

Prepared Statement of Jamil N. Jaffer¹
on
Examining China's Coercive Economic Tactics
before the
House Committee on Rules

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I. Introduction

Chairman Cole, Ranking Member McGovern, and Members of the Committee: thank you for inviting me to discuss the coercive economic tactics employed by the Chinese Communist Party against the United States, our allies, and our industry, and the impact these tactics on our economic and national security.

As this Committee knows, today, China continues—as it has for many years—to engage in unambiguous type of economic warfare against the United States and our allies. The economic warfare conducted by the Chinese Communist Party takes many forms. One key starting point is the large-scale intellectual property theft, conducted at a national level by Chinese state intelligence agencies, that provide an economic base upon which China has built massive state-owned and state-influenced enterprises that now seek to expand their footprint across the globe. Another key line of effort is holding American companies hostage, as they do with our overseas allies and partners, when they seek to enter, remain, or expand in the domestic Chinese market, and to threaten the economic viability of these same companies when they or their host nations have the temerity to speak out against China’s domestic and globally repressive activities or to adopt policies aimed at responding to widespread economic predation by the Chinese government and its national champions. What is critical to note about this form of Chinese economic warfare is that it is aimed directly at undermining America’s national security.

I want to thank the Chairman and Ranking Member for holding today’s hearing on these important issues and for working on legislation, including bills like H.R. 1135, the Countering Economic Coercion Act of 2023, which the Chairman is an original cosponsor of, that seek to address the very real threat that China’s coercive economic tactics pose to our national security. I hope this hearing—one of only about two dozen original jurisdiction hearings in this committee in the last decade—will offer us the opportunity to have an open, robust dialogue on these critically important issues.

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II. The Various Forms of Chinese Economic Coercion and Their Collective Impact on U.S. National Security

Chinese economic coercion comes in variety of forms, some of which are discussed in this testimony, but at its core, the goal of China's coercive economic tactics is to interfere with and fundamentally shape the national and economic decision-making of the United States and our allies and partners, as well as that of our private companies, in a manner that benefits China's strategic national interests at our expense. To be clear, what this means is that all of the various aspects of Chinese economic coercion aimed at the United States and our allies and partners around the globe have at their heart, one key goal: undermining America's national security.

We see this effect in a range of ways. For example, when China wants to push back against areas where we and our allies agree, it oftentimes will go after our allies first, and will do in a manner calculated to try to divide us from one another. So, for example, when Australia sought to push back against Chinese efforts to influence Australian politics in 2017, much as the United States did against Russia after the 2016 elections (and later China and Iran), and as Australia agreed to partner with the United States to redevelop a naval base at Manus Island, the Chinese responded with an investigation into key Australian exports like barley.² This action also came on the heels of Australia's decision to ban Chinese telecommunications national champion Huawei from its 5G networks, a position the U.S. had long been lobbying Australia to take.³ And when the Australians had the chutzpah to suggest in 2020 that there ought be an independent investigation into the origins of the COVID-19 pandemic—as many American leaders had also advocated publicly—the Chinese went even further, going after Australian exports across a range of areas.⁴ Likewise, when the United States and South Korea agreed to deploy a Terminal High Altitude Area Defense (THAAD) antimissile battery in South Korea to defend against threats from North Korea in 2016, the Chinese government responded by blocking South Korean goods and services in a range of sectors, including the entertainment, consumer products, and tourism, engaged in a campaign of cyberattacks against a major South Korean conglomerate, Lotte, and severely limited political-military interactions.⁵

² Michael Smith, et al., *China Launches Anti-Dumping Probe into Australian Barley Imports*, The Australian Financial Review (Nov. 19, 2018), available online at <<https://www.afr.com/world/asia/china-launches-antidumping-probe-into-australian-barley-imports-20181119-h181zp>>.

³ Tom Westbrook & Byron Kaye, *China's Huawei Slams Australia 5G Mobile Network Ban as "Politically Motivated"*, Reuters (Aug. 22, 2018), available online at <<https://www.reuters.com/article/us-australia-china-huawei-tech/chinas-huawei-slams-australia-5g-mobile-network-ban-as-politically-motivated-idUSKCN1L72GC>>.

⁴ Reuters, *Explainer: How Strained China-Australia Relations Hit Trade in Coal, Barley, Beef and Wine* (Jan. 8, 2023), available online at <<https://www.reuters.com/markets/commodities/how-strained-china-australia-relations-hit-trade-coal-barley-beef-wine-2023-01-06/>>.

⁵ See Ethan Meick & Nargiza Salidjanova, *China's Response to U.S.-South Korean Missile Defense System Deployment and its Implications*, U.S.-China Economic and Security Review Commission (July 26, 2017) at 4, 7, available online at <https://www.uscc.gov/sites/default/files/Research/Report_China%27s%20Response%20to%20THAAD%20Deployment%20and%20its%20Implications.pdf>.

