in promoting a focus on the Indo-Pacific. Beginning with a speech in Australia in 2018, French President Emmanuel Macron has been at the forefront of efforts to articulate a coherent French as well as EU-level Indo-Pacific strategy. Beginning with a series of policy documents from the French Ministries of the Armed Forces and Foreign Affairs in 2019 and 2020 and culminating with an updated, summary document issued in April 2021, French foreign policy officials have argued that the Indo-Pacific is a crucial region of overlapping French interests. At the core of French interests in the region is the presence of French territories and citizens stretching from the western reaches of the Indian Ocean all the way to the South Pacific.

Following France, Germany was next to articulate its Indo-Pacific "policy guidelines" in September of 2020. Rather than emphasizing Germany's sovereignty-related interests in the region, the German Indo-Pacific policy document highlights the region's economic vitality and the imperative of ensuring peace and stability in an increasingly volatile region. Especially noteworthy in the German Indo-Pacific strategy is its explicit openness to cooperation with China, including on climate, as part of the region.

Inside the EU, the most recent member state Indo-Pacific strategy document was published by the Netherlands in November 2020. The Dutch Indo-Pacific "guidelines" emphasize that "the geopolitical and geo-economic balance of power is shifting rapidly" and that the Indo-Pacific is the "world's primary growth region". The Dutch Indo-Pacific approach also underlines the importance for the Netherlands and for the EU of cooperation with "like-minded democracies and countries with open-market economies" while also arguing that sustainable regional trade will contribute to peace and stability. In line with Dutch identity as an open, maritime trading nation, the Dutch strategy also places particular emphasis on strengthening the international legal order, including related to maritime disputes in the South China Sea, in the region.

Lastly, and while no longer part of the EU but still part of Europe, the UK has also recently articulated clear arguments about the importance of the Indo-Pacific for British interests. In its March 2021 "Integrated Review of Security, Defence, Development and Foreign Policy", the UK sought to distinguish itself from its EU counterparts by announcing that "By 2030, we will be deeply engaged in the Indo-Pacific as the European partner with the broadest, most integrated presence in support of mutually-beneficial trade, shared security and values." Yet for all these efforts to portray itself as leader of Europe in the Indo-Pacific, the UK's emphasis on economics, security and principles also largely lines up with EU priorities.

In the EU itself, the French, German and Dutch Indo-Pacific policy documents from 2019 and 2020 were all aimed at pushing for a broader, coordinated, EU-level strategy. This coordinated push culminated with the European Council's own April 2021 "Conclusions" for an "EU strategy for cooperation in the Indo-Pacific". The document highlights six priority areas:

1) "working with partners in the Indo-Pacific region",
2) "supporting the international community's global agenda",
3) "advancing our economic agenda and protecting our supply chains",
4) "playing our part in the field of security and defence",
5) "ensuring high quality connectivity, and
6) "advancing our collaboration in the field of research, innovation and digitalization"

The April 2021 document does not yet represent the conclusive EU strategy for the Indo-Pacific, and a potentially updated "Joint Communication" is scheduled for September, but the broad outlines are now in place. Within the six main priority areas, the EU's draft Indo-Pacific strategy provides a wide range of even more specific goals, but it is worth noting that China appears only once in the document and in the context of support for the EU's troubled "Comprehensive Agreement on Investment" with China. Yet the broad list of priority issue areas, as well as the relative absence of references to China, are unsurprising given the need to accommodate the interests of all 27 EU members.

Europe and the Indo-Pacific: The China Question and Implications for U.S.-Europe Cooperation

Two key questions emerge from this brief overview of emerging European Indo-Pacific strategies.

1) What does growing European interest and focus on the Indo-Pacific mean for Europe-China relations?
2) How will Europe's focus on the Indo-Pacific affect U.S.-European cooperation on China and in the Indo-Pacific?

To answer the first question, growing European interest in the Indo-Pacific takes place in the wake of a broad rebalancing of Europe-China relations. Dating back to at least 2016, there has been an increased emphasis in a number of European capitals, including in Brussels, on the

need to balance the benefits of economic engagement with China with the risks and challenges of interdependence with China. A key part of this recalibration has been rising European concern about China's authoritarian trajectory at home and abroad. In its 2019 "Strategic Outlook" on EU-China relations, the EU expressed this new balance with a tripartite formula: "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 the pursuit of technological leadership, and a systemic rival promoting alternative models of governance." This balance among China as a partner, a competitor, and a systemic rival continues to set the tone for EU-China relations and is important for understanding the EU's growing focus on the Indo-Pacific.

On the one hand, as the EU and different countries in Europe seek to strike a balance in their relations with China, a focus on the Indo-Pacific region underscores the importance of other countries in the region as economic and political partners for Europe. For example, a key feature of the various European Indo-Pacific strategies is an emphasis on the economic vitality of ASEAN and the need to build on existing, or create new, bilateral or multilateral trade agreements that also leverage Europe's standard-setting power. Southeast Asia, along with Japan and Korea, also feature prominently in European discussions about options for enhanced supply chain resilience. With an eye toward China, there is also an emphasis on working with like-minded partners in the Indo-Pacific to strengthen democratic governance, the rule of law, and defense of human rights.

On the other hand, while China looms large in the background of European approaches to the Indo-Pacific, the EU and individual European countries have been keen to emphasize that their approach to the region is meant to be inclusive. For example, the EU's April 2021 Indo-Pacific strategy document clearly states that the EU's "renewed commitment to the region is inclusive of all partners wishing to cooperate with the EU." Moreover, the EU strategy emphasizes the need for "cooperation" in the Indo-Pacific and expresses concerns about "intense geopolitical competition" in the region that "threaten[s] the stability and security of the region and beyond, directly impacting on the EU's interests". In other words, European Indo-Pacific strategies are *not* being framed as being part of a broader anti-China coalition and instead emphasize concerns about the potentially destabilizing effects, and their negative impact on European interests, of increased U.S.-China rivalry in the region.

With such important considerations in mind, increasing European attention on the Indo-Pacific region should produce a wide range of opportunities for cooperation with the U.S., including on China-related issues. Issues with the most potential for cooperation include the following:

- **Regional stability and security** – while the UK and France are the two European countries most likely to commit to naval and other traditional security cooperation in the Indo-Pacific, the EU and countries like the Netherlands are keen to emphasize maritime rule of law for the maintenance of stability in the region.
- **Human rights and democratic values** – amidst already increased Transatlantic coordination on human rights and values with respect to Xinjiang and Hong Kong, a joint

U.S.-European focus on the Indo-Pacific could also pave the way for greater coordination on the ongoing political and humanitarian crisis in Myanmar.

- **Supply chain resilience** – while there is little appetitive in Europe for full-scale decoupling, there is a growing recognition of the need for greater coordination with the U.S. and other countries in the Indo-Pacific on enhanced supply chain resilience. The EU-U.S. Trade and Technology Council, launched in June 2021, provides a possible platform for cooperation in the Indo-Pacific.
- **Infrastructure and Connectivity** – in the wake of the recent G7 summit and proposed Build Back Better World (B3W), there is momentum for enhanced U.S.-European cooperation on infrastructure financing and construction in the Indo-Pacific, including in the areas of energy and digital infrastructure. The EU's stalled "connectivity" strategy is also showing signs of life after a push from German and European Council officials; therefore, the time is ripe for U.S.-European coordination on infrastructure standards and on financially and environmentally sustainable infrastructure. Joint U.S.-EU-Japanese cooperation on next steps of the B3W agenda in the Indo-Pacific offers a potential starting point.
- **Climate and Health** – in the wake of dual health and economic crisis triggered by the Covid-19 pandemic, and as the impact grows in the Indo-Pacific, there are multiple opportunities, and imperatives, for enhanced U.S.-European cooperation.

While there are clear opportunities for deeper U.S.-European cooperation within the framework of a joint focus on the Indo-Pacific, there are also some important limitations and risks, including as they relate to China. Most clear among these are:

- **Explicit focus on China** – Any effort by the U.S. to emphasize Indo-Pacific collaboration with the EU or individual countries in Europe as part of an explicit alignment against China is likely to fail. Even though China is the elephant in the room on all the issue areas where the U.S. and Europe could collaborate within the framework of a shared focus on the Indo-Pacific, any obvious effort to frame such collaboration as exclusive of, or directly targeted against, China will likely not receive an enthusiastic reception in Europe.
- **Emphasis on military cooperation** – If a key facet of increased American emphasis on the importance of the Indo-Pacific region in recent years has included a focus on military and traditional security cooperation in the region, then the U.S. is likely to find limited European appetite for military-focused cooperation in the region. With the noted exceptions of the UK and France, and despite increased NATO focus on China and the Indo-Pacific, the emphasis of European interest in regional stability and security in the Indo-Pacific region is likely not to be on military issues, per se, but instead on strengthening rule-based governance and minimizing instability that might result from increased U.S.-China rivalry.
- **Competition as well as cooperation** – for all the possibility of greater U.S.-Europe cooperation within an Indo-Pacific framework, it's clear that European interest in the region is also about enhancing European economic and diplomatic competitiveness

there. Whether it's about a greater role for European green energy technology or shoring up supply chains that could be disrupted by either Chinese or U.S. policies, European officials and business leaders will keep a close eye on protecting their own interests and enhancing their own competitiveness. As the U.S. and Europe look for opportunities for enhanced cooperation in the Indo-Pacific, they also need to be wary of the risks of mutually exclusive and competing industrial policies.

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Mr. BERA. Thank you, Dr. Ferchen.

Let me now call on Ms. Conley for her testimony.

STATEMENT OF MS. HEATHER CONLEY, SENIOR VICE PRESIDENT FOR EUROPE, EURASIA, AND THE ARCTIC, DIRECTOR, EUROPE, RUSSIA, AND EURASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Ms. CONLEY. Chairman Bera, Chairman Keating, Ranking Member Chabot and Fitzpatrick, thank you so much, as well as the distinguished members of both subcommittees, for not only the opportunity to speak before you this afternoon, but holding this as a joint committee hearing. We, bureaucratically, all too often silo our regional expertise and, unfortunately, our strategic competitors take full advantage of that.

Our Asian experts need greater understanding about European political and economic dynamics, and Europeanists need a deeper understanding of China's internal and external policies, so thank you so much for leading by example and I hope you will hold more types of these joint committee hearings.

Very briefly, I would just like to highlight four strategic and security points gleaned from my written statement. First, we have a unique opportunity to strategically reposition the Atlantic world to meet the China challenge but our allies cannot be viewed as burdens to bear, but as the unique strategic assets that they present to the United States. But harnessing the strategic asset is not going to be easy and, most importantly, we cannot conduct transatlantic business as usual.

And I think Ranking Member Fitzpatrick noted that, for example, the Trade and Technology Council cannot be a talking shop. We have to move policies forward. The U.S. cannot inform allies of decisions taken under the guise of consultations. We actually have to consult with them. Transatlantic problems cannot—must be solved in a timely way. We cannot allow problems like the Airbus-Boeing dispute to go on for 17 years. We have to address them immediately.

Tough allied love must be administered by the U.S. from time to time to our allies. We shouldn't shy away from making tough and difficult points. And, finally, the U.S. must deeply invest, diplomatically and economically, in Europe, because a weaker Europe will be much more susceptible to Chinese and Russian influence and unable to support the U.S. in its policy objectives.

We really have a very unique moment. The United States in our National Security Strategy and Global Posture Review, national defense strategies, NATO's updated Strategic Concept, and the European Union's Strategic Compass, all of these strategies must align vis-a-vis China. But again, let's be very clear. This is going to be a very difficult task, and in some ways, yesterday's unified statements between the United States, NATO, and the EU on the Chinese cyber-attack against Microsoft Exchange servers is a perfect example of this.

The U.S. statement was very explicit in attributing the attack to Beijing. NATO's statement acknowledged that some individual allies had attributed this attack, but were careful to note that the organization did not make that attribution. And, of course, the EU

statement was even more carefully crafted to note that malicious actors were hacker groups that happened to be conducting those attacks from the territory of China. This is not to criticize the importance of yesterday's unified statement, but it does underscore how painful and slow this process is going to be to reposition our allies for a unified approach toward China.

My second point is that the U.S. must be very realistic about what and where our European allies can help deliver, particularly in the security realm related to China. Our NATO allies can deliver greater security presence in the Indo-Pacific, particularly the United Kingdom and France. In fact, today's announcement that the United Kingdom will permanently deploy two Royal Navy offshore patrol vessels in the Indo-Pacific coupled with its inaugural deployment of HMS Queen Elizabeth Carrier Strike Group in the Indo-Pacific this fall are really important examples of that contribution.

Yesterday's announcement by France that it was facilitating a South Pacific coast guard network against Chinese illegal fishing is another example of important allied contributions. NATO allies also contribute to the annual RIMPAC exercises. Again, these are all very important demonstrations of allied commitment to greater security in the Indo-Pacific.

But I believe it would be an error to push European allies to shift their limited military capability too much to the Indo-Pacific, rather, we need to encourage our allies to contribute to press with speed at increasing their readiness and defense capabilities in the Euro-Atlantic area with some military contributions toward the Indo-Pacific. But, equally, our European allies must concentrate on Chinese presence in Europe today and its security implications, be that hard or digital infrastructure as well as technology acquisition or theft.

There is important progress happening in Europe, but it has to go more quickly and the U.S. needs to stand shoulder-to-shoulder with Europe to ensure that Europe is safe from Chinese malign influence.

My third point, and this is to reiterate what Matt Goodman noted, the Atlantic community must succeed in the innovation and digital competitiveness race. Again, we cannot have business as usual. We have to work more closely with Europe to ensure that it does not miss the next decade of technological advancement, and this is where we are struggling. We need a new strategic approach to make sure that Europe remains digitally competitive and can made a contribution to emerging technologies.

Finally, the thing that I think is most missing in our thought process is that the U.S. and our European allies must be able to simultaneously manage the Russia and China challenge set and prepare for more Sino-Russian dynamic alignment between our two near peer military competitors. This is not the cold war when all geostrategic focus and attention could be devoted to the Soviet Union and the global spread of communism. We must prepare for both strategic competitors to engage in simultaneous and destabilizing behavior against the West.

This alignment will stress-test allied military, diplomatic, and economic responses and suggests that more joint hearings of this

nature must be held to understand how this Sino-Russian alignment can be used against the West. Thank you again, and I look forward to your questions.

[The prepared statement of Ms. Conley follows:]

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Statement before the House Foreign Affairs Subcommittees on Asia, The Pacific, Central Asia, and Nonproliferation, and Europe, Energy, the Environment and Cyber

"U.S.-European Cooperation on China and the Broader Indo-Pacific"

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Thank you, Chairmen Bera and Keating, Ranking Members Chabot and Fitzpatrick, and distinguished members of the Subcommittees, for this opportunity to speak on what will be the defining strategic and security issue for the U.S. and its European and Asian allies in the years ahead.

The Department of Defense has labelled China a "pacing challenge" for the U.S. military.[1] As we focus all our national efforts to address this challenge, it is essential we use all of our strategic advantages. Of course, our "greatest strategic asset", which our competitors do not possess, is our global network of allies and partners.[2] But in order for our greatest asset to be successfully deployed to assist the United States in its efforts vis-à-vis China, it is essential that the United States more deeply invest diplomatically, economically, and militarily with its European allies and partners. Unless we are willing to fully implement a consistent (unaffected by shifts between Republican and Democratic administrations), credible, and whole-of-society allied policy toward China, the United States will not succeed. That is the strategic premise for U.S. investment in our allies. But let us be equally clear-eyed about the magnitude of the task: broadly speaking, our European allies do not view China as a pacing challenge; they view China as vital to their future economic vitality. Therefore, as we significantly reinvest in strengthening our alliances, we must be realistic in what we can expect from our European allies in the near term.

A Clear-Eyed Allied Assessment

Any clear-eyed assessment begins with the difference in priorities regarding global threat perception. For many NATO allies, Russia remains the primary security threat, which is underscored daily by Moscow's aggressive behavior in Ukraine and the Black Sea, in cyberspace, in the Arctic, and in Africa. For other NATO members, their primary security challenges emanate from the south in the form of migration and terrorism. For many allies, China is not only not a security challenge, it is an economic opportunity and alternative free from Western conditionality.

But allied attitudes have begun to shift due to U.S. leadership. At the 2019 NATO Summit in London, allies for the first time recognized that China poses challenges for the Euro-Atlantic community.[3] However, the language was carefully crafted, also referring to opportunities to work with China.[4] The 2021 Summit Communiqué was more decisive, claiming that, "China's stated ambitions and assertive behavior present systemic challenges to the rules-based international order and to areas relevant to Alliance security."[5] Allies urged China to uphold its international commitments and increase transparency on its growing nuclear arsenal, its military cooperation with Moscow (including its participation in Russian exercises in the Euro-Atlantic area), and its use of disinformation abroad.

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[1] Carla Babb, "Pentagon Launches Effort to Better Address China Challenge", VOA News, June 9, 2021, https://www.voanews.com/usa/pentagon-launches-effort-better-address-china-challenge.
[2] The White House, *Interim National Security Strategic Guidance*, (March 2021), https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf.
[3] "NATO recognizes China 'challenges' for the first time", DW, December 3, 2019, https://www.dw.com/en/nato-recognizes-china-challenges-for-the-first-time/a-51519351.
[4] NATO, *London Declaration*, (December 2019), https://www.nato.int/cps/en/natohq/official_texts_171584.htm.
[5] NATO, *Brussels Summit Communiqué*, (June 2021), https://www.nato.int/cps/en/natohq/news_185000.htm.

