

SPECIAL REPORT

No. 270 | MARCH 28, 2023

Winning the New Cold War: A Plan for Countering China

Edited by James J. Carafano, PhD, Michael Pillsbury, PhD,
Jeff M. Smith, and Andrew J. Harding

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KATHRYN AND SHELBY CULLOM DAVIS INSTITUTE FOR NATIONAL SECURITY AND FOREIGN POLICY

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Winning the New Cold War: A Plan for Countering China

*Edited by James J. Carafano, PhD, Michael Pillsbury, PhD,
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The Heritage Foundation's "Winning the New Cold War" describes the ends, ways, and means to secure America's future while confronting the greatest external threat the U.S. has faced since the collapse of the Soviet Union—the Chinese Communist Party (CCP). To be successful, this plan requires real and sustained U.S. economic growth, greater political will, stronger external partnerships, synchronized economic and security policies, resilient supply chains and borders, adequate military deterrence, and American energy independence. It also requires buy-in from the whole of American society. In order to implement a whole-of-nation strategy, the U.S. government must educate the American public and business community, from Main Street to Wall Street, about the scope of the threat from the CCP.

Foreword

Kevin Roberts, PhD

The greatest existential threat facing the United States today is the People's Republic of China (PRC), led and controlled by the Chinese Communist Party (CCP). Whether politicians and pundits in Washington care to acknowledge it or not, the United States is in a new Cold War with the PRC, an adversary even more capable and dangerous than the Soviet Union was at the height of its power.

The reason for this is twofold.

First, during the Cold War, the United States was able to assemble a robust international coalition of nations that were committed to containing and defeating the Soviet Union. No such coalition exists today: The West is fractured on how to confront China and how to eliminate the growing threat from the CCP.

Second, the United States and its allies effectively severed their economic ties to the Soviet Union. The use of economic warfare coupled with American soft power proved to be essential in the collapse of the USSR in 1991. With China now the largest trading partner for many international capitals, the U.S. cannot rely on the free world to economically isolate the PRC the same way it did with the USSR.

Somewhere along the way, the U.S. government forgot the lessons of the last Cold War even as China grew more belligerent and leveraged access to American financing and technology to fuel its rise economically and militarily.

Instead of adapting to the threat, multiple Administrations pursued closer engagement with the PRC, all assuming that they could guide China on a path to greater economic openness and, ultimately, more political freedom. That gambit failed disastrously. Under General Secretary Xi Jinping, the PRC has grown more repressive at home and more aggressive abroad.

America's engagement strategy, fueled by trade and manufacturing policies that empowered the CCP, have left the U.S. dependent on the Chinese economy. Critical supply chains, from vital rare-earth elements to key pharmaceutical products, remain largely or wholly dependent on the PRC. The COVID-19 pandemic exposed just how much of the U.S. economy is reliant on the PRC for essential goods and services.

Even worse, the failed engagement strategy left the American people exposed to a wide range of malicious CCP activities here on American soil. The PRC has established a presence on U.S. college campuses and operates secret police stations in American cities. Popular Chinese social media apps transmit the data of millions of American citizens back to China while Chinese surveillance drones are "donated" to fire and police departments in the U.S.

Decades of systemic, unprecedented corporate espionage by the PRC have bled the U.S. economy of trillions of dollars in intellectual property theft. PRC hackers have compromised the sensitive personal data of tens of millions of Americans.

Chinese "friendship associations" and agents of the United Front Work Department peddle influence in Washington and Wall Street alongside CCP-funded lobbyists and consulting firms. Meanwhile, fentanyl and other synthetic opioids largely sourced from China contributed to a nationwide drug epidemic and were responsible for more than 70,000 deaths in the U.S. in 2021.

These vulnerabilities are exacerbated by the nefarious ways in which the CCP mixes statecraft with economic policy: China's national security laws effectively make every Chinese company and entity subject to the whims,

and intelligence requests, of the CCP. Meanwhile, ostensibly “American” businesses, especially Big Tech companies, seem happy to sacrifice the privacy, jobs, and security of everyday Americans for greater access to Chinese markets.

In the pursuit of Chinese financing and Chinese students paying full tuition, American universities skirted their own responsibilities to ensure that the campus is a safe place for open academic debate free from the influence of foreign adversaries. In pursuit of profits, Hollywood and major sports leagues, such as the National Basketball Association, censor voices critical of China’s lamentable human rights record. Following years of controversial scientific cooperation with their Chinese counterparts, U.S. public health experts blunt efforts to investigate the origins of the coronavirus and hold China accountable for its role in the pandemic.

Inside China, the space for academic, religious, economic, and political freedom has evaporated. The CCP’s genocide of China’s Uyghur minority and mistreatment of Christians, Tibetans, Hong Kong residents, and any form of political dissident has grown more systematic, and the police state, more draconian. Access to open markets did not lead China to economic and political freedom. It empowered the police state and enhanced the CCP’s grip over the economy.

Abroad, the PRC is increasingly determined to establish hegemony, supplant U.S. leadership, and intimidate its Indo–Pacific neighbors into submission. It is conducting mock blockades of Taiwan, clashing with Indian troops in the Himalayas, and sending fighter jets to probe Japanese airspace. It has launched economic coercion campaigns against South Korea and Australia while taking Canadian citizens hostage as political prisoners. It is backing Russia’s deadly invasion of Ukraine and keeping the rogue North Korean regime afloat.

The PRC lays claim to the entire South China Sea—and with it some of the world’s most important sea lanes of trade—where it has militarized new artificial islands and deployed a maritime militia to bully its neighbors. It has harassed U.S. military aircraft and naval vessels operating legally in international waters in an ongoing series of dangerous encounters. And, most recently, a Chinese spy balloon penetrated American airspace and crossed over sensitive military installations as it traversed the continental U.S.

These are not imagined sleights. This is the behavior of an adversary, not a competitor. A course correction is long overdue. To date, the U.S. government’s response has been inadequate.

It is time to acknowledge reality: The United States is in a New Cold War with the PRC. It is past time for a plan—for a whole-of-government

and whole-of-society effort—that serves American interests and protects the American people and economy from malicious actions by the CCP. The Heritage Foundation’s “Winning the New Cold War: A Plan for Countering China,” a major research collaboration reflecting inputs by more than two dozen foreign policy, legal, military, economic, and energy experts from Heritage and other organizations, does just that. This is not the end of our work to combat the CCP threat, but the beginning.

Kevin Roberts, PhD, is President of The Heritage Foundation.

Executive Summary

Winning the New Cold War: A Plan for Countering China

The Heritage Foundation’s “Winning the New Cold War: A Plan for Countering China” offers the U.S. government, business community, and civil society a comprehensive policy agenda for securing a prosperous American future while confronting the greatest external threat the U.S. has faced since the collapse of the USSR.

This plan deliberately invokes the legacy of the Cold War. While U.S. officials have been reluctant to frame the rivalry with China in these terms, their apprehension ignores a simple reality: China adopted a Cold War strategy against the U.S. long ago. “It does us little good to repeat again and again that we aren’t seeking a new Cold War when the CCP [Chinese Communist Party] has been stealthily waging one against us for years,” former Deputy National Security Advisor Matt Pottinger testified before the newly established House Select Committee on Strategic Competition between the United States and the Chinese Communist Party in 2023.

To win the New Cold War, this plan calls for sustained U.S. economic growth, greater political will, stronger external partnerships, secure borders, synchronized economic and security policies, resilient supply chains, enhanced military deterrence, and U.S. energy independence. It articulates the steps necessary to protect the homeland, protect U.S. prosperity, diminish China’s capacity to harm the U.S. and hold it accountable, reorient America’s defense posture, and exercise global leadership.

Finally, this plan simultaneously exposes the Chinese Communist Party’s aggressive tactics against the U.S. and represents a call-to-arms for all segments of U.S. society, including state and local governments, the private sector, the American people, and U.S. allies and partners abroad.

“Winning the New Cold War: A Plan for Countering China” is divided into three sections.