These examples represent a long-standing pattern of Chinese behavior going back a long ways, including in 2010, when the Chinese government barred Japan from obtaining rare earth metals for a period of time during a dispute over Japan's detention of a Chinese fishing boat captain whose ship ran into a Japanese Coast Guard vessel near the contested Senkaku Islands.⁶ Likewise, in 2012, China temporarily barred exports of certain Philippine fruits after a dispute over territory in the South China Sea.⁷

Given that China is Australia's largest two-way trading partner in goods and services,⁸ South Korea's largest export market,⁹ and Japan's largest trading partner as well,¹⁰ it becomes readily clear that these actions were calculated to have significant and measurable effect and were aimed directly at changing national behavior. Indeed, given that China is one of the world's largest economies and the largest trading partner to a range of nations, it is perhaps unsurprising that China regularly leverages its market power to punish nations, their institutions, and their companies when they engage in behavior that China does not like and seeks to change.¹¹

More recently, we can see similar Chinese economic coercion actions directed head-on at the United States and our companies as well. For example, just last month we saw China lash out at Micron, a U.S.-based chip maker, subjecting it to a searching "cybersecurity review" in retaliation for major export control actions taken by the Biden Administration to prevent Chinese semiconductor companies from accessing U.S. technology and allied tooling for the manufacturing of advanced semiconductors.¹² It is no surprise that the retaliatory action taken by China came just weeks after the Netherlands, and days after Japan—both the home to key

⁶ Yuko Inoue, *China Lifts Rare Earth Export Ban to Japan: Trader*, Reuters (Sept. 28, 2010), available online at <<https://www.reuters.com/article/us-japan-china-export/china-lifts-rare-earth-export-ban-to-japan-trader-idUSTRE68S0BT20100929>>.

⁷ See n. 5, *supra*, at 8.

⁸ See Australian Department of Foreign Affairs and Trade, *China Country Brief* (July 2022), available online at <<https://www.dfat.gov.au/geo/china/china-country-brief>>.

⁹ See n. 5, *supra*, at 8.

¹⁰ See, e.g., Tetsushi Kajimoto, *Slumping China-Bound Japanese Exports Raises Fears of Global Downturn*, Reuters (Jan. 19, 2023), available online at <<https://www.reuters.com/markets/asia/japans-trade-deficit-persists-recession-risks-loom-2023-01-19/>>.

¹¹ See Senator Jeff Merkeley, *Opening Statement, How China Uses Economic Coercion to Silence Critics and Achieve Its Political Aims Globally*, Congressional-Executive Commission on China (Dec. 7, 2021), available online at <<https://www.cecc.gov/sites/chinacommission.house.gov/files/documents/Chairman%20Merkley%20Opening%20Statement%20-%20CECC%20Economic%20Coercion%20Hearing.pdf>> (“As the second largest economy in the world and the largest trading partner to many countries around the world, China leverages the attraction of its market and the global economy's deep ties to supply chains in China to punish critics and reward self-censorship.... This Commission has also been on the receiving end of formal sanctions, just like other parliamentarians, government officials, nongovernmental organizations, researchers, and others who speak out against human rights abuses in China.”)

¹² See Laura He, *Micron Technology: China Probes US Chip Maker for Cybersecurity Risks as Tech Tension Escalates*, CNN (Apr. 3, 2023), available online at <<https://www.cnn.com/2023/04/03/tech/china-micron-probe-us-chip-war-intl-hnk/index.html>>; see also Chang Che and John Liu, *China Strikes Back at U.S. Chip Maker Even as It Signals Openness*, New York Times (Apr. 4, 2023), available online at <<https://www.nytimes.com/2023/04/04/business/micron-china-investigation.html>>.

semiconductor equipment manufacturers—agreed to implement the U.S. semiconductor technology and tooling restrictions.¹³

And these direct actions against American and allied goods, services, and companies are just one small example of the vast web of economic coercion that China deploys against the United States. Other examples include the forced transfer of technology and intellectual property that the Chinese government demands of U.S. and allied companies that want to access the Chinese market and the requirements that foreign companies enter into joint ventures with Chinese producers.¹⁴

Likewise, we regularly see China use massive government subsidies, low-interest loan programs, and support for loss-leading industrial efforts to gain unfair market share for its companies—many of which, like Huawei, are built on stolen American technology—across the globe.¹⁵ And China likewise leverages its Belt-and-Road Initiative to gain traction in key parts of the globe, making or promising large-scale infrastructure investments, more often than not in the form of loans that provide significant leverage and can be used in an extortionary manner to once again achieve its strategic policy goals, change national behavior, and undermine U.S. national security interests across a range of domains.¹⁶

What is clear from these examples is that China is not interested in simply gaining economic traction in foreign countries or preferencing its own goods and services. To the contrary, what we see here is a concerted effort by the Chinese government to gain strategic advantage and leverage for itself, to undermine the ability of the United States and our allies to obtain such opportunities, and to obtain policy changes at the national level by using its strategic advantage and leverage. These policy changes, in turn, are often focused on core national interests for China, many of which are at odds with U.S. national security policy and therefore serve to undermine it.