What the document does not do, however, is describe China explicitly as a "threat", nor clarify what NATO is willing to do militarily to counter China, whether in Europe or in the Indo-Pacific. This omission was not accidental: there are many allies, such as France, who do not wish NATO to play a leading role in countering China.[6]

Putting aside differences related to threat prioritization, our allies and partners are not aligned themselves on the nature and degree of the China challenge. The EU (of which 22 countries are also NATO members) considers China to be simultaneously a cooperation partner, a negotiating partner, an economic competitor, and a systemic rival.[7] It is hard to imagine how the EU and its 27 member states can effectively reconcile these disparate objectives into a cohesive policy. Failure to do so would represent a Chinese success in using its economic and diplomatic tools to divide the EU. The saga of the EU-China Comprehensive Agreement on Investment (CAI) perfectly illustrates the EU's struggles to unify policy. Late last year, the CAI was quickly forced through, over U.S. objections, with a particular effort from Berlin. Five months later, the European Parliament froze the ratification process after China retaliated against European human rights sanctions by imposing sanctions on members of the European Parliament, think-tank officials, and others.[8] The agreement is unlikely to be ratified—in large part due to Chinese tactics, not American leadership.[9]

A third challenge that neither the U.S. nor its allies have fully begun to factor into a broader strategic framework is greater Sino-Russian military and political alignment. This alignment has the potential to impose enormous strain on and challenges to transatlantic security, especially as it increases the likelihood of simultaneous pressures in both the Euro-Atlantic and Indo-Pacific. It must be better understood, and its strategic implications explored more fully by NATO members.

The China Challenge and Transatlantic Security

With this in mind, what can we expect from our European allies in the Indo-Pacific? Again, to be clear-eyed, from a military perspective, the answer is not much, and not anytime soon.

It is unlikely that European allies will be able to significantly support the U.S. military posture in the Indo-Pacific in the short- to medium-term. Recent CSIS research analyzing European military capabilities to the year 2030—and their ability to use those capabilities to complete military missions—has revealed some sobering truths.

Even though European defense spending is increasing, and the picture is steadily improving, European militaries will lack the capabilities required to initiate, much less sustain, operations in the Indo-Pacific—including for ballistic missile defense, air precision strike, suppression of enemy

[6] David M. Herszenhorn and Rym Momtaz, "NATO leaders see rising threats from China, but not eye to eye with each other", Politico, June 14, 2021, https://www.politico.eu/article/nato-leaders-see-rising-threats-from-china-but-not-eye-to-eye-with-each-other/.
[7] European Commission, *EU-China – A Strategic Outlook*, (March 12, 2019), https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf.
[8] "EU parliament freezes China deal ratification until Beijing lifts sanctions", CNBC, May 20, 2021, https://www.cnbc.com/2021/05/20/eu-parliament-freezes-china-deal-ratification-until-beijing-lifts-sanctions.html.
[9] Yen Nee Lee, "EU-China investment deal is still possible — but not before 2023, analyst says", CNBC, June 15, 2021, https://www.cnbc.com/2021/06/15/eu-china-investment-deal-still-possible-but-not-before-2023-analyst.html.

air defense, and key enablers like strategic airlift, aerial refueling, command and control, and intelligence, surveillance, and reconnaissance (ISR). This is true even for those countries, like France and the United Kingdom, who do have strategic interests in the Indo-Pacific and have some security presence in the region.[10]

But there is potential for greater European support to U.S. force posture and presence in the region. France and the United Kingdom *are* able to project limited power in the Indo-Pacific. Due to its overseas territories, France has 8,000 soldiers and dozens of ships pre-positioned in its Indo-Pacific bases.[11] France also has strategic partnerships with important countries in the region—including Australia, India, Japan, South Korea, Indonesia, New Zealand, and Singapore—and these interests help propel EU regional policy to be more proactive.[12] However, France is avowedly against NATO taking the lead role on countering China, which will hinder formation of stronger NATO policy regarding China. The United Kingdom also has a network of partnerships and bases and has shown an increased willingness to conduct exercises and deploy maritime assets as part of its "tilt" to the region—including a naval task force led by the aircraft carrier *HMS Queen Elizabeth* that will make its way to the Indo-Pacific in the coming months.[13] The air and maritime forces of other allies—such as Canada, Denmark, and Italy—have also operated alongside the UK carrier strike group at points during its deployment.

Yet some NATO allies will painfully split the difference of being seen to be more security focused in the Indo-Pacific while doing everything in their power not to anger Beijing. The deployment of the German frigate *Bayern* illustrates this very well: given the timing of its upcoming voyage, the *Bayern* could have joined up with the *HMS Queen Elizabeth* task force to conduct joint exercises and make a show of coordinated European strength. However, the German defense ministry ultimately decided to modify the frigate's route so that it will not only *not* sail with other European vessels, it will also make a port visit to Shanghai before entering the South China Sea.[14] This is in addition to a prior public declaration that the frigate would not go within 12 nautical miles of any territory claimed by China.

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[10] Government of the United Kingdom, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development, and Foreign Policy*, (March 2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/975077/Global_Britain_in_a_Competitive_Age-_the_Integrated_Review_of_Security__Defence__Development_and_Foreign_Policy.pdf; Government of France, *Defence and National Security Strategic Review*, (2017), https://www.defense.gouv.fr/layout/set/popup/content/download/520198/8733095/version/2/file/DEFENCE+AND+NATIONAL+SECURITY+STRATEGIC+REVIEW+2017.pdf, 53; Murielle Delaporte, "France in the Indo-Pacific: A Mediating Power?", *Breaking Defense*, March 11, 2021, https://breakingdefense.com/2021/03/france-in-the-indo-pacific-a-mediating-power/.

[11] Ministère des Armées, "Carte des opérations et missions militaires," February 10, 2021, https://www.defense.gouv.fr/operations/rubriques_complementaires/carte-des-operations-et-missions-militaires.

[12] Pierre Morcos, "France: A Bridge between Europe and the Indo-Pacific?", April 1, 2021, https://www.csis.org/analysis/france-bridge-between-europe-and-indo-pacific.

[13] Royal Navy of the United Kingdom, *HMS Queen Elizabeth trains with two US Navy task groups*, (July 2021), https://www.royalnavy.mod.uk/news-and-latest-activity/news/2021/july/13/210713-hms-qnlz-and-us-task-groups.

[14] Hans Kundnani and Michito Tsuruoka, "Germany's Indo-Pacific frigate may send unclear message", Chatham House, May 4, 2021, https://www.chathamhouse.org/2021/05/germanys-indo-pacific-frigate-may-send-unclear-message.

In recent years, European defense investments have focused on high-readiness, land combat forces and associated enabling capabilities. Several countries, including France, the United Kingdom, Germany, and Italy, are working to rebuild their heavy brigades for high-intensity warfare, modernize strategic platforms, and reduce reliance on American enablers. Improvements are likewise being made in crucial areas such as ground-based air defense, anti-submarine warfare, principal naval surface combatants, and at-sea missile defense. Our allies are capable of conducting almost the entire spectrum of military missions, in most cases independently, in Europe. The primary exception is high-intensity combat against a near peer-competitor, which is too demanding for Europe (or even the United States) to conduct alone. This is also broadly the case in the Middle East and Africa as well, albeit with more missions requiring moderate U.S. assistance. In other words, it is only in the Indo-Pacific where European allies would be heavily dependent on American power in almost all cases.

Because we do not have great expectations for our European allies and partners as active military participants in the Indo-Pacific (with the exception of France and the UK) and their deployment in the Indo-Pacific region may in fact strain U.S. capabilities in the region, it bears considering whether pushing for a greater European military role in the Indo-Pacific would simply serve to weaken Europe's ability to deter and defend against Russia or China in the Euro-Atlantic region.

The new UK Integrated Review—with its simultaneous intention to "tilt" toward the Indo-Pacific and increase UK responsibility in the Euro-Atlantic—could provide a template whereby the U.S. should prioritize stronger European focus on security and collective defense in the Euro-Atlantic area (with strong U.S. participation) with some *targeted* increases in European military presence in the Indo-Pacific.[15] At the same time, NATO should increasingly expand and deepen its partnership activities with Japan and Australia, as well as entertain a dialogue with India. The U.S. should continue to strongly encourage our European allies and partners to follow this model of assuming a greater burden for their own defense while also beginning to consider how they might contribute, even if only in some small way, to missions in the Indo-Pacific.

As Washington looks toward the development of NATO's forthcoming, updated Strategic Concept, this is the approach it should take as it outlines the alliance's priorities with respect to China. Ideally, the Concept would articulate the many diverse ways in which China presents a challenge for the Euro-Atlantic community, beginning with China's activities *in* Europe. This should include the full range of challenges below the threshold of armed conflict such as cyber-attacks, espionage, influence campaigns, supply chain vulnerabilities, and the potential dangers of Chinese investment in NATO allies. A troubling example of the latter can be seen in Montenegro, where, in a European example of China's global tactic of debt-trap diplomacy, the government is in imminent danger of failing to repay a $1 billion loan from a Chinese state bank to construct a stretch of highway; under the terms of the loan, the bank would then have the right to seize Montenegrin land, provided that

[15] Government of the United Kingdom, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development, and Foreign Policy*, (March 2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/975077/Global_Britain_in_a_Competitive_Age-_the_Integrated_Review_of_Security__Defence__Development_and_Foreign_Policy.pdf.

it does not belong to the military or is not used for diplomatic purposes.[16] The leverage that these terms give to Beijing over Montenegro, a recent NATO ally and EU aspirant, should be clear (although it should be noted that the new Montenegrin government is currently in negotiations with European and U.S. banks to either swap or refinance the loan.)[17] The possible implications for allied military mobility stemming from Chinese investment in strategic locations like ports should also be a priority, although some allies may resist the inclusion of language to that effect.[18] The updated Strategic Concept should also—and likely will—focus on the military risks of China surpassing the alliance on emerging and disruptive technologies like artificial intelligence, big-data processing, and quantum computing, and should focus on Beijing's growing military capabilities and increasing military ties with Russia.

The 22 countries in both NATO and the EU should pursue similar language formulation in the sections of the EU's forthcoming 'Strategic Compass' that are related to China. Unfortunately, the EU will have great difficulty developing a strong and unified foreign and security policy. This is because it is conducted on the basis of unanimity and some member-states—such as Hungary, whose government has developed close ties with Beijing[19]—[20][21]. Behavior like this is what will hinder the development of a strong EU Indo-Pacific strategy.

Europe's Future Economic Competitiveness is a Vital U.S. National Security Interest

Although my fellow panelists will offer their reflections regarding the challenge that Beijing presents related to Europe's future economic competitiveness, I wanted to offer just a few additional thoughts as part of an overarching framework of U.S. strategic competition with Russia and China. We need a new paradigm for cooperation with the European Union if we are to achieve U.S. objectives, but it cannot be solely based on anti-Chinese sentiment; it must be built on Western strength. This new paradigm will require compromise on both sides of the Atlantic in what my colleague, James Lewis, and I describe as a "Digital Atlantic" compact based on values and strong technological competitiveness.[22] The U.S. and the EU no longer have the luxury of continuing their "business as usual" trade competition as the risk that their technological paths will diverge continues to grow. Rather than Europe seeking "technological sovereignty" or "strategic

[16] Rob Schmitz, "How a Chinese-Built Highway Drove Montenegro Deep into Debt", NPR, June 29, 2021, https://www.npr.org/2021/06/28/1010832606/road-deal-with-china-is-blamed-for-catapulting-montenegro-into-historic-debt.

[17] Guy Faulconbridge, "EXCLUSIVE-Montenegro close to deal on lifting Chinese debt burden", Nasdaq, July 7, 2021, https://www.nasdaq.com/articles/exclusive-montenegro-close-to-deal-on-lifting-chinese-debt-burden-minister-2021-07-07.

[18] Sebastian Sprenger, "NATO grapples with grasping China's transportation clout in Europe", Defense News, March 4, 2021, https://www.defensenews.com/global/europe/2021/03/04/nato-grapples-with-grasping-chinas-transportation-clout-in-europe/.

[19] Reid Standish and Balint Szalai, "'The Underhanded Sale Of Our Sovereignty': How China Became An Election Issue In Hungary", Radio Free Europe, June 13, 2021, https://www.rferl.org/a/hungary-china-orban-fudan-elections/31304764.html.

[20] James Marson, "Biden to Press NATO Over China Threat", Wall Street Journal, June 11, 2021, https://www.wsj.com/articles/biden-to-press-nato-over-china-threat-11623419446.

[21] Robin Emmott and Angeliki Koutantou, "Greece blocks EU statement on China human rights at U.N.", Reuters, June 18, 2017, https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP.

[22] Heather A. Conley and James Andrew Lewis, "Charting a New 'Digital Atlantic'", CSIS, June 9, 2021, https://www.csis.org/analysis/charting-new-digital-atlantic.

autonomy," our transatlantic aim should be to build upon our economic strengths, expand growth and gain the economic benefits of digital technologies and innovation. We can best achieve this by working together.

Conclusion

We find ourselves at a strategic crossroads: the U.S. is crafting a national security strategy and conducting a global posture review; NATO is preparing an updated Strategic Concept; and the EU is working on its 'Strategic Compass.' These strategies could converge to reinforce and amplify the challenge that China poses and how the values-based community will respond. With a shared sense of strategic clarity, a clear-eyed sense of what is militarily feasible from our European partners in the Indo-Pacific, and a new strategic framing of our technological partnership with Europe, the United States and its European allies will be well placed to engage in the long-term pacing challenge that China presents.

Mr. BERA. Thank you. And let me go ahead and call on Mr. Rough for his testimony.

STATEMENT OF MR. PETER ROUGH, SENIOR FELLOW, HUDSON INSTITUTE

Mr. ROUGH. Thank you very much, Chairman Bera and Keating, Ranking Members Chabot and Fitzpatrick, distinguished members of the subcommittees, thank you all for the opportunity to appear before you today. Mr. Chairman, I would like to supplement my written testimony with just a few additional remarks in the time you have granted me.

We meet 6 months almost to the hour that President Biden took the oath of office as the 46th President of the United States. From his first days in office, the President, who has long enjoyed a reputation as an Atlanticist, has prosecuted a full-fledged charm offensive toward Europe. Under the mantra of Build Back Better, the Biden Administration has showered Europe with a bevy of diplomatic initiatives and coordination.

In the process, however, the Biden team must also guard against a conceptual mistake. Europe has interpreted the President's early embrace to mean that Washington's highest priority is transatlantic harmony. This perception is especially strong in Brussels and Berlin, the two partners the Biden Administration has courted most assiduously. The result, that neither feels compelled to move significantly beyond their current policy preferences. The risk is that transatlantic policymaking will be defined by the lowest common denominator of agreement as it stands today, a landing zone which may be too modest to tackle the urgent challenges we face.

The recent experience with the Nord Stream 2 pipeline is merely a harbinger. It is an open secret in Berlin that the Biden Administration is unwilling to risk its reset with Germany by mobilizing against the project. A similar dynamic may undercut the scope of U.S.-European cooperation on the subject of our hearing today, the People's Republic of China.

That we need an ambitious agenda is indisputable. The challenge of our time is to defend free and open societies from malicious actors in an era of globalization and by far the most formidable of these threats is the PRC. China is moving aggressively to assert dominance of the international system. In particular, it seeks to master the critical technologies that will determine the future balance of power, a goal it pursues through theft of intellectual property on a mass scale, an unprecedented scale, in defiance of global trading rules.

Six months into the Biden Administration and the U.S. has inaugurated working groups under the newly established Trade and Technology Council. I, like my fellow witnesses and as Ranking Member Fitzpatrick noted, welcome the so-called TTC as a forum for broad-based discussion. But the U.S. must accelerate and intensify its work by offering concrete proposals. U.S. foreign policy is most effective when it drops a firm anchor that pulls partners and allies in its direction.

Far from alienating our allies, such leadership drives discussions forward and expands the possibilities for cooperation. In that sense, in whatever disagreements may arise with Europe, the U.S. should

not underestimate its own power of persuasion in putting forward specific goals. The Clean Network alliance of recent years serves as a great example of this principle.

Today, in the area of export controls, for example, the U.S. should consider proposing a robust, multilateral export mechanism modeled after the cold war era Coordinating Committee for Multilateral Export Controls. This is an ambitious objective, but it should be an American priority given the speed with which China is seeking out Western technologies.

Of course, China has made clear that it will retaliate against any transatlantic effort to strengthen export controls or for that matter tighten investment screening and combat mass cyber theft. To cushion the blow of retaliation, it is important that the U.S. forge as large a zone of free and independent countries that are aligned on China policy as possible. In that vein, the Biden Administration must not lose sight of the Europe that exists beyond Brussels and Berlin.

Just recently, for example, the Polish Foreign Minister registered his disappointment over discovering from the media that the Biden Administration had waived Nord Stream 2 sanctions, or select Nord Stream 2 sanctions. To counteract the damage, the Three Seas Initiative is a worthy project that will strengthen the continent's resilience also against China. It deserves the continued support of Congress and the Administration.

American leadership of the transatlantic alliance, especially if linked to that of our Asian allies—and so I echo Heather Conley's point that this subcommittee joint hearing is really an excellent format—really unlocks a range of possibilities and strengthens our position toward China. By contrast, an uninspired agenda that focuses on process as Europe hedges toward China will vastly diminish our position in the competition over the future world order. To avoid that scenario, it is time to turn our newfound harmony into tangible outcomes. Thank you very much.

[The prepared statement of Mr. Rough follows:]

Hudson Institute

Prepared Statement for the House Foreign Affairs Subcommittees on Asia, the Pacific, Central Asia, and Nonproliferation, and Europe, Energy, the Environment, and Cyber

"U.S.-European Cooperation on China and the Broader Indo-Pacific"

Peter Rough
Senior Fellow

July 20, 2021

Chairmen Bera and Keating, Ranking Members Chabot and Fitzpatrick, distinguished members of the Subcommittees, thank you for the opportunity to appear before you today.

The Case for Europe

We are gathered six months to the day that Joe Biden took the oath of office as the 46th president of the United States. Half a year into his presidency, the contours of America's foreign policy under our new president are coming into focus.

In his first consultations with foreign leaders after winning the presidency, then President-elect Biden telephoned the heads of government in Ireland, the United Kingdom, France, and Germany.[1] Last month, in his first and only trip abroad to date, the president traveled to Europe for summits of the G7, the European Union (EU), and the North Atlantic Treaty Organization (NATO) before meeting with Russian president Vladimir Putin in Geneva.

It is no exaggeration to say, therefore, that the U.S. is sailing into the Pacific Century with a longstanding Atlanticist at the rudder. Confronted by a changing order, the president has reverted to type, seeking to navigate our policy challenges, including the overarching issue of China, through Europe.

At first blush, such an approach makes a good deal of sense. There are three, and really only three, major power centers in the world today: East Asia, North America, and Europe. To draw an imperfect, yet nonetheless instructive parallel to the Cold War, Kissingerian triangulation teaches that the U.S. should seek to mobilize Europe to its side in the competition with China. In that endeavor, given longstanding ties, the U.S. enjoys a big head start.