Part I describes the rationale for the plan, examining the current state of the New Cold War between China and the U.S., weighing respective strengths and weaknesses. Recent trends driving the CCP to act with more aggression abroad and more repression at home are likely to continue, particularly after Xi Jinping secured a third term as the head of the Communist Party in 2022, consolidating power and sidelining what remains of opposing factions.

Part II, the heart of the plan, exposes the People’s Republic of China’s (PRC’s) aggressive tactics against America and proposes U.S. policy

responses across dozens of fronts: from banning CCP lobbyists to arming Taiwan, from enhancing nuclear deterrence to expanding export controls, from addressing China's role in the fentanyl crisis to shutting down illegal CCP police operations in the U.S.

Part III summarizes key action items from Part II and offers guidance for implementation by the U.S. government. Contending with an adversary as capable as the CCP will require close coordination between the executive and legislative branches, federal agencies and law enforcement, state and local governments, U.S. allies and partners, and the private sector. Above all, proper implementation of the plan will require leadership from the White House and a National Security Council capable of effectively operationalizing the President's vision.

Summary of Key Recommendations

To protect the U.S. homeland, the U.S. must:

Stop Malign CCP Activities in Higher Education. The executive branch should ban, at a federal level, all Confucius Institutes, as they are sponsored by the CCP, and all collaborations between U.S. institutions and Chinese entities affiliated with China's Ministry of State Security or other security and intelligence agencies. The U.S. State Department, which conducts background investigations of student visa applicants, should deny citizens of the PRC, and those of other U.S. adversarial countries, access to Department of Defense-funded research programs.

Crack Down on Illegal Chinese Police Operations in the U.S. The Department of Justice should reinstate the China Initiative and immediately shut down illegal CCP police operations in the U.S. It should ensure that these operations, which predominantly victimize Chinese Americans and Chinese nationals living in America, are a focus of a revitalized China Initiative.

Ban Dangerous Chinese Apps. Under the authority of the powers given to the Committee on Foreign Investment in the United States (CFIUS) through the Foreign Investment Risk Review Modernization Act of 2018, Congress should direct CFIUS to continuously review the activities of all Chinese mobile app companies and recommend specific apps to be banned on national security grounds. TikTok should be immediately banned in the United States.

Engage State and Local Governments. State governments must prevent Chinese companies from obtaining contracts to build critical infrastructure, resist purchasing Chinese products and technology that

can pose espionage or national security risks, limit and roll back nefarious PRC activities on U.S. university campuses, encourage public funds—particularly pension funds—to divest from problematic Chinese entities, prevent the purchase of sensitive land or property near critical infrastructure or strategic farmland by PRC agents, and identify and halt lobbying of state and local governments by Chinese agents.

Prevent Malicious Land Use. Congress should require that the U.S. Department of Agriculture be included in the CFIUS process for reviewing land purchases by adversarial countries. The Department of Homeland Security should define and locate critical infrastructure that could be affected by proximity-based purchases of land near military installations and facilities of concern.

Ban CCP Lobbyists. Congress should ban lobbying by agents of the Chinese government, passing legislation that requires lobbyists representing Chinese government-controlled companies to register as foreign agents. Congress should also pass a law that prohibits foreign agents from lobbying representatives or agents of U.S. national or sub-national government entities on behalf of these companies or the Chinese government.

Ensure Border Security and Immigration Enforcement. To curb the flow of Chinese-origin fentanyl into the U.S. and secure America's sovereign borders, Congress must fully fund thorough border and immigration enforcement and close loopholes in the system that have long been exploited by cartels and illegal traffickers.

Address China's Role in the U.S. Drug Crisis. The U.S. should sanction individuals and entities in China, Mexico, and the U.S. that are involved in enabling the trafficking of fentanyl and other synthetic opioids and rigorously enforce the sanctions regime.

Ban the Import and Sale of Chinese Manufactured Drones. Congress should reinsert language preventing federal government acquisition of Chinese drones in the next National Defense Authorization Act and sign it into law. In anticipation of a legislative solution, the White House should implement a ban on the federal purchase and use of Chinese drones through executive order.

Protect the U.S. from Life Science and Biotechnology Threats. Congress should appoint a blue-ribbon commission of security-cleared, non-governmental experts to assess the military-related life sciences and biotechnology threats emanating from China. The CIA's recent creation of the China Mission Center and Transnational and Technology Mission Center should address biotechnology threats as part of a broader focus on addressing dual-use life science threats.

To protect and advance U.S. prosperity, the U.S. should:

Strengthen the U.S. Economy. The executive branch must reverse the current explosion in business regulations, particularly mandates for environment and energy, as well as labor, environmental, social, and governance (ESG), and equity policies, and Congress must return to producing annual budgets aimed at systemic reductions in debt and deficit spending.

Ensure Reliable Semiconductor Supply Chains. Congress must eliminate security loopholes and add additional oversight mechanisms in the funding and execution of the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act. Congress should further improve the tax environment for capital investments for semiconductors where current recovery periods heavily disadvantage the construction of commercial infrastructure, such as chip fabricators.

Secure Critical Mineral Supplies. To expand the mining of vital rare-earth elements in the U.S., the government must reform outdated federal and state environmental statutes, including the National Environmental Policy Act, the Clean Water Act, and the Clean Air Act, eliminating redundant state regulatory barriers while maintaining commonsense environmental standards.

Risk-Manage Inbound Investment. Congress must add regulation of private equity and venture capital financing for designated “countries of concern” and sensitive transactions as defined in the 2018 CFIUS reform. New legislation should define critical sectors, and CFIUS should review acquisitions by countries of concern to ensure that they do not compromise supply-chain integrity in these sectors. This legislation should expand CFIUS review to cover PRC greenfield investments and ensure that Congress’s intent to require CFIUS review for emerging and foundational technologies is implemented.

Protect Intellectual Property. Regulators must better define the term “sensitive data” to include “personally identifiable information” and “geo-location data,” limiting the commercial transfer of such data to Chinese entities. Congress should direct the Federal Communications Commission to review and reject approvals for the export of advanced technology equipment to Chinese state-linked entities more aggressively. To address future threats, the U.S. government should expedite post-quantum cryptography plans, beginning with rapidly identifying public-key cryptography and how it is used within government agencies.

Promote “Reshoring,” “Nearshoring,” and “Friendshoring.” For critical industries vital to U.S. national security and economic well-being, the U.S. government should encourage and incentivize firms to divest from

China and must be prepared to employ punitive policy measures to enforce compliance in the most sensitive industries, including sanctions and entity-list restrictions.

Reject Damaging Environmental, Social, and Governance Policies.

Congress should establish legal mandates that prevent state and federal agencies from imposing regulatory requirements that make critical infrastructure or a company's supply chain more dependent on China. Proactive measures can be undertaken through educational briefings and partnerships with state Attorneys General, Treasurers, Governors, and state and federal legislators to inform them of the ways in which China manipulates ESG to its advantage.

Address Energy and Climate Challenges. America is well endowed with natural resources and should reject plans to transition to "green energy" technologies dominated by China. The U.S. should continuously highlight China's abhorrent use of forced labor in the energy-technology sector, ensure that U.S. firms importing Chinese green technologies comply with the Uyghur Forced Labor Prevention Act of 2021, and find innovative ways to highlight China's poor environmental stewardship.

Promote Good Corporate Governance. Corporate boards should consider the following steps: diversifying critical supply chains by beginning to move production out of China, diversifying export markets to reduce CCP leverage over their decision-making, refusing deals that involve exposing or transferring advanced U.S. technology or trade secrets to any CCP-linked entity, rejecting ESG and diversity, equity, and inclusion (DEI) compliance measures that undermine U.S. competitiveness and advantage Chinese competitors, and applying due diligence to prospective employees and counterparties that may have connections to the CCP.

To reorient America's defense posture, the U.S. must:

Recalibrate America's Defense Posture to Meet the China Threat.

A Naval Act of 2023 should authorize and appropriate the funds necessary for a large block purchase of naval assets for a total of \$152.3 billion before anticipated savings. Ships covered by this purchase should only be those with approved, stable designs and that are in production today at numbers already stipulated in the current Future Years Defense Program that runs through 2027.