The examples of South Korea and THAAD, and Micron more recently, are instructive. In the case of South Korea, as recent debates have shown, the Chinese believe that they extracted iron-clad policy commitments from South Korea on a core national security concern for both the

¹³ See Michelle Toh & Junko Ogura, *Japan Joins the US and Europe in Chipmaking Curbs on China*, CNN (Mar. 31, 2023), available online at <<https://www.cnn.com/2023/03/31/tech/japan-china-chip-export-curbs-intl-hnk/index.html>>.

¹⁴ See, e.g., Sean O'Connor, *Staff Research Report: How Chinese Companies Facilitate Technology Transfer from the United States*, U.S.-China Economic Security and Review Commission (May 6, 2019) at 7-8, available online at <<https://www.uscc.gov/sites/default/files/Research/How%20Chinese%20Companies%20Facilitate%20Tech%20Transfer%20from%20the%20US.pdf>>.

¹⁵ See, e.g., Chuin-Wei Yap, *State Support Helped Fuel Huawei's Global Rise*, Wall Street Journal (Dec. 25, 2019), available online at <<https://www.wsj.com/articles/state-support-helped-fuel-huaweis-global-rise-11577280736>>.

¹⁶ See, e.g., Reid Standish, *A Closer Look At China's Controversial Lending Practices Around The World*, Radio Free Europe/Radio Liberty (Apr. 22, 2021), available online at <<https://www.rferl.org/a/china-loans-around-the-world/31217468.html>>; see also Anna Gelpern, et al., *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*, AidData, et al. (Mar. 2021) at 5-9, 34-45, available online at <https://docs.aiddata.org/ad4/pdfs/How_China_Lends_A_Rare_Look_into_100_Debt_Contracts_with_Foreign_Governments.pdf>.

United States and our ally—specifically commitments on the future of allied relationships and missile defense capabilities—as part of the resolution of that ostensibly economic-focused trade dispute.¹⁷

As with the effort targeting our allies and their companies, the actions by the Chinese government targeting a major U.S. chipmaker might initially be viewed as simply a policy response designed to extract economic costs similar to those being imposed. In reality, what become rapidly clear is that these efforts not simply economic retaliation but are aimed directly at coercing the U.S. government to change its policies on a key national security issue: protection of advanced chipmaking technologies at the heart of the U.S. and allied technological and national security advantage.¹⁸

And lest one thinks that these Chinese efforts are limited to going at the United States directly or the Indo-Pacific region, as well as the occasional European trade dispute, the fact of the matter that China is also rapidly making inroads in Latin America and places where it has not traditionally played a key role, like the Middle East. One need only look at the ability it has demonstrated in recent months get countries like Honduras to cut diplomatic ties with Taiwan and the inroads it made seeking to broker even the beginnings of nascent reproachment between Saudi Arabia as major potential threats to the U.S. role in these important regions. One might also consider the access that China is now successfully gaining in the core telecom and computing infrastructure of Latin America, as well as the power grid and other critical infrastructures of key nations in the region. Such access could allow it to dominate those regions in ways that significantly undermine U.S. national security in critical parts of the world.

III. Key Policy Elements to Consider in Addressing Chinese Economic Coercion

As members of this Committee and look to legislate in this arena through relevant committees of jurisdiction, including the House Foreign Affairs Committee, and working with other key leaders like the bipartisan leadership of the China Select Committee, some key policy elements may be worth considering:

- The United States is facing a threat to its national security that is being directed not only at us, but at our allies as well and that these attacks and coercion is directed not only at governments, but at our private sector companies as well.
- To that end, we must ensure that our allies do not implement policies that while ostensibly designed to protect their own industries have the effect of undermining the ability of the allied coalition to succeed against China.

¹⁷ See Kim Tong-Hyung China, *South Korea Clash over THAAD Anti-Missile System*, Associated Press (Aug. 10, 2022), available online at <<https://www.defensenews.com/global/asia-pacific/2022/08/10/china-south-korea-clash-over-thaad-anti-missile-system/>>.

¹⁸ Cf. Laura He, *U.S. Curbs on Microchips Could Throttle China's Ambitions and Escalate the Tech War*, CNN Business (Oct. 31, 2022), available online at <<https://www.cnn.com/2022/10/31/tech/us-sanctions-chips-china-xi-tech-ambitions-intl-hnk/index.html>>.

- Moreover, any policy solution must provide for direct support to our allies as they face Chinese economic attacks, including not just direct support from the U.S. government but from the U.S. private sector.
- That means that support for our allies can and should include incentives to U.S. industry to fill the gap that Chinese economic coercion creates.

Conclusion

Thank you again for the opportunity to present my views to the Committee. I look forward to discussing your questions and thoughts on these critically important matters that will be at the heart of America's national security in the coming weeks, months, and years.