But China is running a more modest race. It aims to merely neutralize, or Finlandize, Europe with respect to the issues it deems essential to its interest. If the U.S. is seeking to forge a transatlantic front in order to sustain a favorable balance of power, Beijing aims only to split the United States from its allies in the belief that it can subsequently exert its will in a series of bilateral contests.

[1] https://twitter.com/TinaSfon/status/1326243887061594113

In sum, China's goal is to turn America's European allies into a Switzerland-on-steroids: economically relevant yet politically unaligned. As Henry Kissinger himself put it in 2018, such a scenario would turn Europe into "an appendage of Eurasia" at the mercy of China.[2] It should surprise no one, therefore, that Chinese officials enthusiastically support the ambition, most closely associated with Emmanuel Macron, the French president, of "European strategic autonomy" from the United States.[3]

The Sino-European Relationship

The Biden administration has taken office at a time of flux in Sino-European relations. In the past few years, a paradox has developed: Europe and China have grown closer in the economic realm yet drifted apart in political terms.

The convergence of China and Europe can be explained by economics. For the past five years running, China has been the largest trading partner of Germany, the economic engine of Europe.[4] In fact, more than 5,200 German companies have established operations in China.[5] This dependency is especially noteworthy in politically sensitive sectors. Volkswagen, for example, is the most important company in the most important industry of Europe's most important economy, and the majority of its sales are now in China.[6] Beyond Germany, other crown jewels of the European economy, from British financial services to Italian and French luxury brand makers, are deeply embedded in the Chinese market.

China has supplemented its status as a growing consumer market with promises of foreign direct investment (FDI) into Europe. This FDI is part and parcel of its broader Belt and Road Initiative (BRI), which stretches from China across Eurasia with its terminus in the German city of Duisburg. In 2016, the Chinese shipping firm Cosco acquired the Athenian port of Piraeus, which Xi promised to turn into Europe's largest facility during a visit three years later.[7] That same year, Italy became the first G7 country to join the BRI.

China has sought to convert these economic moves into political gains, in part through the so-called "plus 1" format of central and eastern European states. Under current plans, for example, the port of Piraeus is to ship goods over a rail-line China has proposed from Belgrade to Budapest. It is no coincidence that China counts Greece, Serbia, and Hungary amongst its most reliable supporters in Europe today.

[2] https://www.ft.com/content/926a66b0-8b49-11e8-bf9e-8771d5404543
[3] https://apnews.com/article/europe-beijing-foreign-policy-china-ec48ab1f45db0d9a93c2160724e4dfd3
[4] https://www.destatis.de/EN/Press/2021/02/PE21_077_51.html
[5] https://www.wsj.com/articles/pushback-xi-china-europe-germany-beyond-u-s-11609176287; https://www.economist.com/business/2021/01/07/deutschland-ag-continues-to-pour-billions-into-china
[6] https://www.nytimes.com/2021/05/06/business/demand-from-china-drives-a-rebound-in-volkswagen-sales.html
[7] https://www.cnbc.com/2019/11/15/china-wants-to-turn-greece-piraeus-port-into-europe-biggest.html

And yet, China's reputation in Europe has taken a blow of late. Its political ties with the continent are fraying. In 2017, Xi gave a major address at the CCP's 19th Congress in which he jettisoned China's decades-old mantra of "hide your capacities, bide your time" and announced a "new era" in which China would take "center stage."[8] This decision may prove one of the great strategic blunders of our time. The aggressive posture that has flowed from Xi's guidance has awoken the United States to the perils of Chinese dominance and forced Europe to reconsider its relationship with Beijing.

In particular, Europeans who have dared to highlight Chinese human rights violations or balked at Huawei's inclusion in their 5G networks have been threatened with reduced access to the Chinese market.[9] The continent has watched with growing trepidation as Beijing has strangled key Australian exports merely because Canberra called for an independent investigation into the origins of COVD-19.[10]

China's ruthlessness has only reinforced the point. The world has discovered China's genocide against the Uighurs and witnessed the end of Hong Kong's autonomy. Unsurprisingly, Beijing has also shown total contempt for international law, breaking the Sino-British Joint Declaration of 1984 and ignoring the Permanent Court of Arbitration's rulings on the South China Sea.

This overreach has had an effect. In May, Chinese reprisals to a series of European sanctions over the genocide in Xinjiang led the European parliament to freeze ratification of the just-negotiated Comprehensive Agreement on Investment (CAI).[11] That same month, China's lackluster investments in eastern and central Europe culminated in Lithuania's departure from the "17 plus 1" – now "16 plus 1" – format.[12] To make matters worse for China, the plight of tiny Montenegro, saddled with an unsustainable BRI debt, has captured headlines from Brussels to Washington.[13] Even Germany is now debating its China policy in anticipation of Angela Merkel departure from the chancellery later this year.

At the very moment that European exporters are relying on Chinese markets to jumpstart their economic recovery, relations with Beijing have worsened.

The U.S. Strategy

The Biden administration entered office with the intention of building "interlocking and overlapping coalitions" of European allies against China.[14] In particular, it has launched a charm offensive in Berlin and Brussels in the hopes of enticing a German-led Europe into action.

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[8] https://www.ft.com/content/05cd86a6-b552-11e7-a398-73d59db9e399
[9] https://www.politico.eu/article/uk-has-poisoned-relations-with-china-says-ambassador/
[10] https://www.smh.com.au/world/asia/if-you-make-china-the-enemy-china-will-be-the-enemy-beijing-s-fresh-threat-to-australia-20201118-p56fqs.html
[11] https://www.state.gov/joint-statement-on-xinjiang/
[12] https://www.scmp.com/news/china/diplomacy/article/3135522/lithuania-quit-171-because-access-chinese-market-did-not
[13] https://www.washingtonpost.com/world/europe/china-montenegro-highway-nato-europe/2021/04/17/99a745b4-9ebb-11eb-b2f5-7d2f0182750d_story.html
[14] https://www.ft.com/content/cf71feb2-297f-4e3a-8627-b89931cc6a80

Although this approach has engendered goodwill, it's unclear if it will produce results. In judging its policy, the U.S. must guard against the temptation to conflate process with substance and harmony with progress.

To be sure, the NATO, G7, and U.S.-EU summit communiqués all included significant paragraphs touching on China, the latter two referencing Taiwan.[15] But beyond the rhetoric, the strongest military action Europe could take to support Taiwan and deter China is to increase its own defense capabilities. If the U.S. military is to focus more of its attention on the Indo-Pacific, it will need more capable allies to support it in the defense of the European continent.

In that vein, Antony Blinken's ruminations during his maiden voyage to Brussels as secretary of state in March on "the need to adopt a more holistic view of burden-sharing" that includes development assistance carries the risk of arresting recent progress.[16] Under present plans, for example, it will take Germany longer to fulfill its obligation to spend 2 percent of GDP on defense than it took for it to fight the First and Second World Wars combined.

It must remain the priority of the U.S. government to insist that all NATO member states meet their own defense spending pledges, including the Wales goals. As a general matter, the U.S. should continue to embrace the concept of specific benchmarking as a tool for modernizing and strengthening the alliance. It is far easier to convince, even cajole, member states when they are measured by mutually agreed upon commitments rather than ambiguously crafted statements.

Moreover, the U.S. should welcome the increased attention the United Kingdom and France have given the Indo-Pacific in their own strategies. The UK is reinforcing its so-called "tilt" toward the region by deploying the *HMS Queen Elizabeth* East of Suez while France has undertaken Freedom of Navigation Operations in the South China Sea.[17] Germany, too, is deploying the *Bayern* into the Pacific this year, although the frigate's port call in Shanghai is representative of its more cautious approach.[18]

Of course, European militaries must first and foremost secure the North Atlantic region. Even Europe's largest militaries do not have the capabilities to assume the role of a global power. But these deployments to the Indo-Pacific help forge a common transatlantic strategic approach toward Asia. To assist in that process, the Biden administration should encourage regular exchanges, partnerships, and exercises between Europeans and our frontline allies in Asia, especially Australia and Japan.

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[15] https://www.nato.int/cps/en/natohq/news_185000.htm; https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/13/carbis-bay-g7-summit-communique/; https://www.consilium.europa.eu/media/50758/eu-us-summit-joint-statement-15-june-final-final.pdf

[16] https://www.state.gov/secretary-antony-j-blinken-at-a-press-availability-3/; https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_11/20191129_pr-2019-123-en.pdf

[17] https://www.diplomatie.gouv.fr/en/country-files/asia-and-oceania/the-indo-pacific-region-a-priority-for-france/; https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy

[18] https://cimsec.org/mind-the-gap-german-security-policy-in-the-indo-pacific-between-aspiration-and-reality/

The true test of transatlantic solidarity will come in another domain, however: geoeconomics. During his March trip to Europe, Secretary Blinken assured our allies that the U.S. will not present them with an "us or them" choice on China.[19] In fact, just the opposite is true: any U.S.-EU strategy worthy of implementation will generate blowback from China. When that pressure arrives, we should expect more from our treaty allies than studied neutrality. The choice they face is not simply between the United States and China, but between a free and open order and a Sino-centric hierarchy of vassals.

The CCP's economic model is fundamentally predatory. Its plan to dominate the high-tech industries of the future, first dubbed "Made in China 2025," relies on theft and coercion on an unprecedented scale, as well as the targeted acquisition of foreign technologies.[20] It also depends on the West overlooking China's use of subsidies and protectionism to establish competitive advantages. By the centennial of the People's Republic of China's founding in 2049, the CCP plans to showcase autarky, not interconnectedness, with Europe taking the place of the consumer, rather than producer, of high-end products.[21] The CCP's Military-Civilian Fusion program is running the same playbook to transform the People's Liberation Army into the world's leading military force.[22]

Six months into the Biden administration, policymaking in this crucial area remains a work in progress. The U.S. and EU inaugurated a Trade and Technology Council (TTC) at their most recent summit to tackle these challenges, but time is of the essence.[23] In recent weeks, for example, Chinese attempts to take full control of the UK's largest chip foundry nearly passed without so much as a review.[24]

Two of the most urgent priorities for the TTC are investment screening and export controls. The EU-wide investment screening mechanism established in 2019 was announced to much fanfare but is a far cry from the American CFIUS.[25] As a result, the U.S. should build on the progress of national governments, such as Germany's adoption of new standards after the Chinese takeover of its prized robotics firm, Kuka, in 2017.[26] The challenges of investment screening are only growing larger with the advent of ever more complex shell companies and ambiguous partnerships. The rapid advance of new technologies is also straining traditional conceptions of dual-use items, forcing the U.S. and Europe to demonstrate extra vigilance in monitoring acquisitions. To ease the burden, the U.S. should share CFIUS best-practices and broaden its

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[19] https://www.reuters.com/article/us-usa-blinken-nato-china/u-s-wont-force-nato-allies-into-us-or-them-choice-on-china-idUSKBN2BG1KC
[20] https://crsreports.congress.gov/product/pdf/IF/IF10964; https://www.uscc.gov/sites/default/files/2020-12/2020_Annual_Report_to_Congress.pdf
[21] https://www.wsj.com/articles/china-once-germanys-partner-in-growth-turns-into-a-rival-11600338663
[22] https://www.state.gov/wp-content/uploads/2020/05/What-is-MCF-One-Pager.pdf
[23] https://ec.europa.eu/commission/presscorner/detail/en/IP_21_2990
[24] https://www.cnbc.com/2021/07/07/nexperia-owner-wingtech-is-backed-by-chinese-government-analysis-says.html; https://www.reuters.com/breakingviews/uk-credibility-china-inward-ma-gets-wafer-thin-2021-07-08/
[25] https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867; https://www.wsj.com/articles/behind-chinas-decade-of-european-deals-state-investors-evade-notice-11601458202; https://www.treasury.gov/resource-center/international/Documents/Summary-of-FIRRMA.pdf
[26] https://www.ft.com/content/e0897e24-598e-11e6-8d05-4eaa66292c32

intelligence sharing on Chinese behavior.[27] The Biden administration should also leverage the work of the Clean Network Alliance, which represents some 60 countries that constitute the majority of the world's GDP.[28]

A defensive strategy alone will not be sufficient, however. The U.S. must offer alternatives to Chinese investments. The Biden administration should seize on the Three Seas Initiative (TSI) as an opportunity to curtail Russian and Chinese influence in eastern Europe. To avoid duplication, TSI should be closely coordinated with the European Commission.[29]

Like investment screening, Europe's export control regime lags that of the United States. The U.S. has had some notable successes in persuading European allies to prevent the export of key technologies, however. Since 2019, for example, the Dutch government at the urging of the United States has denied ASML licensing to supply China with the lithography equipment necessary for advanced chip fabrication.[30]

Recently, Congress has considered supplementing the Wassenaar Arrangement on Export Controls, which relies on voluntary notifications and includes Russia, with a more robust mechanism for transatlantic allies.[31] Crucially, such a body would include veto powers for its members, modeled after the Cold War-era Coordinating Committee for Multilateral Export Controls (COCOM).[32]

While I would welcome such a step, the CCP would not take it lying down. It has already signaled its intention to fight back with whatever leverage it can accrue. "We should increase the dependence of international supply chains on China," Xi instructed his officials last year, "and establish powerful retaliatory and menacing capabilities against foreign powers that would try to cut supplies."[33]

For the West to stand its ground against such inevitable pressure, it will need to get itself in order first. The lodestar of U.S. strategy should be to build as large and open an economic alternative to China as possible. For starters, the Biden administration must improve its performance in Europe beyond the capitals of Brussels and Berlin.[34]

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[27] https://www.wsj.com/articles/behind-chinas-decade-of-european-deals-state-investors-evade-notice-11601458202
[28] https://2017-2021.state.gov/the-clean-network/index.html
[29] https://www.reuters.com/article/g7-summit-china-italy/update-1-italys-draghi-says-g7-had-to-be-frank-about-china-idUSL5N2NV0N9
[30] https://www.nytimes.com/2021/07/04/technology/tech-cold-war-chips.html
[31] https://www.foreign.senate.gov/imo/media/doc/DAV21598%20-%20Strategic%20Competition%20Act%20of%202021.pdf
[32] https://www.gmfus.org/blog/2021/01/29/eu-export-controls-and-minding-national-security-gap
[33] https://asia.nikkei.com/Spotlight/Comment/Chinese-Communist-Party-to-mark-100th-anniversary-in-isolation
[34] https://foreignpolicy.com/2021/06/30/biden-europe-trump-obama-central-eastern-germany-brussels-nord-stream-trans-atlantic/

In recent years, the U.S. has made strides on Europe's periphery through intensive commercial diplomacy. Now, those regions fear neglect, as the Polish foreign minister's recent protestations suggest.[35] Meanwhile, talks for a U.S.-UK FTA have stalled as the U.S. instead focuses on pressuring London on its dispute with the EU over the status of Northern Ireland. The first step in building a broad zone of free and democratic states as an alternative to China begins with forging a more cohesive and united Europe.

At the same time, the U.S. will also need to find common ground with Europe on regulatory and trade disputes, especially relating to the digital economy. A replacement for Privacy Shield that respects American national security requirements is most urgently needed. This is not just an issue impacting the world's biggest tech giants, but the more than 5,300 American companies that relied on it to transfer personal data from the EU to the U.S.[36] In 2019, digital-enabled services exports and imports to Europe reached over $245 billion and $133 billion, respectively.[37] So long as a negotiated solution for transatlantic data flows remains elusive, U.S. businesses face high levels of uncertainty.

Of course, it is impossible to remove all irritants in the transatlantic relationship, especially on issues like trade and technology. But that should not forestall cooperation on major questions of international order. The U.S. and Europe should join forces in multilateral organizations to block China's takeover of key bodies, just as it did at the World Intellectual Property Organization last year.[38]

Moreover, the U.S. and Europe should recognize that China, too, is building partnerships around the world. It is as foolish to grant China's principal partner in the Middle East, Iran, largescale sanctions relief as it is mistaken to allow China's closest ally, Russia, to construct an energy pipeline that threatens the very integrity of Europe. In taking decisions related to Iran and Russia, the U.S. should always remember that both countries represent pathways for advancing Chinese power.[39]

Time and again, when the U.S. has approached Europe with the right strategy, it has succeeded in harnessing that power to some benefit. But when the U.S. and Europe have proven at cross-purposes, the effect has been cancellation, undermining the objectives of both parties. The Biden administration's strategic inclination to work with Europe is welcome, but now is the time to turn rhetoric into results.

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[35] https://www.gov.pl/web/diplomacy/Minister-Zbigniew-Rau-gives-interview-to-Rzeczpospolita
[36] https://about.fb.com/wp-content/uploads/2021/06/The-Importance-of-Cross-Border-Data-Flows.pdf
[37] https://www.uschamber.com/report/the-transatlantic-economy-2021
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[39] https://www.tabletmag.com/sections/israel-middle-east/articles/china-middle-eastern-kingdom

Mr. BERA. Thank you for your testimony. I will now recognize members for 5 minutes each, pursuant to House rules. All time yielded is for the purpose of questioning our witnesses. Because of the full format of this hearing, I will recognize members by committee seniority alternating between Democrats and Republicans. If you miss your turn, please let our staff know and we will circle back to you. If you seek recognition, you must unmute your microphone and address the chair verbally. I will start by recognizing myself.

First off, to the witnesses, thank you for recognizing the importance of bringing both the Subcommittee on Europe and Subcommittee on Asia together. I think it does really underline that in the 20th century we had a transatlantic strategy, we had a transpacific strategy, but one thing we did not do quite effectively was lay out a strategy to bring both together.

And often the Chinese will characterize this as, well, this is an anti-China strategy and I know from my perspective, I actually see this as an affirmative strategy which affirms, as I said before, the values that we believe in of free market competition, a rules-based order, protection of intellectual property.

Competition is fine and none of us fears competition with China, but we just see the direction China is going under Xi Jinping, so I think we have to present an affirmative set of values again of human dignity and human rights. And I think if we do that we actually present a framework that for the countries in the Indo-Pacific, they are not choosing a positive or anti-China strategy, they are choosing a strategy based on the values that countries like Korea some of the countries in the ASEAN block really value.

So I really do think it is imperative for us to present an alternate strategy.