Restore Conventional Deterrence in the Indo-Pacific. The United States should immediately adopt and resource a strategy of deterrence by denial against the People's Liberation Army. The Administration and Congress should prioritize providing the U.S. Indo-Pacific Command with the funding and capabilities identified as requirements in the Commander's

annual independent assessment under the Pacific Deterrence Initiative. The U.S. government must make determined efforts to develop and regionally deploy ballistic and cruise missiles formerly prohibited by the Intermediate-Range Nuclear Forces (INF) Treaty.

Enhance Nuclear Deterrence. The U.S. should increase the size of its nuclear arsenal by more quickly utilizing its capacity to transfer additional warheads to deployed forces in crisis scenarios and by planning to procure more modernized nuclear systems. The U.S. needs to develop additional capabilities tailored specifically to deter China, investing in the development of a nuclear sea-launched cruise missile (SLCM-N) and accelerating timelines for developing new warheads and increasing production of plutonium pits for storing nuclear warheads.

Urgently Increase Munitions Production and Arm Taiwan. When the Administration sends capabilities that are backlogged for Taiwan to other places, it should be required to justify the decision to Congress with full transparency about the trade-offs to deterrence in the Taiwan Strait. It should use the drawdown authority in the Taiwan Enhanced Resilience Act to arm Taiwan with critical munitions to fill the gap until delayed platforms are delivered.

Foster Innovation in the U.S. Maritime and Shipping Sectors. Congress should repeal and replace the antiquated Jones Act with a naval act that makes American shipping globally competitive. Any revolution in shipping must consider redesigning twenty-foot-equivalent-unit (TEU) containers, allowing new, more competitive means of managing, packaging, and shipping goods.

Align National Security Spending with National Security Priorities. Congress should require the Administration to double the *share* of foreign assistance spending in the Indo–Pacific within two years, bringing the Indo–Pacific to approximately 15 percent of annual foreign assistance. Congress should consider establishing an Indo–Pacific companion to the Assistance for Europe, Eurasia, and Central Asia account with a dedicated line item in appropriations legislation.

To diminish the CCP’s influence and hold it accountable, the U.S. must:

Expand Export Controls. The Bureau of Industry and Security should provide written justifications and public testimony to relevant congressional committees on previous and future rulings on granted licenses for exports to China since 2018. After a review, Congress should decide if transferring export-control authority elsewhere is warranted. Congress should also authorize at least one national security agency in the export-control license decision-making process to veto license approvals to malign PRC entities.

Restrict Outbound Investment into China. The U.S. government should insist on greater disclosure by American funders of significant investments in China. For large-scale investments in critical economic sectors, the U.S. government should require American entities investing in China to submit information on their counterparties and anticipated use of funds for approval prior to investing, under a presumption of denial. This includes joint ventures with PRC entities.

Counter Xi's Big Data Ambitions. In the immediate term, the Department of Commerce must begin robust implementation of executive orders relating to the Information and Communications Technology and Services (ICTS) supply chain, including by publishing and enforcing final ICTS supply-chain regulations. Congress should enact a personal data privacy law to protect Americans' privacy, reform sanctions laws to ensure that relevant data flows can be blocked under the International Emergency Economic Powers Act, and legislate extended export controls over commercial transfers of data which threaten national security.

Address China's Abuse of the World Trade Organization (WTO). The U.S. government should make the case that China has violated the 1999 Agreement on Market Access between the PRC and the U.S., as well as its WTO accession commitments, including its commitment not to condition approval of foreign investments on "the transfer of technology." The Office of the U.S. Trade Representative (USTR) should conduct a comprehensive review of China's compliance with its WTO commitments, as recommended by the U.S.–China Economic and Security Review Commission. If the USTR assesses China to be noncompliant, Congress should consider legislation to revoke permanent normal trade relations (PNTR) status.

Make Limited Use of Tariffs and Non-Tariff Barriers. The U.S. government should be less risk-averse in selectively implementing and enforcing tariffs to punish Chinese predatory behaviors and facilitate reshoring, nearshoring, and friendshoring.

Hold China Accountable for Its Role in the COVID-19 Pandemic. The U.S. should continue to investigate the origins of COVID-19 and advocate a truly independent, international investigation both to advance the principle of accountability and to better prepare for the future. Until a transparent and thorough investigation is conducted with full Chinese cooperation, the U.S. should suspend funding and cooperation with Chinese laboratories on biomedical research.

Expose CCP Influence Over U.S. Cultural Institutions. Congress should organize public hearings to shine a transparent light on the ways in which the CCP coerces U.S. firms operating in China to avoid falling afoul

of the CCP's policies and priorities. Congress should exercise its subpoena powers to force senior executives of U.S. firms and cultural enterprises to explain to the American public the ways in which they have been coerced to meet censorship demands and questioned on cases in which they engaged in blatant self-censorship.

Combat Malicious CPP Activity in International Organizations.

The U.S. government should conduct a detailed assessment of China's expanding reach in international organizations and the tactics it deploys to exert influence and advance its preferred candidates to leadership positions, sharing its findings and coordinating with partners to counter those efforts. The U.S. should advocate Taiwan's participation in an array of appropriate international organizations.

Highlight the CCP's Abhorrent Human Rights Record. The U.S. should highlight the CCP's lamentable human rights record at every opportunity and offer safe haven by issuing "Priority 2" refugee status to limited numbers of persecuted Uyghurs and Hong Kongers. The U.S. should also enforce the Uyghur Forced Labor Prevention Act and identify additional means at its disposal to shift the CCP's risk calculus and alter its willingness to continue its human rights violations.

Address the Persecution of Christians. The U.S. government should look for ways to support organizations and initiatives that advocate for Christians and religious liberty in China, such as ChinaAid. Further, the U.S. should apply Global Magnitsky sanctions and other applicable sanctions to Chinese officials involved in the torture, sexual abuse, or death of prisoners who are in state custody because of their religion.

Revitalize the Blue Dot Network. The U.S. should disaggregate the Blue Dot Network (BDN) from the Biden Administration's Build Back Better World and focus on promoting better standards, greater transparency, and a new vision for regional connectivity. The U.S. should also align aid and economic engagement agencies in execution of the BDN and support Organization for Economic Co-operation and Development proposals for BDN certification.

Address Illegal Fishing and Maritime Militia Activities. The U.S. must draft a clear declaratory policy against China's illegal fishing practices, directly attributing the fleet's actions to the CCP. Further, the U.S. should increase its global maritime presence, enhancing naval and Coast Guard patrols in the Arctic, in strategically sensitive international waters, and in the exclusive economic zones of U.S. partners and allies where welcomed.

To exercise global leadership, the U.S. must:

Diminish China's Threat to Taiwan. In addition to providing robust military support as required by the Taiwan Relations Act, the U.S. should

deepen economic ties with the island, including by negotiating a free trade agreement. Following the authorization of up to \$10 billion of military aid to Taiwan over five years in the 2023 National Defense Authorization Act, the U.S. government must ensure that those funds are actually appropriated and are used to bolster Taiwan's defense by prioritizing the most effective military platforms.

Enhance Regional Stability in Northeast Asia. The U.S. should continually affirm its extended deterrence guarantees to Japan and South Korea while maintaining current levels of U.S. forces in the region until the North Korean threat has been reduced. The U.S. government must craft an unambiguous policy to uphold U.N. resolutions and U.S. law requiring North Korean denuclearization backed by strategic and conventional deterrence.

Diminish the Value of Russia as China's Ally. U.S. policy should promote the robust forward defense of NATO, a strong and independent Ukraine, a more resilient Georgia and Moldova, and greater Eastern European cooperation through the Three Seas Initiative. The U.S. must continue to provide responsible military assistance to Ukraine with substantial transparency and accountability, push European capitals to provide more civilian and military aid, and press all parties involved to develop a responsible plan for reconstruction.