Mr. Goodman, you presented four areas where you think there is cooperation. I am going to touch on one of them which was kind of outlined in the Build Back Better World initiative, and that is the infrastructure financing component. And I think if I heard the number correctly, you said there is about a hundred trillion dollars of pension funding that could be leveraged to help us finance international projects which would far surpass what the Chinese are putting out there.

What are the barriers and things that we would have to address if we wanted to unlock some of the potential of U.S. pension funds or even European pension funds to be able to safely finance some of these projects?

Mr. GOODMAN. Thank you, Mr. Chairman, great question. It is really a critical one because our whole sort of model and offering depends on the ability to mobilize this private capital. It is easily over a hundred trillion dollars if you count all pension funds, insurance funds, long-term funding, or funds that have long-term liabilities they have to pay out over a long period of time.

They are looking for long-term assets like infrastructure to invest in, so in principle it is a great opportunity. The problem is again, even here in the U.S. or the advanced world, infrastructure is a very difficult business. It takes longer, costs more, there is frankly, even corruption and other problems in the advanced world. You imagine in a lot of the developing world, you have all those prob-

lems, plus all kinds of legal questions and environmental and social challenges, and there are just not enough clearly identifiable opportunities and so-called bankable projects.

That is a term that has become kind of a cliche, but it is an important term in the sense of there need to be projects out there that private capital wants to go into, so I think that is why I think project preparation, trying to identify potential projects and help lay the groundwork is a really good place to start. That does require some money. Not a lot, but we need to do that through our own bilateral mechanisms like the DFC, the USTDA, and then also through multilateral development banks. And then as I say, guarantees other sort of risk mitigants that make private capital feel that there is government skin in the game and that they won't take all the losses if a project doesn't work out is important.

And as I say, this critical issue of capacity building, which is the last point I will make, which feeds back to your point about what we are offering that is appealing, I really think I was in a Southeast Asian country a couple of years ago and I met with the sort of senior person in charge of their kind of development and internal inbound investment strategy. And we talked quite frankly about Chinese offerings and Belt and Road and other ways, and this person said, "Look, we do not want that stuff. We know what it comes with, but you guys aren't offering anything. You know, if you came forward with some actual money, but also the capacity to help us build better projects with the rule of law, with good support mechanisms around the infrastructure, then we will buy American stuff any day."

So I think that is the key. It does require putting some money on the table.

Mr. BERA. Great. Thank you for that answer. So let me go ahead and recognize the ranking member of the Asia Subcommittee, Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman.

Mr. Rough, I will go to you first, if I can. The Biden administration has prioritized revitalizing the transatlantic alliance and reassuring Europe that as they like to say, "America is back." My concern is that this is just talk and that it is not clear what we are getting in return, so a couple questions.

First, thus far, what tangible return on these efforts have we seen, and do you believe the Biden Administration is prepared to have the difficult but necessary conversations about, for example, the Europeans actually meeting their 2 percent obligations under their NATO commitment and increasing their military expenditures?

So we will leave it there at this point. How would you respond to those questions?

Mr. ROUGH. Well, thank you, Congressman. Let me perhaps just begin with the last point on NATO. A third of NATO now meets its Wales pledge of spending 2 percent of their GDP on defense. France and Norway just crossed that threshold which is a welcome development, but more needs to be done. More progress needs to be made in this domain and it does connect to the Asia Pacific region.

In the event of combat in Asia Pacific, if there is, for example, a war over Taiwan, the real question is whether or not the United States Navy at a level of 290 ships or so would be able to both supply the Asia Pacific and ferry troops across the Atlantic if, simultaneously, there was a crisis of sorts in Europe. So this is not a question of American harmony, of American willpower, it is a real question of American capabilities and whether or not they are not strained. And so Europe has to pick up the slack, and I think urgently making that case is hugely important.

On the subject of transatlantic coordination, I think there have been a few positive examples on, for example, Belarus, where the United States has worked well with the Europeans on coordinating statements. There have been a bevy of releases including the Microsoft hack that was just raised. But on the major fundamental questions that are still outstanding on the big transatlantic sort of existential questions, we still need progress and we will see what the Administration produces in the coming months and years.

Mr. CHABOT. Thank you. I will stick with you, Mr. Rough. I am one of the founders of the congressional Taiwan Caucus and one of the co-chairs, currently, of it and so I would like to ask you about Europe's position on Taiwan. In a first, this year, the G7 communique underscored "the importance of peace and stability across the Taiwan Strait."

In your opinion, what more should the transatlantic alliance do to counter the PRC's growing diplomatic and military pressure against Taiwan?

Mr. ROUGH. Well, Heather Conley has already outlined a few of the deployments that are ongoing, which I do think are helpful. Beyond that I think developing a common strategic picture is useful, and the U.S. can do that by facilitating connections between our European allies and those frontline States who have really felt the brunt of Chinese aggression and ruthlessness of late.

The United Kingdom, for example, in the wake of the aggressive erasure of freedom in Hong Kong and subsequently of the moves against Australia on the trade front, has toughened its line, given its natural and historic links to both of those areas, on China. And I think the more that we can connect up on the ministerial level, for example, of 2+2 of defense and foreign ministers of our Asian allies, Australia, and Japan, in particular, and our European partners, that will be helpful.

But principally, this is really an American sphere of military action and what I would like to see is for the Europeans to alleviate American pressure in the Asia Pacific by having a solid presence in the Mediterranean and the North Atlantic perhaps east of Suez and the North Indian Ocean.

Mr. CHABOT. Thank you. And let me squeeze one more question. The previous administration's efforts to counter the Chinese telecommunications firm Huawei including through the Clean Network initiative were quite successful. Do you assess that the Biden Administration is building on this progress to ensure the safety of telecommunications networks in Europe?

Mr. ROUGH. I think that is an open question. Clearly, there is bipartisan agreement on the importance of keeping 5G clean, on keeping next generation telecoms amongst our allies clean, and so

in that sense I would say yes. Beyond that though, I think we really need to push for and address how we can extricate ourselves from supply vulnerabilities by providing alternatives.

And here there is questions about where strategy is going. Are we and the European separately going to pursue a form of industrial strategy, for example, on next generation technologies or can we work together as we did in decades past through basic research funding, perhaps relaxing some competition rules and thereby generating some consortiums of transatlantic private sector companies to push forward the frontiers of semiconductors, for example, and then it will be easier for our allies to feel less the sway or less the pressure of the Chinese.

So I would say the jury is still out but I am hopeful.

Mr. CHABOT. Thank you. My time has expired, Mr. Chairman. I yield back.

Mr. BERA. Great. Thank you, Mr. Chabot. Let me go and recognize the chairman of the Europe Subcommittee, Mr. Keating.

Mr. KEATING. Thank you, Mr. Chairman. I want to followup on Ms. Conley's testimony where she cited the China-Russia relationship. Surprising to many people over the last few years, myself included, the level of cooperation with China and Russia really reaching unprecedented highs, President Xi Jinping and Putin have both praised the comprehensive partnership and strategic cooperation between the two countries, and the leaders of both governments have recently underscored the steady development of these ties, taking them further, and there are many fronts.

If you could, first, Ms. Conley, and then anyone else who might want to jump in, just detail some of the key areas of cooperation, strategically, and where we should be the most concerned. No. 2, let's still remember there are differences, maybe you want to cite, if you could, some of those differences and how it could be problematic for the two countries going forward. And three, actually citing a great example of how to counter this, the programs like the Three Seas Initiative where it has already launched the response to Chinese economic influence in Europe, how do initiatives like the Three Seas play into the Biden Administration's revitalization approach to transatlantic response to China and how can these programs, programs like the Three Seas Initiative, those types of programs address the Russian-Sino cooperative influence?

Ms. CONLEY. Chairman Keating, thank you so much for that question. We have actually been very focused on understanding Sino-Russian military cooperation so I will speak to that. But I will say, I think the analytical community had been a little lazy, to be honest with you. We kept calling this dynamic alignment a marriage of convenience, that this was something that we historically did not see evolving. And I think we have to really now begin our assessment with a more enduring alignment.

This is not an alliance, let me be clear, but it is an alignment of interest between Moscow and Beijing and, increasingly, Moscow is looking toward Beijing for economic support whether that is Arctic energy development, whether that is looking at technology, surveillance, we are seeing that growing economic focus, and then what we are seeing now is a more fruitful partnership.

So for the last several years, beginning back in 2018, the Chinese military and Russian military exercise annually in Russia's annual military exercises. We have seen naval interaction in exercising well before 2015 as far afield as the Russian far east, the eastern Mediterranean, and the Baltic Sea. We are increasingly seeing arms transfers between Russian arm sales to China, but as China is seeking the more sophisticated military equipment they are now acquiring greater Russian military technology.

Watching air exercises between Russia and China in the Indo-Pacific is another example of this growing flexible dynamic militarily, and that is something we really do need to understand, particularly in a two-front conflict, if you will. So a scenario where Russia begins to exert pressure in northern Europe militarily; China simultaneously exerts even more pressure on Taiwan in the Taiwan Straits that would pose an enormous challenge to our allies, so keeping that focus militarily.

What we are seeing though as Russia and China interact globally, so Serbia is a perfect example, even in the Sahel in Africa we are seeing compartmentalization, meaning that they do stay out of each other's way. But, increasingly, I think that is going to be more challenge, particularly as China grows its economic role in these countries and Russia is unable to maintain a stronger economic relationship. But Russia may have different influence touch points, if you will. Will we see some friction as Russia is challenged in its traditional clients with, because of Chinese largesse. So we are seeing that compartmentalization.

And, finally, sort of thoughts on the Three Seas Initiative, and I think this is where quite frankly, whether it is Chinese malign economic influence or Russian malign economic influence, both thrive on lack of strong institutions, norms, transparency, strong voice for civil society and organizations. So in some ways, just to hearken back to what a previous panel has said, we cannot continually harp that this is an anti-China dimension. We have to start talking about these plans as strengthening the West, strengthening this Atlantic world, and we do that by quality infrastructure that respects environmental protections and norms, does not go into the pockets of cronies and political parties and leaders, that we are showing that quality is so much better than short-fix quantity.

That is a difficult process, but that is where that deep diplomatic and economic engagement is vital. Thank you.

Mr. KEATING. Yes, I yield back, Mr. Chairman.

Mr. BERA. Great. Let me go ahead and recognize my good friend from the State of Illinois, Mr. Kinzinger.

Mr. KINZINGER. Okay, thank you, Mr. Chairman, and thank you to all our witnesses for being here. Let's get right to it. Question for Mr. Rough and Ms. Conley. As we know, the Biden Administration waived congressionally mandated sanctions on the Russian malign influence project that we know as Nord Stream 2. Let me ask you both and I guess I will start with Mr. Rough, first.

Do you believe that the Administration did this with the hopes that Germany—and it was, of course, the main beneficiary of a completed pipeline—would cooperate in pushing back against the CCP? And if you do believe that, let me ask you if we have seen any stronger take by Berlin from that.

Mr. ROUGH. I do think that that is part of the calculation. The Biden team's thinking, if I could summarize it perhaps in somewhat crude terms, if there is a form of almost Kissingerian triangulation in Europe, they want to pull the Germans a bit away from the French idea of strategic autonomy, and then in the broader international arena, pull Europe led by Germany away from China.

And so I do think that that was part of the rationale. I am not sure why we had to link China policy to Nord Stream 2 and Europe. Those two strike me as unrelated and, quite frankly, the Europeans complained about linkage extensively during the Trump years, yet here, apparently, we are exercising that.

We also, I think, had a rather disappointing visit of the Chancellor to Washington. There was a lot of talk leading up to that. She came, of course, just a few days ago that there would be an agreement on Nord Stream 2, some sort of managed process, but in the end, nothing was really delivered. And I am not sure what the Europeans can deliver on that to assuage, or the Germans could deliver to assuage the concern of the Eastern Europeans.

One last point, the transit fees on Nord Stream through Ukraine run about 2.5 billion a year. The Three Seas Initiative, the major sort of crown jewel funding apparatus for that, announced at the Munich Security Conference in February 2020 is a one billion-dollar American commitment. So you can see how there is a bit of a gap between both the ambitions and the scope and size of Three Seas, even if it is built out, and what just in purely commercial terms the transit fees mean for the Ukraine, to say nothing of the geopolitical impact that this decision will ultimately have.

Mr. KINZINGER. Thank you.

Ms. Conley.

Ms. CONLEY. Yes, I believe the Biden Administration is certainly prioritizing in the first 6 months healing in our allied relationships and, certainly, the German, U.S-German relationship was severely damaged over the last 4 years. But as I said in my opening statement, we have to be able to apply what I call tough allied love, and I believe the Biden Administration should have continued to press the German Government to make much more significant concessions. They are isolated within Europe on Nord Stream 2. Unfortunately, this has not stopped them from pursuing this.

And I agree with Peter that the visit of Chancellor Merkel was an opportunity for the German Government to offer concessions for a pipeline that clearly the Biden Administration has accepted as constructed. I do not think I would have given up that easily. I would have fought until the very end, and it is not because we want to damage or fray our relationships. It is because we believe in this relationship and it is so important, we have to continue to fight for it.

I do not believe it was linked to China or to the Comprehensive Agreement on Investment. In some ways, this is not really about Russia, per se, this is about Germany and German policy and how it is going to approach challenges like Russia, like China, and I think we should have fought a little harder for more.

Mr. KINZINGER. I agree. And I think too it is important to note that we reversed the decision, which was the right decision to re-

verse it. We reversed the decision to withdraw troops and I think that is to an extent a given as well.

Let me ask you in the minute I have remaining, Mr. Goodman. We talk about supply chain vulnerabilities, obviously, that was brought to light during the COVID pandemic, and understanding, for instance, the threat to cutoff PPE and the real damage that could do, how can we be working with the EU to help to counter some of those supply chain issues? I know it is only 45 seconds, but if you want to top-line it that would be great.

Mr. GOODMAN. Well, thank you, Mr. Congressman. That is a really important set of issues around supply chains that as you know the Biden Administration announced this for his hundred-day review. One of the issues was the pharmaceutical and medical area and came up with some ideas for how we can make those supply chains more resilient and robust, also semiconductors, batteries, and our rare earth minerals.

All of that is really critically important and we have to do it with all of our allies. Europe plays a part in production of some of the medical and pharmaceutical products and supplies, and I think they need to be very much part of the conversation. There is a little bit of a theme or a sense among some allies that the U.S. really wants to do all this at home and, understandably, we want to do some of it at home, but we need to sort of have a bunch of options including production in Europe, Japan, other trusted allies, so that is, I think, the key here.

Mr. KINZINGER. Agreed. Thank you. And thanks for the witnesses.

Mr. BERA. Thank you. And let's try to squeeze one last round of questions in here and then, unfortunately, votes have been called. So let's see if we cannot get my good friend from Rhode Island, Mr. Cicilline, in here and then we will recess while we go vote.

Mr. CICILLINE. Thank you, Chairman Bera and Chairman Keating, for calling this hearing, and thank you to our witnesses for joining us today. Once again, the United States and its partners and allies in Europe have the opportunity to partner to advance the causes of liberty, democracy, and human rights and a future dictated not by the long reach of authoritarianism. And I think to do that we have to be really strategic about our approach to China and the Indo-Pacific region, particularly.

So my first question is for you, Mr. Goodman or Dr. Ferchen. We have seen recently a willingness of China to increasingly become more adversarial, including in regions traditionally outside their sphere of influence including Cuba. And my question is, should the U.S. and Europe expect that China will become more involved in the regions in which they were not normally involved in the past and, if so, how should we think about working together to really prepare for that kind of involvement?

Mr. GOODMAN. Yes. No, that is a difficult question, Congressman, because China on the one hand has not shown historically, I mean deeply historically, like thousands of years, interest in going too far beyond its sort of immediate sphere of influence within the sort of greater Asian region. Some counter examples, but in large part they have been more interested in sort of their position in the Asian Pacific.

They are, through Belt and Road, through other means in supporting Venezuela, Cuba, as you say, they have sort of been reaching out. Partly this is because they need resources, so Venezuela, I think, was part of that, the Africa play is a lot of their need to get access directly to resources as they see it. They think that is an important strategic play. The problem for them is that really extends their vulnerability, their risk, and they do not have, unlike us, they do not have a global footprint of bases and allies and military capabilities and they have gotten themselves in trouble.

So there is a bit of a, I think, a shyness too about going too far out on a limb there. But they have built a base in Djibouti. They are starting to look at extending that capability, and I think that is something that we have to be very alert to, working with allies to ensure that the countries that are being subject to influence have again an alternative offering from us that is more appealing than what China is offering.

Mr. CICILLINE. Thank you. The Pegasus Project has revealed the extent in which leaders from around the world installed spying software on the devices of opposition leaders and journalists. This includes, allegedly, Prime Minister Orban of Hungary.

And my question is, how does China's use of similar technologies influence the global trend of spying on actors unfavorable to certain governments and how can the United States and Europe partner to push back effectively against the global distribution of similar dangerous technologies that emerge from the Indo-Pacific region? And I do not know if anyone has thoughts on that.

Ms. CONLEY. Well, Congressman, I am happy to jump in. I think—and I thank you so much for citing the example of Hungary where we have this is a NATO and EU member and ally that is openly courting Beijing. Huawei has a technology center there and, certainly, Mr. Orban has increasingly encouraged Chinese investment. This is where both NATO and the EU and the U.S. have failed to have a consistent and credible policy to make sure that a NATO ally does not continue down this path because other allies seeing that that is a free pass may be tempted.

We are seeing particularly in non-EU member Serbia, a strong relationship where we have Huawei Safe City pilot projects. CSIS has done extensive research of Chinese influence in Serbia and across the Western Balkans. This is really problematic because they are showcasing and modeling technologies of surveillance of opposition in civil society which is deeply, deeply troubling. We need a response for that and as yet the transatlantic community has not effectively responded to that challenge.

Mr. CICILLINE. Thanks. And, quickly, I just want to raise the issue of human rights. Obviously, Indo-Pacific region is open to tremendous opportunities economically, diplomatically, politically but it is also home to a wide variety of human rights abuses that are really antithetical to the governance models and human rights regimes synonymous with the United States and Europe.

And so how should we think about making investments in this region, but also trying to advance the issue of human rights and ensure that we are seeing some progress in those key areas at the same time we are making these investments? I know that is a complicated question, but if anyone has thoughts on that.

You are going to let my clock run out. Well, give it some thought and perhaps you can answer that in writing if you have answers, because I do think that is one of the great challenges we face.

Mr. BERA. Great.

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

Mr. BERA. Thank you, Mr. Cicilline.

And knowing that votes have been called for, I am going to go ahead and recess this subcommittee and hopefully the witnesses can stay with us. Again, I know we may lose Mr. Goodman at 4 o'clock, but if the other witnesses can stay, we will reconvene after our third vote and hopefully it will be on the shorter end, 45 minutes to maybe an hour.

So at this time, the subcommittee will recess so that members can vote. The hearing will resume immediately following the last vote.

[Whereupon, at 3:20 p.m., the subcommittees recessed, to reconvene at 4:31 p.m., the same day.]

Mr. BERA. The committee will come to order. Again, before I call on Mr. Perry as a testimony to the importance of this subject but also to the witnesses, as we were on the floor voting, both Democratic and Republican members came up and talked about how interesting this topic was and how important this topic is.

So it is something that as the two subcommittees work together hugely important for us to bring our allies together across the transatlantic as we address some of the challenges in the transpacific Indo-Pacific region.

And with that, let me recognize my friend from the great State of Pennsylvania, Mr. Perry, for 5 minutes of questioning.

Mr. PERRY. I thank my friend, Mr. Chairman, from the great State of California.

To the witnesses, the threat posed by the People's Republic of China represents the foremost existential challenge to the United States, Europe, and the rules-based international order. But to me, there is a clear lack of consensus on the question, and even more so across the Atlantic. To me, it is a sobering indication that the CCP's intention to create division among Western allies is actually working. China has been able to leverage its investment in Europe, including through the Belt Road investments in Greece, Serbia, Hungary, and even Italy to weaken the resolve of our EU partners.

The CCP's outside influence in the German economy has caused the long-serving Chancellor to take a decidedly soft track on China for fear of upsetting bilateral trade and investment relations. Notably, Germany is in this position in a large part due to the Chancellor's disastrous energy wind rapid decarbonization policy. Germany's policies left them wholly reliant upon the CCP for the component minerals necessary to make solar panels, batteries, and windmills.

As other nations push forward with this technically infeasible net-zero policy being discussed on both sides of the Atlantic, they will suffer the same fate. The joint pressure of the economic suicide by the U.S.-EU creates an opening for the CCP to effectively take control of a critical infrastructure and economic markets and force Western leaders to adopt the appeasement strategy pursued by Ms. Merkel.

Recent global summits indicate a shared commitment to freedom of navigation operations in the East and South China Seas and an acknowledgment toward condemning human rights abuses. However, the extent of the U.S.-EU work against China remains limited to mostly agreeable initiatives. In many cases, I would argue that these summits revealed many divisions between our Nation and Europe. For evidence, look no further than the fact that the word "genocide" was omitted from the U.S.-EU joint statement but "climate change" was mentioned about 20 times.

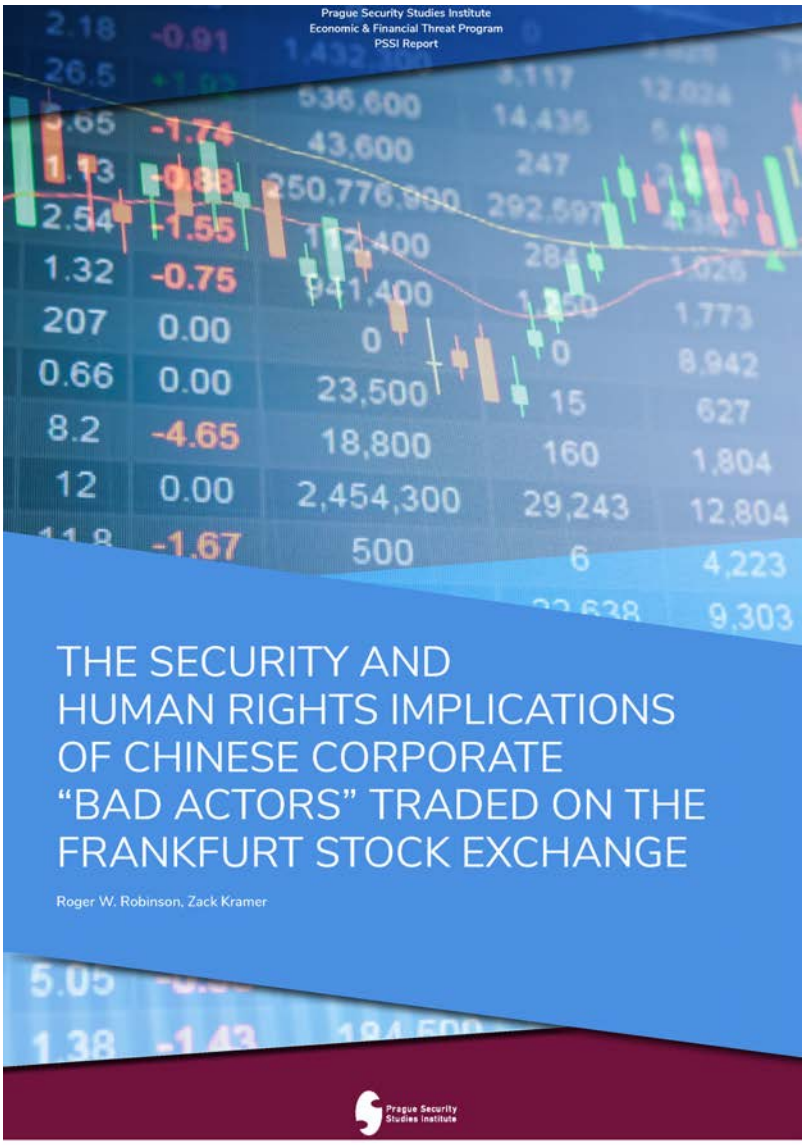
To be clear, it is great to be able to work with our EU partners on common areas of interest; however, what the CCP took away from these summits was not a transatlantic commitment to principles undergirding the rules-based international order. Instead, the CCP came away with the understanding that the current administration and EU leaders will sacrifice principle, prosperity, and security in return for false promises of future Chinese emissions reductions.

These summits also provided confirmation that there is an utter lack of cooperation in fighting the CCP's outside influence in the U.S. and EU capital markets and the economies at large. There can be zero hope for success in confronting the threat that the CCP poses without a unified effort on both sides of the Atlantic, can prevent funneling hundreds of billions of dollars into CCP coffers for their military modernization efforts and for continued perpetuation of genocide against minority populations.

And with that, Mr. Chairman, I request permission to submit for the record, a Prague Security Studies Institute report.

Mr. BERA. Without objection.

[The information referred to follows:]


Prague Security Studies Institute
Economic & Financial Threat Program
PSSI Report
THE SECURITY AND HUMAN RIGHTS IMPLICATIONS OF CHINESE CORPORATE "BAD ACTORS" TRADED ON THE FRANKFURT STOCK EXCHANGE
Roger W. Robinson, Zack Kramer
Prague Security Studies Institute

EXECUTIVE SUMMARY

Hundreds of millions of unwitting retail investors worldwide are currently holding in their retirement accounts and investment portfolios the public securities (i.e., stocks and bonds) of Chinese "bad actor" companies that are saddled with significant risk related to their track records on national security and human rights. Intellectual property theft, particularly among developers of emerging technologies with dual-use military capability, as well as corporate espionage and cyberattacks by Chinese companies and departments within the People's Liberation Army (PLA) compound the national security and material risks associated with many Chinese companies operating overseas and accessing international capital markets.

These companies include entities that have been sanctioned by the U.S. and other governments for a range of reasons, including links to: the PLA; egregious human rights abuses, including the aiding and abetting of genocide against the Uyghurs and other religious minorities in Xinjiang; the building and militarizing of illegally claimed islands in the South China Sea; the manufacturing of advanced weapons systems; the construction of an oppressive "surveillance state"; weapons proliferation concerns; and environmental degradation among other serious abuses. Like all Chinese enterprises, these entities are also bound by Article 7 of China's 2017 National Intelligence Law, which states that they are obligated to "support, cooperate and collaborate in national intelligence work and guard the secrecy of national intelligence work they are aware of."[1] Many are also now obligated to have representatives of the Chinese Communist Party embedded in their senior management structures.

Our research has found that the Frankfurt Stock Exchange (FSE) hosts at least seven such Chinese "bad actor" companies through primary listings on the exchange and at least 68 via the listing of a direct subsidiary or affiliate. The problematic backgrounds of these companies create asymmetric, material risks for German and other European investors. Further, the presence of these companies on the FSE reflects a glaring shortfall in security-minded and human rights-related diligence on the part of Germany's regulatory regime, and, as recent incidents show, threatens serious damage to the value and reputation of the passive and active investment portfolios of European investors.

The recent trajectory of U.S. policy and regulatory actions targeting the public securities of certain of these companies further illustrates the potential risk exposure facing investors, likely resulting in reduced liquidity in the shares of the respective sanctioned companies and potential pressure on their share values. This will likely be exacerbated as pension funds, index funds, and retail investors (perhaps initially those based in the United States) are compelled to divest their holdings, whether due to ethical and reputational concerns or due to outright official prohibitions.

The scope of this report also covers aspects of material risk related to publicly traded Chinese companies that have the potential to impact the European investment community in other ways. Chinese authorities,

1 https://www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense

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for example, have consistently blocked their overseas-listed companies from complying with material risk disclosure requirements, including those needed for independently audited statements. In several high-profile instances, the lack of adequate disclosure has masked serious financial irregularities that, once exposed, resulted in material financial harm to investors.

The array of risk concerns covered in this report – ranging from issues of non-disclosure to national security and human rights – is intended to underscore the need for greater diligence, regulation and awareness in the interest of investor protection and prudent risk management.

BACKGROUND: NEW CATEGORIES OF "MATERIAL RISK" IN GLOBAL CAPITAL MARKETS

Beijing's rigid demand for dollar- and euro-denominated capital to finance its Belt and Road Initiative (BRI) and other costly strategic plans has, over the past two or more decades, driven Chinese companies to raise trillions of dollars in foreign markets. On the equity side, they obtain primary listing status on global stock exchanges via an initial public offering (IPO) or through a reverse-merger with an existing publicly-traded shell company. Aside from providing companies with access to dollar- and euro-denominated capital, overseas listings also increase a Chinese company's international visibility, perceived legitimacy and status.

This prestige and access are afforded these companies despite the fact that established rules for transparency and sound financial and corporate governance are routinely circumvented, not to mention the lack of scrutiny of their track records on national security and human rights, all contributing to the risks posed to investors.

Increased regulatory action in the United States has contributed to the problem facing European investors, as Chinese companies have sought, in response, to expand their presence in non-U.S. markets that they perceive to have a lesser appetite for regulation on these issues (and, potentially, the diplomatic backlash that it could trigger). In the United States, added scrutiny facing publicly traded Chinese companies began with the Sarbanes-Oxley Act of 2012 and escalated in November 2020 with a policy prohibiting U.S. persons from holding the securities of companies designated by the U.S. Department of Defense as "Communist Chinese Military Companies."

International investor exposure to publicly traded Chinese companies, including known U.S.-sanctioned companies and other corporate "bad actors," increased severalfold when MSCI released its first list of 234 Chinese A-shares to be included in its MSCI Emerging Markets Index (MSCI EM Index) in May 2018.[2] The MSCI EM Index consists of companies from 23 emerging markets, with over $1.8 trillion in active and passive assets benchmarked against it.[3]

One year later, global index provider FTSE Russell followed suit with its decision to incorporate the China mainland A Shares of 1,051 companies into its FTSE Emerging Index, which is tracked by $140

2 https://www.msci.com/msci-china-a-inclusion

3 https://www.msci.com/documents/1296102/1362201/MSCI-M1S-EM-May-2018.pdf/b1b05adf-4bf3-9acc-404c-9865da3e9997

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billion globally.[4] Managers responsible for the design and calibration of indices, including those of MSCI and FTSE, appear to be performing little to no security- or ESG-minded diligence before incorporating constituent companies. Indeed, passive investment vehicles are one of the most significant paths (one of very little resistance) for Chinese corporate "bad actors" entering the U.S. and European capital markets.

FRANKFURT STOCK EXCHANGE (BÖRSE FRANKFURT)

The Frankfurt Stock Exchange is Europe's third-largest by both market capitalization (valued at $1.7-2 trillion), and liquidity.[5] The FSE is divided into two regulatory regimes, the regulated market and the open market, which span its two trading venues: Börse Frankfurt and Xetra. The regulated market is governed by EU and German law and includes two sub-segments of listing classifications, General Standard and Prime Standard, which carry additional post-admission reporting obligations and higher initial disclosure requirements (i.e., EU prospectus regulation and the MiFID II directive).

By contrast, the open market, which requires only the Scale Standard, is governed and regulated by the exchange itself, the Deutsche Börse Cash Market (DBAG), and carries few initial disclosure requirements and virtually no follow-on reporting for listed companies. Stemming from these seeming inadequacies, the FSE has already faced accusations of inadequate investor protection from the higher risks associated with Chinese stocks traded on the exchange's open market.

A series of fraud cases in 2014 involving Chinese securities caused many retail and institutional investors who experienced material losses to point to the glaring disparity in the oversight and reporting requirements associated with Chinese equities and the outsized risk inherent in investing in them. In those instances, a lack of cooperation, from China's Securities Regulatory Commission (CSRC) meant that German investors were unable to recover any funds or damages from the offending companies. The de facto legal immunity enjoyed by Chinese executives complicit in these circumstances led German securities lawyers and investors to call for this loophole to be closed through greater accountability by FSE-listed Chinese companies and a system of shareholder redress.[6]

Another practice permitted by the FSE is dual listings by companies registered on any of 50 foreign exchanges, including Shanghai, Shenzhen, and Hong Kong. In 2015, FSE operator Deutsche Börse Group signed an agreement with the Shanghai Stock Exchange creating the China Europe International Exchange (CEINEX), with the goal of allowing Chinese companies already listed on the Shanghai Exchange to offer so-called 'D-Shares' (Deutschland Shares), subject to the approval of regulatory authorities in both China and Germany.[7]

4 https://www.ftserussell.com/blogs/china-shares-inclusion-seven-key-points

5 https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/

6 https://www.reuters.com/article/us-germany-deutscheboerse-china-insight/frankfurt-exchanges-china-dream-turns-to-nightmare-idUKKCN0HH2T020140923

7 https://www.hedgeweek.com/2015/10/30/233235/sse-deutsche-b%C3%B6rse-and-cffex-jointly-launch-china-europe-international-exchange

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Chinese media reported that the CEINEX had also hoped to launch a stock connect program with Chinese mainland exchanges to create an offshore market for A share derivates.[8] Neither the stock connect program nor the D-Share offerings ever materialized, however, with only one company, Qingdao Haier, having issued D-Shares before purchasing back sixty percent of the offering due to lack of demand.[9]

In profiling the risk exposure of the FSE to Chinese "bad actor" enterprises, this report draws from three official sanctions lists: the list of "Communist Chinese Military Companies" administered by the U.S. Department of Defense; the "Entity List" administered by the Bureau of Industry and Security (BIS) under the U.S. Department of Commerce; and the Uyghur Slave Labor List compiled by the Australian Strategic Policy Institute (ASPI). The ASPI List, which identifies companies using forced Uyghur labor in their supply chains, has gained additional importance in the wake of the recent genocide designation by both the current and former U.S. Secretaries of State, as well as the sitting U.S. Secretary of the Treasury, in describing China's brutal repression of its Uyghur and other ethnic minorities.[10]

Figure 1: "Bad Actor" Companies Listed on the Frankfurt Exchange

Entity Name	Frankfurt Stock Exchange Ticker	U.S. Department of Defense Communist Chinese Military Company (CCMC)	U.S. Department of Commerce BIS Entity List	ASPI Uyghur Slave Labor List
China General Nuclear Power Co. (CGNPC)	94C	X	X	
China Communications Construction Company, Ltd. (CCCC)	CYY	X	X	
Xiaomi Corp.	3CP	X		X
Semiconductor Manufacturing International Corp. (SMIC)	MKN 2	X	X	
China Mobile	CTM	X		
ZTE Corp.	FZM	X		X
AviChina Industry and Technology*	AVT	X		
CSSC (Hong Kong) Shipping Co. Ltd.*	3LL	X	X	

Note: Asterisk denotes a subsidiary of a designated "bad actor" company

While lax listing standards in the FSE open market (a problem that is admittedly not unique to the FSE) provide relatively easy access to western capital for Chinese corporate "bad actors," Chinese companies traded in Frankfurt and present in the retirement and investment portfolios of German retail investors are not restricted to those listed on the exchange. In addition, Exchange-Traded Funds (ETFs) that track global indices, several of which contain Chinese corporate human rights and national security abusers, are traded on the Xetra. In this manner, via index inclusion, "bad actor" constituents of these indices

8 https://www.yicaiglobal.com/news/china-germany-agree-on-shanghai-deutsche-stock-connect

9 https://www.smartkarma.com/insights/haier-smart-home-forgotten-d-shares-equal-to-h-shares-creates-a-minimum-50-return-opportunity

10 https://www.nytimes.com/2021/01/19/us/politics/trump-china-xinjiang.html

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gain access to the liquidity and capital of German and European markets via a kind of "back door." This effectively magnifies the risk exposure enabled by the FSE several fold.

Figure 2: Major Index Exposure of "Bad Actor" Companies

Entity Name	Frankfurt Stock Exchange Ticker	MSCI Emerging Markets Index	MSCI All Country World Index	FTSE Emerging Index	FTSE All World Index
China General Nuclear Power Co. (CGNPC)	94C	X	X	X	X
China Communications Construction Company, Ltd. (CCCC)	CYY	X	X		
Xiaomi Corp.	3CP	X	X		
Semiconductor Manufacturing International Corp. (SMIC)	MKN 2	X	X	X	X
China Mobile	CTM	X	X	X	X
ZTE Corp.	FZM FZMA (ADR)	X	X	X	X
AviChina Industry and Technology*	AVT	X			
CSSC Offshore and Marine Engineering Co. (COMEC)*	GSZ			X	X

Note: Asterisk denotes a subsidiary of a designated "bad actor" company

CHRONOLOGY OF RECENT CAPITAL MARKETS DEVELOPMENTS IN THE UNITED STATES

Since July 2018, U.S. policy-makers have been increasingly focused on the risks described above. These have not only included the national security and human rights track records of certain publicly traded Chinese companies, but also the non-transparent and/or unethical business practices employed and the refusal to open their books to U.S. auditing oversight, as required by U.S. securities laws.