Expand Economic and Security Cooperation with India. The U.S. should aid India in developing the capabilities necessary to prevent continued Chinese incursions across the two countries' disputed border and the naval capacity to remain a responsible steward of the Indian Ocean. Finally, in order to realize stronger cooperation with India on China, Washington should engage with New Delhi in setting an agenda for the Western Indian Ocean and the Middle East.

Prioritize the Pacific Islands. The U.S. should prioritize renewing the Compacts of Free Association agreements with the Marshall Islands, the Federated States of Micronesia, and Palau through which the U.S. provides financial assistance in exchange for military access and responsibility for the defense of those islands. It should make the U.S.–Pacific Island Country Summit an annual event, and the U.S. President should tour the Pacific Island states. It should also encourage more Coast Guard engagement and agreements with Pacific Island nations to help to combat illegal fishing and establish a new Coast Guard station on American Samoa.

Stay Engaged in Southeast Asia. The U.S. Navy should keep a robust pace of freedom-of-navigation operations in the South China Sea, ideally two per quarter, to both reassure regional partners of America's enduring commitment and signal to China that the U.S. will not be intimidated into

abandoning its rights to fly, sail, and operate where international law allows. The U.S. should ensure that it has senior representation at regional Association of Southeast Asian Nations (ASEAN)-led diplomatic forums. Finally, the U.S. should work with the Philippines to enhance and accelerate implementation of the Enhanced Defense Cooperation Agreement, including through expanding U.S. access to new military bases in the Philippines and enhancing the U.S. presence at existing ones.

Establish and Resource an Atlantic Strategy. The U.S. should include an Atlantic Strategy as a priority in the next President's National Security Strategy to ensure that policymakers across the U.S. government coordinate their respective responses to strategic challenges from the CCP in the Western Hemisphere. The U.S. can host an Atlantic Summit of like-minded allies and designate the Undersecretary of State for Political Affairs to execute the strategy.

Expand Economic Partnerships in Eurasia. The U.S. should support Eurasian development through four interrelated projects: (1) the European Three Seas Initiative (3SI); (2) the reconstruction of Ukraine; (3) an international campaign for a "free and open" Black Sea; and (4) the "Middle Corridor," an expanse of energy production and distribution, value-added supply chains, and transport infrastructure stretching from Central Asia to the Mediterranean.

Establish a Quad Select Initiative. Non-Quad nations should be selectively invited to join Quad meetings, initiatives, and even military exercises, improving coordination and joint planning activities among a network of strategically aligned democracies in the Indo-Pacific. The four Quad capitals—Canberra, New Delhi, Tokyo, and Washington—should collaboratively work to complement and enhance the Blue Dot Network and the Clean Network initiatives to promote responsible infrastructure in the Indo-Pacific.

Improve U.S.–Canadian Bilateral Cooperation. The U.S. government must work with Canada to build consensus and operationalize measures to counter China's growing role in the Arctic, screen sensitive Chinese investments in North America, and resist repressive and subversive Chinese activities, particularly in universities and other civic institutions. The U.S. should support implementation of Canada's Indo-Pacific Strategy provisions that combat the CCP.

Facilitate Strategic Economic Partnerships with Deal Teams. The U.S. should create effective government interagency coordination mechanisms, including re-energizing the Deal Team Initiative, to support U.S. firms competing with foreign firms backed by foreign governments. The

Administration should coordinate Deal Team activities with the National Security and Domestic Economic Councils, integrating actions with the Administration's broader China strategy. Deal Teams should consider the strategic competition with China and transactions relevant to that competition and U.S. national security as their overwhelming priority.

Conclusion

The measures outlined in this plan are comprehensive and ambitious. They will require coordinated action across multiple government agencies and Congress, state and local governments, and partner nations. Ultimately, however, China is foremost an Oval Office problem: The U.S. President must exercise leadership in directing a national plan, as the President's predecessors did during World War II and the Cold War. The President must galvanize Congress to act.

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Introduction: The New Cold War

The authoritarian regime in Beijing—its global ambitions, growing power, and values diametrically opposed to America’s own—poses the greatest threat the United States has faced since the collapse of the Soviet Union. In both word and deed, the People’s Republic of China (PRC), a one-party state ruled by the CCP, has made it abundantly clear that it is determined to supplant U.S. global leadership, establish hegemony over the Indo–Pacific, and rewrite the international order in the CCP’s image.

Since the turn of the millennium, the PRC has pilfered trillions of dollars from the U.S. economy through industrial espionage and intellectual property theft, deployed diplomatic threats and military coercion against the U.S. and its partners and allies, unlawfully laid claim over some of the world’s most vital shipping lanes, harassed U.S. military vessels operating in international waters, compromised the security of countless Americans with malicious apps and spyware, and exported aspects of its authoritarian model abroad, including on U.S. college campuses and through covert police stations operating in U.S. cities.

Under the leadership of General Secretary Xi Jinping, the PRC has charted a dramatically more aggressive and repressive path in recent years, alarming global capitals with the rapid growth of Chinese military capabilities, aggressive “wolf warrior” diplomacy, growing military intimidation of China’s neighbors, and abusive trade practices.

The PRC has deployed economic coercion tactics against a wide variety of U.S. partners and allies, from South Korea to Australia and Canada to Norway,¹ even as its approach to its numerous outstanding territorial disputes has grown far more belligerent. The PRC has raised tensions with a variety of regional capitals across the Indo–Pacific with expansive claims and provocative “grey zone” intimidation tactics. This approach extends from China’s unlawful claims over virtually the entire South China Sea—where it has constructed militarized artificial islands and deployed an expanding “maritime militia”—to its encroachments and harassment activities around Taiwan and the Japanese-controlled Senkaku Islands, to deadly skirmishes with Indian soldiers along the disputed Himalayan border.

This is why the 2022 U.S. National Defense Strategy (NDS) labeled the PRC’s “coercive and increasingly aggressive endeavor to refashion the Indo–Pacific region” as America’s “most consequential and systemic challenge.” So acute is the threat that the NDS contends that deterring PRC aggression in the Indo–Pacific takes precedence even over Russia’s invasion of Ukraine and its highly destabilizing activities in Europe.²

It is past time for a plan to protect the American homeland from nefarious PRC actions and take the fight to the Chinese Communist Party (CCP).

The Heritage Foundation's plan for countering China deliberately invokes the legacy of the Cold War. While American officials have been reluctant to frame the rivalry with China in these terms, their trepidation ignores a simple reality. "China pursues its own Cold War strategy against America," Heritage Foundation senior fellow for China Strategy Michael Pillsbury observed in his 2015 best seller *The Hundred-Year Marathon*.³

"It does us little good to repeat again and again that we aren't seeking a new Cold War when the CCP has been stealthily waging one against us for years," former Deputy National Security Advisor Matt Pottinger testified before the new House Select Committee on Strategic Competition between the United States and the Chinese Communist Party in 2023.⁴

The origin of the term "Cold War" is often ascribed to a 1945 essay by George Orwell,⁵ later entering the popular discourse to describe the state of hostility between the U.S. and the Soviet Union between the end of World War II and the collapse of the USSR in 1991. A Cold War is now defined as a state of "open yet restricted rivalry," that is "waged on political economic and propaganda fronts."⁶ Others define it as a "condition of rivalry, mistrust, and often open hostility short of violence."⁷ What distinguishes a Cold War from other inter-state rivalries of this nature is the participation of rival super powers quarreling on a global scale, with global implications. By any widely accepted definition of the term, the China–U.S. relationship today increasingly bears the hallmarks of a Cold War.

The Chinese leadership will object to this framing. For years, Beijing has sought to discredit the U.S. for adopting a "Cold War mentality," any time the U.S. has taken action to counter malign CCP activities. Beijing is likely to portray any discussion of a New Cold War as further evidence of U.S. "warmongering."

However, one of the defining characteristics of the last Cold War was the absence of direct military conflict between the U.S. and USSR. America was able to win that contest *without* fighting. That remains the goal today, although China is a very different adversary from the Soviet Union and this Cold War is unlikely to bear great resemblance to the last.