Most notably, this attention led to the unanimously enacted legislation, the "Holding Foreign Companies Accountable Act" (which requires the delisting of certain Chinese companies that fail to allow a review of their audits by the Public Company Accounting Oversight Board over a three-year period) and Executive Order 13959, which prohibits outright U.S. investors from holding securities of entities linked to the Chinese military. In some circumstances, even Chinese companies not explicitly subject to U.S. sanctions are, at this juncture, experiencing an elevated level of scrutiny for their potential to be targeted by U.S. policy-makers on similar grounds. The kinds of companies being targeted include those that are implicated by controversial policies, such as military-civil fusion and state surveillance. To date, this has not been the case in Europe.

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The U.S. government has, since March 2019, made some critically important strides in remedying these concerns, including:

— stopping the introduction of Chinese corporate "bad actors" into the investment portfolios of some 6 million federal employees (including military personnel) participating in the Federal Thrift Savings Plan (the retirement system of federal government employees);

— taking a similar action vis-à-vis the federally administered Railroad Retirement Board, whereby a public correspondence was issued to them by the former National Security Advisor and the former Director of the National Economic Council during the previous Administration calling on the Board to divest its fund from all Chinese companies for reasons of investor protection, national security and human rights concerns;

— tasking the Presidential Working Group on Financial Markets to issue a report on Chinese corporate non-compliance with federal securities laws (notable the absence of PCAOB audits); and

— most importantly, issuing Executive Order 13959 (see Appendix 1) in November 2020, which ultimately prohibits any American investors worldwide from holding the securities of "Communist Chinese Military Companies" (CCMCs), as designated by the U.S. Department of Defense.

The key provisions of this Executive Order are supported on a bipartisan basis by the Congress and are consistent with the investor protection impetus of the unanimously passed "Holding Foreign Companies Accountable Act" of 2020. The key provisions of EO 13959 include:

— that any majority-owned subsidiaries of these CCMCs be automatically placed on the OFAC list by the U.S. Treasury Department;

— that other subsidiaries of these CCMCs, irrespective of the percentage ownership, can be added to the U.S. Defense Department's list (and, therefore, the OFAC List) by the Pentagon at any time;

— that any CCMCs present in index funds (especially ETFs) are included in this divestment requirement;

— that, effective November 11, 2021, all U.S. investors worldwide are prohibited from holding the securities of the CCMCs on the Pentagon list; and

— that the Treasury Department's OFAC List should mirror the Defense Department's list (the current methodology for adding companies to this list, which is governed by Section 1237 of the National Defense Authorization Act (NDAA) of 1999, is soon to be enhanced by Section 1260 of the National Defense Authorization Act of 2021).

As of this writing, and despite E.O. 13959, none of the subsidiaries of the 44 currently identified CCMCs appear on either the OFAC list or the Pentagon list. That may soon change, however, as the Biden Administration is reportedly reviewing as many as a thousand or more such subsidiaries.

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KNOCK-ON EFFECTS: CHINA – EU INVESTMENT AGREEMENT AND IMPLICATIONS FOR GLOBAL CAPITAL MARKETS

These relatively new and unprecedented U.S. capital markets sanctions being imposed on Chinese public companies have profound implications for both the global investor community as well as European exchanges and regulators. For example, the subsequent delisting of China's three largest telecom companies from the New York Stock Exchange (NYSE) is an historic event in the global financial domain and a result of the first-time use of capital markets sanctions by the United States. The implications for Europe were soon apparent.

Following the notification of the delisting of China Mobile, China Unicom, and China Telecom from the NYSE in January, the London Stock Exchange (LSE) announced its decision to begin delisting proceedings for the same stocks, which had been admitted to the LSE on the basis of their NYSE primary listing. The largest global index providers (including MSCI, FTSE Russell, NASDAQ, and S&P Dow Jones) similarly began removing the securities of select Chinese companies identified in Executive Order 13959 from their major benchmarks, almost all of which are tracked by ETFs traded in Frankfurt.

China's and Wall Street's hope that the Biden Administration would adopt a more lenient posture on the use of capital markets penalties and safeguards – evidenced by China Mobile, China Unicom, and China Telecom each sending letters to the Board of the NYSE within hours of the inauguration of President Biden asking for reconsideration of their listing status – has proved elusive thus far.[11] Indeed, preliminary evidence suggests that Biden Administration officials may not wish to blithely sacrifice this major new source of American leverage over China which, for example, could prove a game-changer for the global human rights community.

This was evident even prior to Executive Order 13939. For example, the "Holding Foreign Companies Accountable Act" of May 2020 and NASDAQ's proposed "Restricted Market" Listing Rules involving increased audit and reporting requirements for Chinese companies prompted discernible changes in the behavior of Chinese companies, with 2020 seeing a record number of secondary listings floated in Hong Kong and Shanghai.

As a result of the circumstances described above, European market players and regulators are at risk of being caught in the middle of U.S.-China tensions playing out in the capital markets for the first time. Pressure from the U.S., for example, could cause major exchanges, such as Frankfurt and London (not to mention the biggest alternative, Hong Kong), to emerge as destinations for Chinese companies seeking to maintain access to overseas dollar and euro financing. While some in Europe may view this to be a good thing, from the point of view of drawing away business from the United States, it is likely to have unwanted ramifications, including new, intense pressure from Beijing that leverages Europe's desire to attract this business to secure an EU commitment to prohibit the use of capital markets sanctions against Chinese enterprises listed and traded on European exchanges.

Indeed, Beijing already appears to have such a strategy underway, based upon the suspicious language included in the December 2020 "Agreement in Principle" between the EU and China. Though the full

11 https://asia.nikkei.com/Business/Markets/Chinese-telcos-test-Biden-on-Day-One-with-NYSE-listing-plea

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text of the Agreement has yet to be made public, the preliminary "Agreement in Principle" contains a key clause: "the Parties commit not to discriminate (for example, not to impose foreign investment bans, joint venture requirements or nationality requirements) across sectors."[12]

Interestingly, the phase "investment bans" was often used by the media and official U.S. documents to describe the capital markets sanctions embodied in Executive Order 13959. In short, there is an excellent chance that Beijing is trying to forestall – and ultimately eliminate for the term of the official agreement – the ability of European signatories to restrict the access of Chinese public companies to European exchanges and investor capital, whether for reasons of human rights, national security or even, potentially, new concerns with regard to investor protection.

This type of "sleight of hand" on the part of Beijing's negotiators may have been the impetus behind stampeding a preliminary Agreement through the EU by the end of last year – after it languished for some seven years – all right in the window of the American capital markets counteroffensive.

CONCLUSION AND RECOMMENDATIONS

This new front in the U.S.-China struggle will almost inevitably have significant and far-reaching repercussions for European markets and exchanges. Tens of trillions of dollars of funds under management are implicated by the U.S. capital markets, which are roughly the size of the rest of the world's combined.

If European countries choose not to address this massive new issue area, they face a future in which tens of millions of European retail investors become increasingly exposed to the unconventional risks described above, while simultaneously helping fund behavior that runs counter to their fundamental values, such as genocide in Xinjiang and the development of China's "surveillance state" at home and abroad. Policy and regulatory measures, in line with those already taken by the United States, such as select investment bans and required divestment, would be prudent, even visionary.

In the United States, resistance to "business as usual" vis-à-vis China's activities in the capital markets has included allegations that the interests of Beijing and Wall Street fund managers and investment banks were taking precedence over the protection of American retail investors, fundamental values and national security. If German and European investors learn that their investment portfolios and retirement funds are helping finance the malevolent agenda of the Chinese Communist Party, these same accusations may well be directed at European regulators, exchanges, and their respective governments.

12 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2541

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APPENDIX: RISK PROFILES OF SELECT CHINESE NATIONAL SECURITY OR HUMAN RIGHTS ABUSERS TRADED ON THE FRANKFURT STOCK EXCHANGE

AVICHINA INDUSTRY & TECHNOLOGY CO., LTD. (H)

XFRA: AVT

AVIC INTERNATIONAL HOLDING (HK) LTD.

XFRA: CTQ

Affiliated Entity: Aviation Industry Corporation of China (AVIC)

AviChina is the "listing platform" for the Aviation Industry Corporation of China (AVIC) aircraft manufacturing business. AVIC and its subsidiaries develop and produce a range of aircraft (e.g., fighters, trainers, and helicopters), unmanned aircraft systems (UAS), and airborne weapons for the People's Liberation Army Air Force (PLAAF), People's Liberation Army Naval Air Force (PLANAF), and People's Liberation Army Rocket Force (PLARF).

— AVIC's airborne weapons and equipment include the Wing Loong (Yilong/Pterodactyl) family of unmanned aerial vehicles (UAVs), which have the operational capability to reach all of the South China Sea from any Eastern Theater Command drone base and all of the East China Sea from any Southern Theater Command drone base.

— AVIC also produces an export variant of the ship-launched YJ-12 (YingJi/Eagle Strike) anti-ship missiles carried by an array of bombers, fighter jets, and destroyers. The YJ-12B has been deployed in the South China Sea and has the capability to strike vessels within 295 nautical miles, including U.S. aircraft carriers.

— AVIC and its subsidiaries have been sanctioned on five separate occasions by the U.S. for proliferation activities that played a key role in enabling Iran to develop its missile capabilities.

- August 1993: Sanctioned for violating the Arms Export Control Act and the Export Administration Act in proliferating missile technology to Pakistan.
- May 2002: Sanctioned for transferring cruise missile components to Iran in violation of the 2000 Iran Nonproliferation Act.
- December 2004: Sanctioned for transferring equipment or technology in violation of the Iran Nonproliferation Act.
- December 2005: Sanctioned for transferring equipment or technology in violation of the Iran Nonproliferation Act.
- December 2006: Sanctioned by the U.S. for transferring equipment or technology in violation of the expanded Iran, North Korea, and Syria Nonproliferation Act.

— AVIC has 26 publicly listed subsidiaries, listed in Hong Kong, Shenzhen, and Shanghai.

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— AviChina Industry & Technology Ltd. and AVIC International Holding Limited are listed on the FSE open market under tickers AVT and CTQ, respectively. AviChina Industry & Technology is included in several major indices, including the MSCI Emerging Markets, MSCI All Country World , FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

CHINA MOBILE COMMUNICATIONS GROUP (CHINA MOBILE)

XFRA: CTM

China Mobile considers maritime coverage a top priority and has launched over 15 base stations to provides telecommunications services to the illegally claimed Paracel and Spratly Islands in the South China Sea. These include the following:

- March 2003: China Mobile's Hainan branch established a mobile communications base station on Woody Island in the Paracels. There is also a China Mobile store located on Woody Island.
- December 2007: Base stations were established on Pattle Island and Duncan Island, both in the Paracels.
- January 2008: Three more base stations were established in the Paracels, on Triton Island, Money Island, and Lincoln Island.
- May 2009: China Mobile's first 3G TD base station was established on Woody Island, markedly improving PLA communications across the Paracels.
- May 2010: Fiery Cross base station was established, followed soon after by new base stations across the Spratlys on Cuateron (Huayang) Reef, Hughes (Dongmen) Reef, Subi (Zhubi) Reef, Gavin (South Smoke) Reef, Johnson (Chigua) Reef, and Mischief (Meiji) Reef.
- April 2013: China Mobile's first 4G base station was established in the Paracels.
- February 2018: China Mobile signed a framework agreement with the PLA Navy (PLAN) South China Fleet to upgrade 4G coverage in the Paracels and Spratlys with PLAN support and resources. China Mobile reportedly intended at the time to build additional telecommunication base stations and infrastructure to support its operations.

— In May 2019, the U.S. Federal Communications Commission (FCC) denied China Mobile International's Section 214 application to provide international telecommunications services between the U.S. and foreign destinations. The decision was made after an extensive review by relevant Executive Branch agencies, which examined potential national security, law enforcement, foreign policy, and trade policy concerns, concluding that the application "raises substantial national security and law enforcement risks" due to "several factors related to China Mobile USA's ownership and control by the Chinese government."

— The Chinese government's oppressive internet surveillance and censorship system is implemented with the full cooperation of China Mobile, China Telecom, and China Unicom. The communications blackout in Xinjiang during the July 2009 Urumqi riots was carried out through the suspension of the carriers' Urumqi branch phone services, including long-distance calling and broadband Internet services in the region.

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— China Mobile is listed on the FSE open market under the ticker CTM. China Mobile is included in major indices, including MSCI Emerging Markets, MSCI All Country World, FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

CSSC (HONG KONG) SHIPPING CO., LTD.

XFRA: 3LL

CSSC OFFSHORE AND MARINE ENGINEERING (GROUP) CO., LTD. (COMEC)

XFRA: GSZ

Affiliated Entity: China State Shipbuilding Corporation (CSSC)

CSSC (Hong Kong) Shipping Co., Ltd. and CSSC Offshore and Marine Engineering (Group) Co., Ltd. (COMEC) are direct subsidiaries of Chinese military contractor China State Shipbuilding Corporation (CSSC), which has developed and built several advanced weapons systems for the People's Liberation Army Navy (PLAN), and is heavily involved in militarization initiatives in the South China Sea.

— In May 2014, China Shipbuilding's Number 9 Design & Research Institute, a subsidiary of China State Shipbuilding Corporation (CSSC), released plans on its website to build an artificial island, an airstrip complex, and a possible military base at the Johnson South Reef. The plans have since been taken down.[13]

— In December 2015, under a People's Liberation Army Navy contract, state-owned China State Shipbuilding Corporation (CSSC) announced that it would begin the construction of an underwater observation system coined the "Underwater Great Wall." The massive underwater surveillance system will be built in the South China Sea and will feature a network of ship and underwater subsurface sensors enabling the tracking and mapping of approaching vessels and entities, both above and below the water's surface. The project provides a significant tactical advantage for China's People's Liberation Army Navy (PLAN) in the disputed and increasingly tense region that Beijing is actively militarizing.[14]

— CSSC (Hong Kong) Shipping Co., Ltd. is listed on the FSE open market under ticker 3LL, and CSSC Offshore and Marine Engineering (COMEC) is listed in the open market under GSZ. CSSC Offshore and Marine Engineering (COMEC) is also included in FTSE Emerging Market Index and the FTSE All-World Index, which both trade on the FSE through ETFs.

13 https://www.popsci.com/chinese-shipyard-looks-build-giant-floating-islands/

14 ttps://www.popsci.com/chinese-shipyard-looks-build-giant-floating-islands/

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ZHONGXING TELECOMMUNICATIONS EQUIPMENT CORP. (ZTE)

XFRA: ZFM (H), ZFMA (ADR)

According to a report by the Australian Strategic Policy Initiative (ASPI), at least three Chinese manufacturers known to be using Uighur slave labor are suppliers to ZTE. These include O-Film Technology Co. Ltd., Hubei Yihong Precision Manufacturing Co. Ltd., and Sichuan Mianyang Jingweida Technology Co. Ltd. Thousands of Uighurs have been forcibly transferred from Xinjiang to these companies' various factories, located throughout mainland China.

— ZTE has also reportedly engaged in economic and trade activities in sanctioned states and in violation of international laws and agreements, including:

- ZTE reportedly provided U.S.-origin components to Iranian telecommunications companies from 2010 to 2016 through affiliated companies, including Tehran-based subsidiary ZTE Parisian, without the prior authorization of or export license from the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC).[15]
- ZTE procured U.S.-origin components through a U.S. subsidiary, ZTE USA, and improperly transferred the components from its facilities in China to North Korea's state-owned Korea Posts and Telecommunications in February 2010 and June 2015 in violation of the U.S. embargo against North Korea and the U.S. Department of Commerce's Export Administration Regulations (EAR).[16]
- North Korea's Ministry of Post and Telecommunications (MPT) reportedly imports cheap ZTE (and Huawei) phones, including the F160 bar phone, T95 bar phone, and E850 touch screen phone.[17]
- In May 2017, ZTE was reported to have violated both its corporate probation and U.S. Defense Acquisition Regulations System ban on Chinese military electronics, providing telecommunications equipment to the U.S. Department of Defense and Department of Homeland Security by subcontracting through an undisclosed U.S. contractor.

— ZTE has an extensive R&D program and provides engineering training to PLA personnel through educational partnerships with leading technical colleges. These include:

- A school-enterprise partnership with Changsha Vocational and Technical College (former Hunan Post and Telecommunication College), which serves as the communications training base for the PLA Hunan Reserve Infantry Division;[18] and
- A school-enterprise partnership with the Nanjing College of Information Technology, where the PLA Institute of Technology (PLA University of Science and Technology) training base is located and where ZTE has an authorized training center.[19]

15 https://www.justice.gov/opa/press-release/file/946281/download

16 https://www.bis.doc.gov/index.php/forms-documents/about-bis/newsroom/1658-zte-final-pcl/file

17 http://docplayer.net/27044613-Cell-phones-in-north-korea-has-north-korea-entered-the-telecommunications-revolution.html

18 http://changsha.caiep.net/changsha_wenjiaodanwei/content.php?id=59787

19 http://campus.61hr.com/SchoolPubInfo.aspx?id=552

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- The U.S. General Services Administration released an interim rule amending the Federal Acquisition Regulation (FAR) pursuant to the FY19 National Defense Authorization Act (NDAA) on August 7, 2019, prohibiting government agencies from procuring telecommunications and video surveillance services or equipment from ZTE (or any subsidiary or affiliate). The prohibition became effective on August 13, 2019. A broader ban applying to contracts with companies using any equipment or services provided by ZTE took effect in August 2020.[20]

— Both H-Shares and sponsored ADRs of ZTE trade on the FSE's open market under tickers FZMA and FZM, respectively. ZTE is also included in several major indices, including the MSCI Emerging Markets, the MSCI All Country World, FTSE Emerging, and FTSE All-World, all of which are tracked by ETFs traded on the FSE.