On the upside, the U.S. and China are unlikely to engage in the kind of costly and bloody proxy wars that were all too common in the last Cold War. The PRC today is less likely to support revolutionary military insurgencies abroad or seek to overthrow foreign governments by force, preferring instead to purchase its influence and use economic coercion to achieve its geopolitical aims.

The PRC also has its own vulnerabilities to contend with, from an aging population, to major environmental and public health challenges, to an increasingly anxious neighborhood. In recent years, Beijing has threatened and alienated a wide variety of its Indo-Pacific peers, improving the operating environment for the U.S. and invigorating balancing coalitions like the Quad and AUKUS.

On the other hand, the PRC is in several ways a more capable adversary than the USSR *ever was*. The Soviet Union was a military powerhouse but never a true economic peer of the U.S. The PRC, by contrast, enjoys the economic engine and emerging military capabilities to sustain or even surpass the U.S. if Washington fails to act.

As a result, the PRC is less susceptible to some of the strategies the U.S. deployed in the last Cold War. After decades of engagement, China is deeply enmeshed in global governance institutions and the global economy, a top trading partner not only of the U.S. but a broad cross section of global capitals and U.S. allies. Even today, amid growing geopolitical tensions, the COVID-19 pandemic, tariffs and trade wars, and ongoing decoupling efforts, China-U.S. bilateral trade is still growing, and breaking new records.

While a major rebalancing of the economic relationship is long overdue, the U.S. cannot rely on the free world to sever all economic ties with China as it once did with the USSR. Nor can it count on crippling the PRC by outspending it in a costly arms race.

As concerning, America's economy and society are far more exposed to the PRC than they ever were to the USSR, creating new vulnerabilities for espionage, supply chain disruptions, or influence operations. Chinese entities freely raise capital in American markets, purchase American land, and lobby U.S. government officials. China's state-run model of capitalism has blurred the lines between private enterprise and the dictates and priorities of the CCP. Many Chinese companies are forced to embed Communist Party agents in their corporate governance structures. All Chinese companies, including a TikTok app that boasts 150 million active American users, are required by law to share information with Chinese intelligence services upon request.

While recent years have witnessed growing recognition of the scope of the threat from the PRC in Washington, the U.S. government has been too slow to respond. It has failed to implement a comprehensive plan that protects the U.S. homeland from the nefarious activities of the PRC while degrading China's ability to harm the United States and its citizens, allies, and partners.

MAP 1

China's Territorial Disputes



China-India Border. The Line of Actual Control represents one of the world's longest disputed borders and has been the site of several standoffs between the Chinese and Indian militaries, including a border crisis in 2020 that resulted in the first casualties from hostilities at the border in more than 40 years.

East China Sea. China claims the disputed Senkaku/Diaoyu Islands, which are currently administered by Japan. Chinese aircraft and naval vessels have entered the airspace and territorial sea around the islands with growing frequency.

Taiwan. The People's Republic of China claims Taiwan as part of China and has been conducting a growing number of provocative military maneuvers near the island.

South China Sea. The South China Sea is the scene of several territorial disputes between China and Taiwan and China's Southeast Asian neighbors. China's unlawful claims in the sea and attempts to restrict freedom of navigation there have also produced tensions with the U.S., which has sent aircraft and naval vessels through the South China Sea to signal its objections to the nature of China's claims. This has resulted in a number of confrontations between Chinese and U.S. vessels.

In crafting an effective response, the U.S. government must protect the American economy and public from exploitation and malicious actions by the CCP. Doing so will require an offensive-defensive mix, including vouchsafing Americans and their interests from Chinese actions that undermine U.S. competitiveness and prosperity as well as active measures to degrade Beijing's ability to threaten America and its partners and allies. Washington must develop a plan that will impose costs on China and make Chinese economic aggression against America unaffordable for Beijing while ensuring that the U.S. economy continues to grow and thrive.

The plan for countering China consists of three parts. Part I describes the rationale for U.S. actions, examining the nature of the China–U.S. rivalry and the strengths and weaknesses of the two countries. Part II presents a comprehensive integrated mix of policy actions to prevail over the China threat. These policy actions represent the heart of the plan. Part III summarizes key points from Part II and how the U.S. government must operationalize the plan.

Part I. The Foundation of the Plan

A strategic competition is defined by a contest of action and counteraction between determined and capable foes. From military brinksmanship in the South China Sea to sparring over international trade standards, China and the U.S. are locked in an intense competition to shape the global operating system of the 21st century.

To be clear, the U.S. respects the Chinese people and their rich history and storied culture. U.S. disagreements are with the communist autocracy that not only acts belligerently abroad but oppresses the Chinese people. It is worth recalling the wisdom of President Ronald Reagan, who repeatedly insisted that the United States took issue with the Soviet government while supporting the Russian people in their quest for freedom and human dignity.

Strategic and conventional military deterrence, as well as the terrible consequences of military escalation, have to date restrained both sides from engaging in traditional armed conflict. Nevertheless, the China–U.S. relationship is at its most acrimonious and volatile stage in decades.

All signs point to a continuing worsening of the rivalry in the years ahead. Crafting a balance of power in favor of the U.S. and its allies and partners requires understanding the critical strengths and weaknesses of both competitors as a prerequisite for determining which offensive and defensive actions are most advisable and consequential.

China: Assessment and Implications

This assessment is informed by two major research papers by Heritage Foundation analysts that offered a deep dive into analyzing Chinese behavior and offering policy recommendations, many of which were adopted by the previous Administration.⁸ This assessment also draws from The Heritage Foundation's China Transparency Index project, which gathered a coalition of researchers from around the world to conduct high-quality open-source analysis of China's domestic and international activities.⁹

This plan also draws from The Heritage Foundation's *2022 Index of Economic Freedom*, the *2023 U.S. Index of Military Strength* (which also assesses Chinese military power), and the Atlantic Council's *2022 Freedom and Prosperity Index*.¹⁰ The plan was further informed by Heritage analysis of the CCP's 20th Party Congress in October 2022 in Beijing, which cemented General Secretary Xi Jinping's hold on power for a third term,¹¹ and by prior research conducted by co-editor and Heritage Senior Fellow for China Strategy Michael Pillsbury.¹²

Finally, this plan is the product of direct contributions from over two dozen reputable experts both inside and outside The Heritage Foundation (listed under "Contributors") as well as consultations with a wider range of national security professionals and regional experts.

China hopes in the near-term to offset America's military advantages in the Indo-Pacific and significantly improve the strategic balance (nuclear weapons and delivery systems) between the two countries. The CCP also seeks dominance over what may prove to be the defining commodities of the 21st century: information and technology. It continues to make substantial investments in cutting-edge technologies, such as artificial intelligence and quantum computing, while pursuing greater technological self-sufficiency to reduce Washington's ability to exert leverage in times of crisis, especially over "chokepoint technologies."¹³


As general secretary, Xi has further cemented his control over the Communist Party and all organs of the Chinese state, eliminating term limits and purging opposing factions. It is likely that Beijing will increasingly resemble an echo chamber where political expediency and fear of disappointing Xi drive policymaking, resulting in groupthink and raising the potential for miscalculation. Xi's success in circumventing the informal precedent that limited Chinese party leaders to two terms has also raised longer-term questions about political stability. With no successor in place, Chinese politics could be highly destabilized if Xi were abruptly incapacitated. However, in none of the foreseeable scenarios does the CCP abandon its long-standing goal of supplanting U.S. global leadership.

MAP 2

Exclusive Economic Zone (EEZ) Claims in the South China Sea



SOURCE: "China Has Militarised the South China Sea and Got Away with It," *The Economist*, June 23, 2018, <https://www.economist.com/asia/2018/06/21/china-has-militarised-the-south-china-sea-and-got-away-with-it> (accessed July 23, 2021).

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For now, Xi will continue to dominate the Politburo as the key decision-maker and position the Communist Party at the center of politics, culture, the economy, and the military. His government will continue to crack down on civil society and deprive Chinese citizens of basic political and religious freedoms. While measures will be taken in the short term to reinvigorate an economy battered by nearly three years of strict pandemic controls,

the long-term focus will continue to be on enhancing the party's control rather than enacting liberal reforms or expanding private enterprise. While this focus is unlikely to lead to large-scale nationalizations or a return to Mao-era communes, these measures will make the Chinese economy progressively less growth-oriented and more hostile for foreign businesses that operate there.

The Chinese leadership also believes that it can drive the pace of “decoupling” from the United States and other Western powers, eventually creating a self-sufficient mercantile market of resources, production, and consumers. In the near term, however, China will need continued access to foreign capital, markets, and expertise, while seeking to establish economic dominance in key strategic sectors.

Like many regimes lacking democratic legitimacy, the CCP seeks international prestige and influence in international organizations. While the United States remains, by far, the largest donor to key international organizations,¹⁴ in recent years the CCP has proven adept at co-opting multilateral institutions, populating their leadership with loyalists determined to advance standards and norms that are to China's advantage.¹⁵

In sum, trends to expect from China in the years ahead include:

- Ever-greater party control over all aspects of domestic politics, culture, and economics.
- Continued movement away from free-market reforms and decelerating economic growth.
- Increased efforts to establish dominance over information, data, and cutting-edge dual-use technologies.
- Ongoing and systemic attempts to steal American commercial secrets and intellectual property at a devastating cost to the American economy.
- Continued efforts to dominate international organizations and set global standards and laws in opposition to the democratic, free-market norms that undergird the U.S.-led international system.
- Continued efforts to establish spheres of economic dominance and control in the Indo-Pacific and beyond.

- Continued use of economic coercion tactics to punish and coerce capitals that fall afoul of Beijing.
- Continued expansion in qualitative and quantitative terms of China's conventional and strategic forces.
- Increased domestic oppression and gross human rights abuses, including the ongoing genocide against the Uyghurs in Xinjiang, draconian restrictions on Christians, and mass violations of political and religious freedom in Tibet.
- Continued efforts to harass and intimidate Chinese citizens and dissidents abroad, including through the establishment of overseas Chinese police stations and programs, such as Operation Fox Hunt.¹⁶
- Increased pressure on Taiwan and other countries embroiled in territorial disputes with the PRC, including India, Japan, and the Philippines.

Some of these developments represent potential vulnerabilities for the regime. Xi's China is at growing risk of strategic overreach, particularly in an era of structurally declining economic growth¹⁷ and substantial demographic challenges resulting from the one-child policy that Beijing adopted between 1980 and 2015.¹⁸ China now faces a demographic timebomb with a drastically shrinking working-age population and an expanding cadre of senior citizens while Chinese families refuse to have more children despite the elimination of the one-child policy.¹⁹ These trends will confront Beijing with more difficult policy choices in allocating scarce resources while limiting the capital at its disposal to support overseas investments and other foreign policy objectives.

Meanwhile, Xi's controversial domestic policies have already generated some consternation among Chinese elites and common citizens, as witnessed by the unprecedented protests that seized multiple Chinese cities in November 2022, in part to protest draconian lockdowns under Beijing's "zero-COVID" policy.²⁰ While such discontent is unlikely to present a real challenge to Xi's rule, particularly after his further consolidation of power at the 20th Party Congress, China may witness an increase in the flight of Chinese elites and capital from this increasingly repressive environment.

In addition, the increasingly aggressive tenor of Chinese foreign policy has provoked a backlash abroad, alienating free nations and anxious

neighbors²¹ and increasing scrutiny of China's predatory economic policies.²² The backlash is generating greater criticism of Chinese overseas investments, its military intimidation tactics, espionage activities, and coercive practices. A growing number of foreign capitals are considering greater restrictions on Chinese inbound investments and outbound exports to China of advanced, sensitive, or dual-use technologies.

These developments further exacerbate one of China's key strategic weaknesses: its relative paucity of allies and strategic partners. At the same time, these weaknesses present America with opportunities to leverage one of its greatest strengths: building coalitions with like-minded partners and allies, from the Philippines to South Korea and Canada to Europe, from the AUKUS initiative involving Australia, the U.K., and the U.S., to the Quad grouping joining Australia, India, Japan, and the U.S.

United States: Assessment and Implications

The assessment of the state of the U.S. and the China–U.S. relationship is based on a wide breadth of research and consultations with a broad range of experts. The assessment was informed by the recognition that the United States is a global power with global interests and responsibilities. Any U.S. strategy toward China must consider and respect other vital American interests and the prime imperative to keep the American people free, safe, and prosperous.²³ Thus, an effective China plan must adequately safeguard the full spectrum of America's vital interests.²⁴

This assessment proceeds from the understanding that the economic and military competitions with the PRC are both relevant and intertwined. To be successful, the United States must produce sufficient “guns” (military capacity and capability) and “butter” (economic power) to prevail. The United States currently faces headwinds on both fronts.

The most recent *Index of U.S. Military Strength* for the first time rated the American Armed Forces as “weak.”²⁵ Part of this score results from insufficient investments in defense by the U.S. government, but also reflects the growing relative power of the People's Liberation Army (PLA).

America is an open society and the CCP leverages that openness to its geostrategic advantage. High levels of interdependence between the two economies create strategic vulnerabilities that the CCP has been eager to exploit. While America remains a leading economic power, powered by a U.S. dollar that remains the global reserve currency of choice, decades of irresponsible fiscal policies and reckless government spending have pushed the U.S. national debt past \$30 trillion and to 124 percent of gross domestic

product (GDP) in 2022.²⁶ While more than two-thirds of that debt is held by U.S.-based institutions and actors, China owns just under \$1 trillion in U.S. Treasury bonds, roughly 15 percent of all foreign-owned debt, although China's holdings of U.S. Treasury bills have steadily declined since peaking at more than \$1.3 trillion in 2013.

More concerning, the CCP has marshalled considerable government resources toward an unprecedented corporate espionage campaign targeting the intellectual property of foreign competitors. While virtually all of China's major trading partners have been subjected to this campaign, arguably no country has suffered more than the United States, with even conservative estimates suggesting that trillions of dollars have been siphoned out of the U.S. economy as a result of Chinese intellectual property theft over the past few decades.²⁷

The CCP routinely forces U.S. companies seeking access to the Chinese market to share intellectual property with domestic partners.²⁸ Often that intellectual property is transferred to a domestic Chinese alternative only to have the American company squeezed out of the market, either through underhanded administrative tactics or non-market pricing by local competitors.

While selective decoupling has already begun, China remains one of America's top three trading partners. In 2021, U.S. bilateral goods trade with China reached roughly \$650 billion, just below the \$660 billion in goods traded with Canada and with Mexico. America's next-largest trading partner was Japan, at \$210 billion in goods trade.²⁹

Chinese exports account for nearly 20 percent of the goods imported by the U.S.,³⁰ the single largest source of imports for the U.S.³¹ The top three U.S. imports from China are machinery and electrical goods, industrial imports, and consumer goods.³² While China has strong incentives not to interrupt this lucrative trading relationship, which accounts for a significant share of China's GDP and millions of jobs,³³ it confronts the U.S. with potential vulnerabilities on the scale of U.S. dependence on Middle Eastern oil in the 1970s.

For example, the United States relies on China for a range of mining, electronic, and pharmaceutical products that could cause vulnerability in the event of armed conflict or enforced disruptions in bilateral trade. These dependencies pose risks even outside conflict scenarios, given the disruptions that companies already routinely face in China due to COVID-19 lockdowns,³⁴ workplace safety incidents,³⁵ and environmental inspections,³⁶ injecting uncertainty and unreliability into the supply chain.

On the other hand, China is also dependent on the U.S. economy. Many Chinese goods, for both domestic consumption and export, depend on critical U.S. inputs, such as higher-end microchips or software. For example,

American software accounts for more than 94 percent of China's computer and smart phone operating systems.³⁷ The United States still has the deepest capital markets in the world, and access to those markets reduces financing costs for Chinese firms.