20 https://www.federalregister.gov/documents/2020/08/27/2020-18772/federal-acquisition-regulation-prohibition-on-contracting-with-entities-using-certain

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Mr. PERRY. Thank you. According to this report, the Frankfort Stock Exchange is currently allowing CCP companies that engage in intellectual property theft, egregious human rights abuses, the manufacturing of advanced weapon systems, and the militarization of illegally claimed islands in the South China Sea to trade on its exchange. This report indicates that this single EU stock exchange hosts at least seven CCP companies through primary listing and at least 68 via the listing of subsidiary or affiliate.

This is common practice across Europe and unless we hold serious discussions with our EU partners about the need to deny malign actors capital market access, there is absolutely no anti-China strategy that we can come up with that will achieve our political and security objectives. None, whatsoever.

To combat this critical issue, I will be introducing legislation next Thursday that utilizes President Biden's EO 14032 to support investment sanctions against PLA affiliates as well as any CCP company engaging in genocide or other human rights abuses. This bill is set for introduction and because this is such a critically important issue in our existential fight against the CCP, I am actively working to engage with my partners on the other side of the aisle to join with me in this bill's introduction. It is critically important that our EU partners see this as a bipartisan issue here in the United States.

I will close by asking our panelists one question. Do you anticipate substantive cooperation between the U.S. and the EU on combating China's omnipresence in the U.S. and EU capital markets, and maybe what are the barriers to success if you do not see us doing that? So that is what I am primarily interested in is the capital markets, the EU and the United States working collaboratively to limit China. And I would just like your opinion on that.

Mr. BERA. And knowing that the gentleman's time has expired, if the panelists could give short, succinct answers, I will indulge quick answers. Otherwise, certainly, you can submit extensive answers in writing.

Ms. CONLEY. Mr. Chairman, I am happy to very quickly answer Congressman Perry's question. We are actually developing a report that looks at the financial grey zone of which Russia and Chinese malign behavior elicit financing corruption, money laundering, and misuse of capital markets, is an important part of their economic warfare. This is not simply just for China, but also Russia.

And I think what we have seen is the European Union with, tomorrow, I believe, coming out with a major anti-money laundering directive. The EU understands it has a problem. It isn't fast enough in responding to it and, quite frankly, the U.S. has a strong leadership role to play here. So your point is taken and I think this is a huge area not just for China, but also for Russia.

Mr. BERA. If either one of the other witnesses want to respond, otherwise I will move on to the next witness.

Great. Thank you, Mr. Perry, and your time has expired.

Let me go and recognize the gentlelady from Nevada and my good friend, Ms. Titus.

Ms. TITUS. Thank you very much, Mr. Chairman. It has been a very interesting and enlightening testimony. I would ask Ms. Conley though to elaborate on her written statement where she

says there is a greater chance for strategic cooperation of military assets between the U.S. and EU nations within the Indo-Pacific. You noted that however that even recently there has been kind of an aversion of certain types—by certain types of European countries to upsetting China.

So I wonder if, as we shift our position in the region with a greater focus on collaboration with Australia, Japan, and India, if you see any chance that the Quad and NATO could maybe conduct some joint exercises, maybe similar, but on a larger scale than the Malabar exercises last year. And if that is not possible, what about working in cooperation between those two groups on certain missions that NATO is already engaged in like counterterrorism, cybersecurity, and ballistic missile defense?

Ms. CONLEY. Congresswoman, thank you very much for that question. I think you are absolutely seeing an evolution of particularly NATO allies separately increasing their force posture in the Indo-Pacific. Participating more in exercises and exercises are absolutely critical. I think another element is NATO is expanding its global partnerships, really strengthening its relationship, particularly with Japan, with Australia; we are also seeing bilateral efforts, particularly the French as well as the British, really strengthening their military to military relationships with members of the Quad.

I do not believe the European Union in its security and defense policies will have much of a posture in the Indo-Pacific. They can, however, again support for coast guard, illegal and unregulated fishing, maritime issues, this is where we really need the European Union to strengthen their resolve on the law of the sea, international maritime norms, and bring that unity to bear.

I do not believe the EU will really have an expression of a security posture. It will look much more toward the south, the Mediterranean, North Africa, Africa, as its most vital security challenge, but I do think NATO allies can and are playing a direct role. But again, we need them to concentrate, first and foremost, of strengthening the collective defense of the Euro-Atlantic area and then contributing what they can to the Indo-Pacific region.

Ms. TITUS. Well, thank you. Thank you very much.

I would ask you and any of the other members of the panel if you could just comment on the fact that we know that China is an adversary. We know we have to compete with them. We do not want them to necessarily be an enemy, but what are some areas that we can carve out where we can perhaps work together with some of our allies in specific policy areas, if it is climate change or if it is rule of law, whatever?

Ms. Conley, are you going to start?

Ms. CONLEY. Oh, of course. Thank you. I wanted to make sure my other panelists had a chance to jump in. Clearly, climate is probably the area that is right for collaboration, but again we have to demand transparency. I follow very closely the Arctic and we have seen, certainly, a significant uptick in Chinese scientific activities. As a permanent observer to the Arctic Council, in the Arctic, this, of course, this collaboration is very welcome. But there has to be transparency of exactly the kind of science that China is pur-

suing, that we make sure that we have confidence that it is science that they are pursuing, particularly in remote areas.

But the Chinese share with us very clearly that they are deeply affected by climate change. If they are willing to take policies and approaches that can reduce the emission of greenhouse gases, I think we should welcome that and welcome scientific collaboration. But I think it is very challenging to see China making meaningful changes to their current economic model, so I think we have to be very realistic about what we can expect.

Ms. TITUS. Thank you.

Dr. Ferchen, do you want to weigh in on that?

Dr. FERCHEN. Yes. I would tend to agree with some of this. I think there is a lot of emphasis on, in China, these commitments, verbally, to greening the Belt and Road, for example, and that means reducing coal-fired power plants along countries that are a key part of the Belt and Road, for example, in Pakistan.

The real question is, what is an alternative there, and this taps into some of Matt Goodman's statements earlier. So that is a question of financing and technology and that might be an alternative to what China has on offer, but it also may be some opportunities for collaboration but it requires listening to the demands side especially from countries that are right now taking some of those deals that China has on offer.

Ms. TITUS. Seems an opportunity for us to do some of that climate financing or at least build it into some of our development policy.

Dr. FERCHEN. Yes, I would agree.

Ms. TITUS. I yield back, Mr. Chairman.

Mr. BERA. Thank you, Ms. Titus. Let me recognize the gentleman from Florida, Mr. Mast.

Mr. MAST. Did you recognize me, Mr. Chairman? I did not hear you.

Mr. BERA. I am sorry. Yes, I did recognize you, Mr. Mast.

Mr. MAST. All right. That is what I thought. It kind of broke up for me. And I want to thank our witnesses for their testimony. I have enjoyed hearing it as well.

I was interested by the line of questioning that my colleague Ms. Titus asked, and it kind of—my question goes in a similar front. You see a lot of reliance by our European allies on China. It is increasing on a daily basis. When you look at that and you look at China expanding their role militarily while they still, largely in many cases, do not even function well as a regional military, they are certainly expanding the capabilities to function as a global military and transoceanic military as well.

And my question goes to this. When you look at Article 5 of NATO that States that an attack on one member of NATO is an attack on all of its members, what do you all opine, or if you can all opine, on the views among our European allies about how strong they consider that Article 5 statute within that today? Do you think they are viewing that still quite strongly? And then if you felt like opining on it as well, to even go on to say as we continue to try to un-bury the origins of COVID–19, if that were to be a purposeful leak from a lab if you would consider that an attack on NATO members. And whoever wants to start on that, it is open.

Ms. CONLEY. I am happy to begin. I believe, today, the Article 5 commitment is very solid and very strong and it was greatly appreciated that President Biden reaffirmed that commitment. So I think that we can be very assured. I think the challenge as you noted is that the increased definition and broadening of risks to transatlantic security, NATO at its most recent summit enlarged Article 5 issues to space and to cyber. So we are seeing the security aperture widen.

I couldn't specifically answer if, in fact, the origins of COVID–19 are attributed and clear and what that would mean for NATO, but I will tell you that because of U.S. leadership we have shifted our European allies' views on China and, in fact, Chinese behavior has actually facilitated that shift. They acknowledge this issue, but they do not see it in the security terms that the United States does.

This is what is going to require long, deep conversations, investment, a lot of encouragement, a lot of tough love, a lot of pushing European allies in uncomfortable places they do not want to be in the middle of the contest between the United States and China. But they aren't on the sidelines. They are part of the Western community of democracies and we need their support in a whole of allied effort against China.

Mr. MAST. Appreciate your response. Let me see if any of the rest of our panel has anything to offer on that. Thank you for your thoughtful response.

Mr. ROUGH. Sure. I will jump in and say that virtually any European diplomat or leader when he speaks to a high-ranking official, you hear a pretty strong commitment within NATO to Article 5. At the same time, however public opinion within Europe, it is rather varied, and I would say that a Latvian or a Lithuanian looks at the threat of Russia very different than a Portuguese or Spanish citizen who maybe looks more toward the Mediterranean and the global south.

So while there is a very strong leadership support for NATO, polling in the U.S., I think, is a little bit more robust when it comes to our views of Russia and NATO.

As for the COVID question, I would say that we are unlikely to ever get clarity on that, I think. That is my speculation. And so I am not sure we will be able to reach a threshold on origins of COVID to where you would be able to have a real, kind of strong, kind of European consensus on that issue.

Mr. MAST. That is a good point.

Mr. ROUGH. Well, I think that is just probably the nature of this sort of issue at least how the Europeans see it. And then one shouldn't forget that NATO has geographic boundaries under our Article 6 of the founding treaty, north of the Tropic of Cancer. And so at least some of the zones of dispute where China is really pushing out aggressively, say, the South China Sea and elsewhere, do not follow very specifically within the NATO remit.

A question though, and perhaps this is also somewhat of a punt, is how the Europeans would react, because I think American expectations would be there in the event of some sort of military emergency in the Asia Pacific. They are treaty allies of ours, they are not neutral as Heather Conley said, and yet that really is a part of the NATO zone.

Mr. MAST. Well, we have 5 seconds, if Mr. Ferchen wants to chime in.

Dr. FERCHEN. Just that I think we need, just need to be careful to put too much hope in the idea that sort of a focus on China will sort of save NATO. I think Russia is going to be a greater focus especially for most in Europe, and I think the same can be said for the broader transatlantic relationship. For all the cooperation that there can and should be on China issues, I think that relationship has to be solid on its own terms.

Mr. MAST. Thank you, all.

Mr. BERA. Great. Thank you, Mr. Mast.

And let me now recognize my good friend from the State of North Carolina, Ms. Manning.

Ms. MANNING. Thank you, Mr. Chair. I want to thank both of our subcommittee chairs and all the witnesses for such an interesting hearing.

I want to focus on one specific industry that has been particularly problematic during this pandemic and that is semiconductors. My question was going to be for Mr. Goodman, but I will welcome an answer from any of you who would like to speak on this. Given the importance of semiconductor chips, the Biden Administration is working to increase the resiliency of U.S. semiconductor supply chains and has reached agreement with key allies to cooperate on a broader semiconductor strategy.

Can you tell us about what kinds of cooperation are already underway between the U.S. and Europe on the supply chain security and how these initiatives can be further enhanced?

Ms. Conley, you look like you are ready to answer.

Ms. CONLEY. I just have an eager face, I think. Thank you. Unfortunately, Matt Goodman had to leave early, but absolutely. I mean, I think this is where, certainly, some legislation in Congress thinking about a trusted ally approach that we look to our allies as important additives to the supply chain. So the Dutch, in particular, with important semiconductor facilities, that we work with our allies and partners in Asia as well to buildup resilience, provide those alternatives, so I think some of that good work is underway.

I apologize for not knowing the specifics of that but that is the type of allied approach. It is not so much that it is against China, it is strengthening the West, strengthening our ability to produce and be autonomous and not rely on any one supplier.

Ms. MANNING. So the acquisition of the United Kingdom's largest semiconductor chip fabbed by a Chinese-backed company has prompted review for national security concerns and has there been a broader trend of PRC-backed companies acquiring semiconductor companies throughout Europe and, of course, if so, what are the implications we should be worrying about?

Ms. CONLEY. Well, certainly, there is an uptick in Chinese technology acquisition. In fact, my colleague Jim Lewis and I just completed a study last fall that looked at Chinese technology acquisition patterns, actually, in the Nordic States. We did not examine the United Kingdom in that study some of it is more difficult to detect. Some of it is coming through shell companies. There is certainly lack of clarity of origin and source of companies. I think that

is part of making sure we have strong intelligence in understanding who exactly is behind these acquisitions.

But as you noted, the United Kingdom, certainly, over the last year and a half, has done a 180 on its policy toward China. It has extensively reviewed a lot of Chinese investment including the nuclear power plants and elsewhere. The sensitivity is much higher in Europe and that is to be commended. The challenge is we have to create those alternatives. Could U.S. investment be that alternative? This is what I mean about turning to allies to seek that alternative investment rather than China.

Ms. MANNING. Thank you.

Someone else want to jump in?

Mr. ROUGH. Sure. If I could just buildupon that, I think one of the real challenges is these opaque funding mechanisms and vehicles and ambiguous partnerships that have been stood up. Heather mentioned grey zones of finance and responding to the issue of capital markets and that is certainly something that is making it more and more difficult for our European allies, even if the will is there, to identify who the end user or end investor is.

It is part of the reason why I think it is important for the Administration to share CFIUS best practices. Of course, Congress passed important legislation in 2018 to expand its jurisdiction. We need more best practices in Europe and then also more intelligence sharing and widening the information flow to Europe on who exactly is acting and in what capacity.

As an example of what I think is a path forward, Europe seems to be going the way, and I mentioned earlier to Congressman Chabot, the way of industrial policy. Something like half of its 137 critical products in the supply chains have some reliance on China and so they are forging out and pushing out into industrial policy.

I am not sure that picking winners and losers like this is going to be the most impressive or effective way forward. I would rather see us really invest in basic research and development. I would like to see us push for collaboration across industries and across the Atlantic. We have done this in the past successfully.

The Dutch company that Heather mentioned, ASML Holdings, is crucial to the semiconductor supply chain, and in the early 1980's it was really researchers in the U.S., Japan, and Europe that began working together in a consortium that included Intel and two other American chip makers as well as the Department of Energy labs. All of that is an effective way forward and a way of providing that alternative along with the investment screening that is absolutely essential.

Ms. MANNING. Great. Thank you.

Mr. Ferchen, a quick question for you. You said earlier in your comments that the major EU countries are reevaluating the impact of China, the need to balance economic needs with security concerns and geopolitical concerns, and you mentioned that any effort to frame this new strategic cooperation as anti-China will receive a frosty reception in the EU. So can you elaborate on that a little bit?

Dr. FERCHEN. I think it is hard enough for the EU, as the EU, to come together on any specific China policies. I think you will see that, for example, investment screening policies or the EU-Asia

Connectivity Strategy, which are both nominally about China, do not really say much about China. So it is very difficult to get consensus at the EU level on anything related to China especially if it is a strong pushback.

There are just so many different views within the EU, so many different structural relationships economically and otherwise that it is very difficult for the EU to come to an agreement that any kind of policy is going to be focused on China, especially if it is in some sense antagonistic toward China. That isn't that they won't adopt certain policies and some that are very much in line with U.S. interests, it is that the framing as overtly against China or adversarial toward China will just not fly.

Ms. MANNING. Thank you, and I yield back.

Mr. BERA. Great. Thank you. Let me recognize my good friend from California, Congresswoman Young Kim.

Ms. KIM OF CALIFORNIA. Thank you, Chairman Bera and Ranking Member Chabot. I want to thank all of our witnesses for joining us today and for your patience for staying with us this late.

You know, over the past year, we have seen a rising level of concern globally regarding the security of Taiwan. Potential conflict over Taiwan was included in the final documents of the G7, NATO, and the U.S.-EU summits, signaling increased transatlantic concern about the threats to peace and stability in the Taiwan Strait.

So, Mr. Rough, let me pose this question to you and I want to followup on this with a question on where Europe stands on Taiwan's inclusion in international organizations. We have seen Taiwan repeatedly muscled out of observer status at many international organizations including WHO. Earlier this year, I introduced legislation that would direct our State Department to push for Taiwan's inclusion at the WHO as an observer which has garnered a widespread bipartisan support with over 120 co-sponsors to date.

But we recognize that we will need strong buy-in from our European partners as well, so where does Europe stand on this issue?

Mr. ROUGH. Thank you very much for that question. I would just start by saying that partnering with the Europeans in international organizations is going to be in central to check what China's worst practices when it comes to intellectual property, all the way to the activities at the World Health Organization. We have seen, I think, a pattern of behavior from Beijing on, say, 5G technologies where quite a bit has become public about how much pressure is being put on European governments not to kick Huawei out of its networks, for example.

Taiwan, near and dear to the heart and soul of the CCP in Beijing, is the 5G issue but on steroids. And so the pressure that is being put to bear that one hears about anecdotally on European governments and on European leaders not to raise the Taiwan issue that it will have repercussions in market access to China is very high.

And so I think while there is increased recognition after the crackdown on Hong Kong, the genocide designation that Europe joined in on Xinjiang all the way to complete denial of international law in the South China Sea, or over the Sino-British 1984 declaration on Hong Kong, there is recognition that the Taiwanese espe-

cially to the COVID pandemic have a lot to offer and are a beacon of democracy and a contrast. But there are hesitations there and, to date, the Europeans have only been willing to go so far.

Ms. MANNING. Well, thank you for that. The next question is where the recent NATO summits final communique laid out the threat the CCP poses to the security of the alliance in the strongest terms to date, both German Chancellor Merkel and French President Macron downplayed that issue. Moreover, other NATO allies remain more focused on the threat posed by Russia.

Mr. Rough, what does the Biden Administration need to do to ensure the alliance takes concrete actions to address the threat posed by the CCP rather than just admire the problem? In particular, how can the Biden Administration rally the NATO allies who do not see the PRC as a pressing concern and convince them that we cannot protect our collective security without confronting the PRC?