The United States has a far healthier demographic pyramid than China, in part due to higher birth rates and in part due to net gains through immigration. Of late, the latter has become a double-edged sword, as it also reflects a massive spike in illegal immigration, particularly during the Biden presidency as the result of an increasingly chaotic open border. During prior periods of accelerated immigration in the 19th and 20th centuries, the U.S. made a concerted effort at all levels of government to assimilate immigrant communities to American laws, customs, and traditions. When immigration is legal and consistent with these principles, it has made a healthy contribution to U.S. population growth. The United States has always been a more attractive immigration destination than the PRC and will remain so for all people immigrating to the country legally.

The United States is also an energy superpower with abundant natural resources, yet current climate policies prioritize a transition to electric vehicles, and electricity generated by wind and solar power, which is more costly and less efficient. These technologies also make the United States progressively more dependent on Chinese supply chains, with the PRC increasingly dominating "green energy" technologies, manufacturing, and exports. This is an imprudent approach. At current usage rates, the United States' recoverable petroleum reserves are large enough for two centuries of supply³⁸ and U.S. firms continue to make new discoveries and improve technology to access and use resources more efficiently.³⁹ The increase of natural gas use made a far greater contribution to the reduction in U.S. carbon-dioxide (CO₂) emissions than the introduction of any green technology. The United States also has the capacity and expertise to safely and cleanly expand the use of nuclear power; it requires only the political will.⁴⁰

Similarly, there is growing evidence that Beijing is co-opting divisive environmental, social, and governance (ESG) policies and diversity, equity, and inclusion (DEI) initiatives to undermine U.S. competitiveness and bipartisan will to take decisive action against the CCP's malicious behavior. Indeed, China has a history of using environmental causes to extract concessions from the U.S. and other Western countries, dangling the prospect of vague, intangible cooperation on climate issues in exchange for the U.S. and others acceding to its geopolitical demands.⁴¹ The CCP also uses both official state organs and covert methods to amplify political divisions in the U.S. and spread disinformation about legitimate national security initiatives.⁴²

Finally, while American universities lead the world by a significant margin in science, technology, engineering, and math (STEM) fields, China exploits America's open academic environment and world-class expertise in critical technologies. It has effectively purchased influence with countless universities through gifts and grants, establishing Confucius Institutes and other forms of academic exchange that it can use to access key researchers and labs, in some cases embedding intelligence officers in U.S. institutions as students or researchers. Universities often turn a blind eye to China's expanding reach on their campuses, afraid of jeopardizing funding.

In summary, key factors to consider are:

- The United States is progressively losing its once-decisive advantage in the balance of strategic and conventional military forces.
- China has proven adept at exploiting America's openness and dynamism to advance its own intertwined industrial policies, military expansion, and geopolitical objectives.
- Under current forecasts, U.S. economic growth is likely inadequate to prevent China from continuing to narrow the gap between the two countries.
- The U.S. economy is hamstrung by an increasingly poor regulatory and business environment and unsustainable levels of spending and debt.
- The United States remains reliant on strategic supply chains that are vulnerable to disruption by China.
- China is likely to continue to whittle away America's edge in technology superiority, now producing nearly twice as many STEM doctoral graduates as the U.S. annually.
- U.S. research and educational institutions are vulnerable to exploitation by the CCP.
- Counterproductive climate, DEI, and ESG policies are negating some of America's inherent advantages vis-a-vis China.

Key efforts to shore up American vulnerabilities must include the following. The U.S. must:

- Better synchronize defense requirements with broader security and economic policies and procurement strategies, especially in resuscitating a capable and robust defense industrial base.
- Address the growing need to reform regulations, social programs, fiscal and tax policies, and infrastructure regulations restricting U.S. growth.
- Address the urgent need to pursue more sustainable public spending and debt policies, including entitlement reform.
- Make necessary reforms to climate policies that are obstructing responsible efforts to develop energy resources.
- Address inadequate intellectual property protections, infrastructure resilience, and safeguards in U.S. higher education.
- Seize opportunities to build wider coalitions, including in Europe, the Middle East, and the Indo–Pacific to address common economic and security threats posed by China.
- Work with partners to address malicious CCP actions in international organizations and standard-setting bodies.

The assessment concludes that for the plan to counter China to be effective, it must consider the strengths and weaknesses, advantages and vulnerabilities, of the United States and China, as well as their relationships and networks of allies and partners. Overall, the plan must mitigate the potential of escalating armed conflict through conventional and strategic deterrence in combination with eliminating critical vulnerabilities wrought by economic interdependence.

The plan must protect the U.S. economy from malicious exploitation by China. The United States must pursue energy independence and maintain a decisive edge in critical technology sectors. The United States must resist attempts by China to dominate international organizations that can infringe on U.S. sovereignty or establish global norms and standards that are at odds with U.S. interests. The United States must establish and lead coalitions with like-minded partners to protect the free and open commons, and the U.S. must expand “reshoring,” “nearshoring,” and “friendshoring” to move sensitive manufacturing industries out of China and back to the U.S., to countries in the Western Hemisphere, and to partner or allied nations.

Part II. The Plan to Counter China

Part II of the plan examines dozens of fault lines in China–U.S. relations and offers recommendations for policy action. Topics are divided into five categories of collective action:

- A. Protect the Homeland
- B. Safeguard and Advance U.S. Prosperity
- C. Reorient America’s Defense Posture
- D. Diminish the CCP’s Influence and Hold It Accountable
- E. Exercise Global Leadership

Each subsection of Part II follows a standardized format:

Issue: A description of the Chinese activities, or lack of U.S. response, that are threatening U.S. interests.

Action: The laws, regulations, policies, or activities that the U.S. should enact or undertake to address the issue.

Implementation: Guidance on how to operationalize the proposed action.

Impact: The impact these actions will have on China, the U.S., or their strategic competition.

Allies: The measures needed to educate or engage allies and partner nations on this issue.

Each subsection addresses the “what, why, and how,” supporting the goals and outcomes outlined in this plan. To be sure, there are many other issues and actions worthy of attention within the broad scope of meeting the China challenge.⁴³ However, the issues covered in Part II represent some of the most important issues and consequential policy actions that will shape the future of the New Cold War.

A. Protect the Homeland

Stop Malign CCP Activities in Higher Education.

Issue: PRC interference and operations in U.S. higher education institutions pose a long-term economic and national security threat. Confucius Institutes, ostensibly used to promote Chinese language education and

cultural exchange, give CCP agents a foothold on U.S. campuses and have been used to compromise faculty research, steal intellectual property, surveil overseas Chinese students, and spread pro-CCP propaganda.

Many top research universities have financial ties to organizations linked to the CCP through donations, joint programs, and investments by university endowments. The Department of Education has warned that foreign donors often influence teaching and research.⁴⁴ Some U.S. institutions have exchange programs with Chinese universities known to serve as feeder schools for China's intelligence services.⁴⁵

A small but dangerous minority of Chinese citizens who study in the U.S. have relationships with Chinese intelligence or military organizations and are involved in sensitive research and technologies that could pose national security threats. They provide the CCP access to and influence on university campuses as well as opportunities to reward, educate, control, discipline, and utilize Chinese citizens to the party's benefit.⁴⁶

Action: The U.S. government and academia must ensure that U.S. universities and their students are not subject to influence and exploitation operations by foreign adversaries. The Administration must expose and counter CCP efforts to subvert and exploit American higher education. The U.S. government must seek to identify and roll back education partnerships linked to the CCP and entities responsive to Chinese-government direction. The U.S. government and academia must apply far greater scrutiny to Chinese applicants to programs with military, dual-use, or high-technology applications, beginning with the presumption of denial for programs deemed most sensitive to national security.

The State Department must review visa applications from adversarial countries to ensure that the background and research plan of every applicant for a student visa are thoroughly vetted on national security grounds. Individuals deemed to pose a national security threat due to their personal or professional ties to the CCP, background, or research focus on sensitive technologies should be denied visas.