Mr. ROUGH. Well, for starters, the European strategy that was adopted and has been much discussed today of labeling China a partner, a competitor, and a rival. Secretary Blinken picked that up in his testimony, his hearing before the Senate Foreign Relations Committee when he was nominated to become Secretary of State. And for us Americans, we might think of it as we just did in the previous colloquy as issue sets, so there is partnerships, there is areas of competition, and there is area of rivalry.

But, really, part of the reason why I think the European Union fits the strategy so well is it allows each country to pick whatever designation they want and take it as their own. So Chancellor Merkel has never used the word "rival" to describe China. The French were not pleased at the inclusion of Taiwan in the NATO communique. I think that is an open secret at this point.

And so there are different attitudes from, say, the Czech Republic all the way to Germany on Taiwan and that variation is there in Europe. What the Biden Administration can do is, I think, first of all, ensure that as the U.S. gets tougher on China that Europe is not an open window. So if we lock the door, but the Europeans on investment screening; on export controls, also an area we just spoke about; semiconductors where the U.S. has leaned on the Dutch Government to make sure that ASML does not export semiconductors; key materials to mainland China that helped us win the 5G battle, we have to make sure that we are robust at home on that and then we have to work together, I think, to forge the economic future to make sure there are alternatives.

If Germany does feel like it is under pressure because Volkswagen in the first quarter of this year sales in China rose more than 60 percent, well, we want to make sure that over time there are new markets, there are alternatives, and that a free and open environment aligned on China can serve as an alternative to make it less painful. So I would urge us to move in those directions.

Ms. KIM OF CALIFORNIA. Thank you. I could go on but I know my time is up, so I yield back. Thank you.

Mr. BERA. Thank you. Let me go and recognize my friend from the great State of Pennsylvania, Ms. Houlahan.

Ms. HOULAHAN. Thank you, Mr. Chair. Can you all hear me OK?

Mr. BERA. Whoops. We cannot hear you.

Ms. HOULAHAN. You cannot hear me?

Mr. BERA. Do you want to sit closer to the mic?

Ms. HOULAHAN. Can you hear me?

Mr. BERA. It is very low. Sorry.

Ms. HOULAHAN. Why do not you pass and I will 5:03:24 in 5 minutes. I will pass right now.

Mr. BERA. Great.

Ms. Houlahan is our last member. Theresa, do we have any other members on?

Ms. LOU. Chair Bera, no. At this time, Rep Houlahan is our last member.

Mr. BERA. Okay. And, Chrissy, do you want to give it one more go at it?

Ms. HOULAHAN. Yes. Is it working now or not?

Mr. BERA. Theresa, can raise her volume or, can the witnesses, can you guys hear Ms. Houlahan?

Mr. ROUGH. It is quiet, but I can make it out, I think.

Mr. BERA. Let's try to make it happen.

Ms. HOULAHAN. Okay.

Mr. BERA. Chrissy, the floor is yours.

Ms. HOULAHAN. Thank you. My first question has to do with rare earth elements and China accounts for 95 percent of that global

[inaudible]. Rare earth elements which are, of course, essential to the

[inaudible]. A 2020 report says that the EU identifies

[inaudible] rare earth elements. My question is to all of you all. How can the United States and Europe work better together to reduce our dependency on

[inaudible] monopoly on rare earth elements, both refinement and processing, and which key partners could we be engaging both

[inaudible] in the effort?

Mr. BERA. I think the question was about rare earth elements in China.

Ms. HOULAHAN. Yes.

Ms. CONLEY. Well, I am happy to just take a quick stab, and I think this is where understanding market dominance in particular, and I again focus on the Arctic region, and understanding where Chinese mining interests were very focused on Greenland and the rare earth minerals that are presented there.

I think this was a wake-up call for the United States and now the United States is working with the Kingdom of Denmark to increase its investment opportunities and economic opportunities in Greenland. At the same time, the new Greenlandic Government has pushed back against some of the Chinese mining interests and seeking a different, more ecologically friendly, economic approach.

So we see where we are waking up to understanding where these important minerals are and making sure there is diversity of supply which requires the U.S. to engage, and at the same time I think responsible home rule governments as well as governmental authorities understand the costs of this type of Chinese development. So I think there is some good news there, but we have to remain vigilant and focused.

Dr. FERCHEN. The only thing I would add to this is that I think the cost, environmental, social, and human cost for China to have this dominance is high and there is a recognition of that. And I

think one of the worries is that as China seeks other markets to develop rare earths then those environment, social, and human costs will basically be exported. And I think this is a challenge for both the U.S. and Europe to potentially understand that especially in areas like Greenland.

Ms. HOULAHAN. Thank you. And with what is left of my time, I would like to change to intellectual property and how the United States and EU can work together to help provide better

[inaudible] by China or

[inaudible].

Mr. BERA. I am not sure if I caught the full question, but—I think it was about investments and properties in the United States?

Ms. CONLEY. Or was it IPR?

Mr. BERA. Or maybe it was—yes. Okay.

Ms. HOULAHAN. Intellectual property.

Mr. BERA. Intellectual property.

Ms. HOULAHAN. Yes.

Ms. CONLEY. Again, I am just happy to begin and then turn to my fellow panelists. Again, I think Europe has had a great wake-up call to Chinese IPR theft. Theft, both through espionage but also just through straight acquisition. And I think this is where the German Government was very, very aware, which I believe it was in 2018 if I have my year correctly, of the Chinese potential investment into the German company KUKA, which is their high-end robotics.

They understood that Germany's innovative and economic strength was being both was purchased and they also saw a lot of Chinese investment in German universities and research and development. That is, of course, across many excellent European universities and their R&D centers.

So again acknowledgment of the problem, pushing back—that investment screening toolkit that the EU and member States are working on with different degrees of focus. A lot of this is intelligence. A lot of this is transparency of who the purchaser is. But Europe has awoken to this. They are pushing back and, certainly, the Germans and the British are much more cognizant of this, but we still have a ways to go.

Ms. HOULAHAN. Thank you. I yield back the balance of my time and thanks for putting up with me.

Mr. BERA. Well, great. Thank you.

Oh, go ahead.

Mr. ROUGH. I would just add, in my view, I mean this is a great example of where we can show the Europeans that the choice between the United States and China, if we do not want to frame it that way for a variety of reasons, is nonetheless real because the Chinese have perfected this model of acquiring stakes in companies. China's State-owned automaker owns 10 percent of Daimler, for example. The Chinese invited major Japanese and French actors into joint ventures in high-speed rail. They acquired the technologies, licitly or illicitly, and now both are cut out of the market. One can imagine where automobiles are heading.

The same also, I would add, on commercial aviation industries. These are the most competitive parts of the European economy

where Beijing is, for example, purchasing an American French jet engine for their principal new commercial aviation prototype, and then, presumably, extracting a lot of the IP and a lot of the technology and then cutting us and others out of the market.

So this is a pattern that we have seen on the Chinese side. And I think as the Europeans see that it isn't really a choice between the U.S. and China, but a choice between having a competitive economy of the future that is allowed to compete in a free and open world or, really, one that is kind of a Sino hierarchy of vassals with the Europeans underneath those Chinese companies, I think, as that choice becomes increasingly clear, they will be more and more prone to align with us on a variety of issues.

Mr. BERA. Great. Thank you for that.

And, Theresa, any additional members?

Ms. LOU. No, sir. Not at this time.

Mr. BERA. Okay, seeing none, I will go and make a closing statement. Seeing the ranking member Mr. Chabot on, certainly, we will give him an opportunity.

Obviously, the fact that members came back after votes to ask questions suggests that this topic is one of great interest and real strategic importance for countries that share similar values of rule of law, of intellectual property rights, the free markets, maritime security, freedom of navigation, a respect of traditional international rules, human rights, et cetera, and these are all places where the United States and Europe should come together.

And China will try to say this is about an anti-China strategy and the United States is trying to be hegemonic here, et cetera, but it is not. It is about what kind of a future do we want in the 21st century and fair competition based on a set of rules and norms is fine. Yes, I do not think we fear the competition of Chinese companies or China's ideas. I do not think Europe fears that. But this is about the values that bring us together in the transatlantic and, increasingly with our allies in Asia, in Japan and Australia and New Zealand, Korea young budding democracies in the ASEAN nations, India as a mature democracy.

So I look forward to working together with the ranking member Mr. Chabot on these issues and, certainly, with our colleagues on the Europe Subcommittee, if not other subcommittees. We have to get this right and it cannot be a Democratic or Republican strategy, it has got to be an American strategy. Similar to how we worked together in the post-World War II era during the cold war, again on values of principle and ideas. And I think that is how we have to approach this.

And yes, we did not even get into the Arctic Council, we touched on it, China sits here and says—the South China Sea is theirs. I just do not—how they claim territorial rights in the Arctic, and I also do not think they have those rights in the South China Sea either.

So thank you to the panelists. I think this was a great panel. And with that let me turn it over to the ranking member Mr. Chabot for any closing statements he might have.

Mr. CHABOT. Thank you, Mr. Chairman. And I would just say ditto to the comments that you make. In order to be successful in our—to us it probably is more countering the PRC than it is our

allies in Europe, but in order to be successful in our effort to have our principles prevail rather than their principles, which is authoritarianism and not rule of law and not human rights and on and on, we are going to need to work together.

So we need to make sure that our allies in Europe are willing to work with us and I think that is certainly possible. But many of us really question their willingness to do some of the things which are going to be necessary for us to be successful in this. They have to and the previous administration talked about this a fair amount that they have been able to be free riders, essentially, in a lot of this and not, I know it is mentioned that well, a third of them are now up to their 2 percent, but that means two-thirds of them are not.

So they have a long way to go and yes, I hope we can work together, but I hope it is not lip service that we are receiving from our allies in the future. That it is a real willingness to do some of the heavy lifting that is going to be necessary if the principles that we all believe in are going to prevail in this long-term, for lack of a better term, let's say rivalry that we have. And that is probably as nice a word as you can put on it.

But thank you for holding this hearing. I think the witnesses were excellent, and I will yield back.

Mr. BERA. Okay. Thank you to the ranking member. And, really, again want to reiterate my thanks to the witnesses, certainly, for holding on there as we had votes interrupt our hearing and for being willing to come back and finish out the hearing. And with that the meeting and hearing is now adjourned. Virtual gavel coming down. Thank you, everyone.

Mr. CHABOT. Thank you.

[Whereupon, at 5:15 p.m., the subcommittees were adjourned.]

APPENDIX

JOINT COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

SUBCOMMITTEE ON ASIA, THE PACIFIC, CENTRAL ASIA, AND NONPROLIFERATION

Ami Bera (D-CA), Chair

SUBCOMMITEE ON EUROPE, ENERGY, THE ENVIRONMENT, AND CYBER

William R. Keating (D-MA), Chair

July 15, 2021

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 jointly by the Subcommittee on Asia, the Pacific, Central Asia, and Nonproliferation and the Subcommittee on Europe, Energy, the Environment, and Cyber via Cisco WebEx (and available live on the Committee website at https://foreignaffairs.house.gov/):

DATE: Tuesday, July 20, 2021

TIME: 2:00 p.m., EDT

SUBJECT: U.S.-European Cooperation on China and the Broader Indo-Pacific

WITNESS:

Ms. Heather A. Conley
Senior Vice President for Europe, Eurasia, and the Arctic
Director
Europe, Russia, and Eurasia Program
Center for Strategic and International Studies

Dr. Matt Ferchen
Head of Global China Research
Mercator Institute for China Studies

Mr. Matthew P. Goodman
Senior Vice President for Economics
Center for Strategic and International Studies

Mr. Peter Rough
Senior Fellow
Hudson Institute

By Direction of the Chair

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COMMITTEE ON FOREIGN AFFAIRS

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MINUTES OF SUBCOMMITTEE ON *Asia, the Pacific, Central Asia, and Nonproliferation and Europe, Energy, the Environment and Cyber* HEARING

Day *Tuesday* Date *July 20* Room *Cisco Webex*

Starting Time *2:06* Ending Time *5:15*

Recesses *1* (*3:21* to *4:31*) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Chairman Ami Bera and Chairman Bill Keating

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
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To select a box, mouse click it, or tab to it and use the enter key to select. Another click on the same box will deselect it.

TITLE OF HEARING:

U.S.-European Cooperation on China and the Broader Indo-Pacific.

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.)

Yes.

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*
SFR - Connolly
IFR - Bera, Perry

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED _____

Theresa Lau
Subcommittee Staff Associate

Clear Form

Note: If listing additional witnesses not included on hearing notice, be sure to include title, agency, etc.

WHEN COMPLETED: Please print for subcommittee staff director's signature and make at least one copy of the signed form. A signed copy is to be included with the hearing/markup transcript when ready for printing along with a copy of the final meeting notice (both will go into the appendix). The signed original, with a copy of the final meeting notice attached, goes to full committee. An electronic copy of this PDF file may be saved to your hearing folder, if desired.

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SUBCOMMITTEE ON ASIA, THE PACIFIC, CENTRAL ASIA, AND NONPROLIFERATION

ATTENDANCE

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X	Ami Bera, CA
X	Brad Sherman, CA
X	Dina Titus, NV
	Andy Levin, MI
X	Chrissy Houlahan, PA
X	Andy Kim, NJ
	Gerald E. Connolly, VA
	Ted Lieu, CA
X	Abigail Spanberger, VA
X	Kathy Manning, NC

PRESENT	*MEMBER*
X	Steve Chabot, OH
X	Scott Perry, PA
	Ann Wagner, MO
X	Ken Buck, CO
	Tim Burchett, TN
X	Mark Green, TN
X	Andy Barr, KY
X	Young Kim, CA

HOUSE COMMITTEE ON FOREIGN AFFAIRS

SUBCOMMITTEE ON EUROPE, ENERGY, THE ENVIRONMENT AND CYBER

PRESENT	*MEMBER*
X	Bill Keating, MA
	Susan Wild, PA
X	Abigail Spanberger, VA
	Albio Sires, NJ
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X	David Cicilline, RI
X	Dina Titus, NV
	Dean Phillips, MN
	Jim Costa, CA
	Vicente Gonzalez, TX
	Brad Schneider, IL

PRESENT	*MEMBER*
X	Brian Fitzptrick, PA
X	Ann Wagner, MO
X	Adam Kinzinger, IL
X	Brian Mast, FL
	Dan Meuser, PA
X	August Pfluger, TX
	Nicole Malliotakis, NY
X	Peter Meijer, MI

STATEMENT FOR THE RECORD

"U.S.-European Cooperation on China and the Broader Indo-Pacific"
HFAC Subcommittee on Asia, the Pacific, Central Asia and Nonproliferation and Subcommittee on Europe, Energy, the Environment, and Cyber
2:00 PM, Tuesday, July 20, 2021
Cisco WebEx
Rep. Gerald E. Connolly (D-VA)

The People's Republic of China (PRC) is in active pursuit of becoming the world's leading hegemon. In January, financial analysts predicted that China's economy will overtake the United States' in 2028, or even 2026, depending on our respective recoveries from the COVID-19 pandemic. China has the world's largest military, including the largest navy, and their nuclear arsenal is expected to double, if not triple, in the next ten years. They are the world's largest emitter of global greenhouse gases, representing 26.1% of the world's total in 2020. Through their One Belt One Road Initiative (BRI), China has increased their investment and influence in 138 countries, representing 61% of the world's population. They are engaged in cyberespionage against the governments and domestic industries of the United States and our allies. At the same time, as an avowed opponent of liberal democracy, they are leading campaigns of genocide against the Uyghur people in Xinjiang, suppressing democratic movements in Hong Kong, and increasing their threatening actions against Taiwanese sovereignty.

To counter the threat posed by the PRC, the United States can't go it alone. Unilateral efforts made by the former President to force President Xi's hand with trade wars and sanctions only seemed to embolden the PRC and weaken the United States. Fortunately, President Biden recognizes the threat the PRC presents and put China at the top of the agenda at the recent NATO Leader's Summit in Brussels. He emphasized the importance of multilateral action to address these challenges by engaging with our European and NATO allies, and I could not agree more.

One area where the United States and our European partners can stand together on is support for democracy and human rights. As President of the NATO Parliamentary Assembly, I have made promoting democracy my top priority for my tenure by proposing the formation of the Democratic Resilience Center at NATO, an institution which would serve as a resource for challenges to the common values shared by member states. I am also the proud sponsor of the Taiwan International Solidarity Act (H.R. 2646), which opposes PRC efforts and actions to distort policies or language to resolve Taiwan's status, and was pleased to have this language included in the EAGLE Act (H.R. 3524), recently passed by the House Foreign Affairs Committee. Finally, I am a strong supporter of bills supporting the rights of protesters in Hong Kong and Uyghurs in Xinjiang. These are all efforts that the United States, NATO, and the European Union can and must double down on to demonstrate our support for democratic institutions and human rights at home and abroad.

Another area where we can realize transatlantic collaboration is working to establish guardrails and protections against harmful Chinese foreign direct investment (FDI) and Chinese technology such as telecom investments. Since the early 2000s, China's trade with Africa has multiplied by 20 and FDI into Africa has multiplied by 100. China's FDI stock in Africa totaled $110 billion in 2019, contributing to over 20% of Africa's economic growth. Combined with their other BRI

efforts, it's clear that the United States and European Union must lead the way in offering alternative financial incentives to developing countries. At the same time, China's weight in the global economy is such that they cannot realistically be ignored or sidelined. Agreements like the EU's Comprehensive Agreement on Investment offers an example of the kinds of protections and guardrails that can be used to continue to work with the PRC while also tempering their reach.

Finally, the United States and European Union must find ways to work with China towards reducing climate change. As a Co-Chair of the House of Representative's Sustainable Energy & Environment Coalition (SEEC), I am all too familiar with the threats that climate change poses to the entire world, and the degree to which the PRC is responsible for exacerbating the crisis. While they are a signatory to the Paris Agreement and have committed to curbing their emissions, it won't happen overnight. It is critical that we keep them at the table and continue to engage with them through mechanisms like the Green Climate Fund to mitigate their emissions and develop and deploy clean energy generation technologies. In the meantime, the rest of the world needs to come together to do what we can to reduce our emissions and offset theirs as much as possible.

Left unchecked, China's ambitious and malign attempts at global domination could have disastrous consequences for the United States and our partners. Rather than continue to ignore this challenge, the United States, European Union, and NATO members need to meet it head on. I look forward to hearing from today's witnesses about their ideas on how best to do that.

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