Implementation: The Department of Education should immediately enforce existing laws by requiring institutions of higher learning to report foreign gifts and grants. The Administration should also ban, at a federal level, all Confucius Institutes and all collaborations between U.S. institutions and Chinese entities affiliated with China's Ministry of State Security or other security and intelligence agencies. Congress and state legislatures should pass laws to defend U.S. academic institutions from CCP influence. These should include threats to withhold state and federal funds—including loan and grant support, research funding, Department of Education funding,

and ROTC program funding—from colleges and universities that resist efforts to eliminate CCP influence operations. Background investigations into student visa applicants should deny citizens of the PRC, and those of other U.S. adversarial countries, access to Department of Defense–funded research programs.

Impact: Rolling back CCP influence on U.S. campuses will restore American higher education primarily to the service of the American people. The loss of research funding and cooperation with Chinese organizations, as well as a likely decrease in enrollment by Chinese students in sensitive research programs, will cause financial repercussions that may make many colleges and universities uncooperative. The greatest hardship will likely be felt by elite STEM graduate programs, which have historically had a large number of students from China researching cutting-edge technologies and have been leading recipients of Chinese cooperation and funding.⁴⁷ These changes are nevertheless necessary for the protection of U.S. institutions and intellectual property from the CCP.

Allies: The U.S. should encourage allied and partner nations facing similar threats to take action. There is already momentum building for such actions abroad, including in the U.K.⁴⁸ Sharing information with allies and partners on the extent of Chinese influence operations within colleges and universities and coordinating best responses should be a priority. The U.S. will also have to work with international partners to prevent China from using other nations as conduits for Chinese agents aiming to infiltrate U.S. colleges and universities.

Crack Down on Illegal Chinese Police Operations in the U.S.

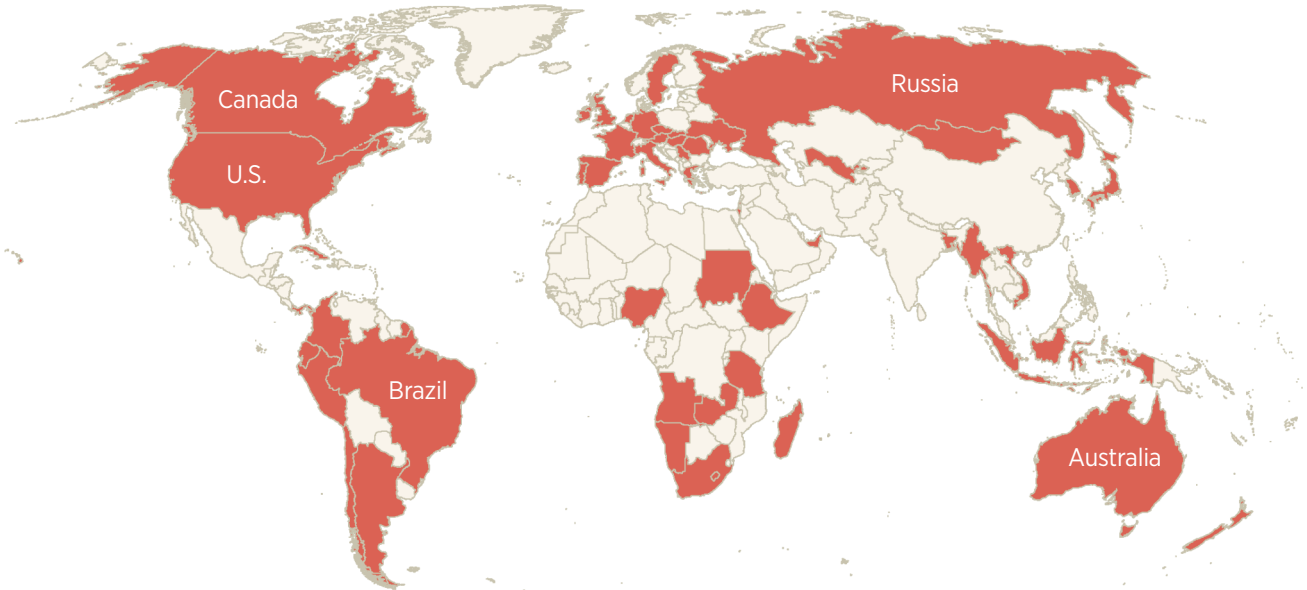
Issue: Chinese security personnel routinely conduct illegal operations in the U.S., making a mockery of U.S. sovereignty and violating the rights of their victims.⁴⁹ These include actions under Operation Sky Net, a CCP campaign aimed at repatriating Chinese “fugitives” abroad, as well as broader surveillance and intimidation of Chinese students, activists, ethnic minorities, and others inside U.S. borders. Chinese agents often direct operations remotely from China, harassing their victims via social media, threatening their victims’ relatives in China, and hiring local thugs to stalk and intimidate their victims. Sometimes, Chinese agents visit the U.S. on tourist visas and conduct operations in person.

Chinese police departments have also begun opening overseas outposts in other countries, including the U.S.⁵⁰ They are ostensibly designed to provide Chinese citizens with standard “clerical services,” but reports by human rights organizations have implicated these facilities in illegal law

MAP 3

Overseas Chinese Police Departments

■ Nations with known or suspected Chinese-run police stations



- | | | | | | |
|------------|----------------|------------|-------------|-----------------|----------------|
| Angola | Chile | Hungary | Myanmar | Romania | UAE |
| Argentina | Colombia | Indonesia | Namibia | Russia | Ukraine |
| Australia | Cuba | Ireland | Netherlands | Serbia | United Kingdom |
| Austria | Czech Republic | Israel | New Zealand | Slovak Republic | U.S. |
| Bangladesh | Ecuador | Italy | Nigeria | South Africa | Uzbekistan |
| Brazil | Ethiopia | Japan | Sudan | South Korea | Vietnam |
| Brunei | France | Lesotho | Panama | Spain | Zambia |
| Cambodia | Germany | Madagascar | Peru | Sweden | |
| Canada | Greece | Mongolia | Portugal | Tanzania | |

SOURCE: Safeguard Defenders, “Patrol and Persuade: A Follow-Up Investigation to 100 Overseas,” pp. 6 and 7, Table 1, <https://safeguarddefenders.com/sites/default/files/pdf/Patrol%20and%20Persuade%20v2.pdf> (accessed February 14, 2023).

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enforcement operations.⁵¹ The U.S. government is aware of these illegal activities, and as early as 2015 warned China to stop sending police officers on covert missions to the U.S.⁵² Nevertheless, U.S. law enforcement rarely prosecutes such activities. When it does, U.S. officials usually do not press charges until after the Chinese agents have returned to China, where they can continue to operate remotely and with impunity.⁵³ Some of these operations are conducted from Chinese embassies and consulates in the U.S.

Action: The U.S. government must take China’s blatant disregard of American sovereignty seriously and take persistent, concrete action

to convince Beijing that the costs of continuing these operations on American soil are prohibitively high. The Trump Administration's forced closure of the Chinese consulate in Houston, Texas, in 2020 offered an important example. While it gave no specific reason, the State Department noted that China had "engaged for years in massive illegal spying and influence operations" and that the State Department made the move "in order to protect American intellectual property and Americans' private information."⁵⁴ A whole-of-government response is needed, to include diplomatic pressure, legislation, and bold, consistent action by federal law enforcement to bring Chinese agents involved in these activities into custody.

Implementation: These efforts must be led by the executive branch, and officials up to the U.S. President must be willing to raise this issue frequently with their Chinese counterparts. U.S. law enforcement should recognize that Chinese agents do as much damage remotely in China as they do in America, and should take every opportunity to bring them into custody, even if it means luring agents implicated in such cases to the U.S. or countries with extradition agreements with the U.S. The Department of Justice should reinstate the China Initiative and ensure that the CCP's repressive efforts in the U.S., which predominantly victimize Chinese Americans and Chinese nationals living in America, is a focus of that initiative. As most cases are never reported, the U.S. government must promote policies to help to educate Chinese immigrant communities in understanding their constitutional rights and opportunities to report malicious CCP activities without fear.

Impact: High-profile arrests of senior Chinese agents in the U.S. will impose costs on Beijing for continuing to conduct illegal law enforcement and intelligence activities on U.S. soil, as well as penalties for American collaborators with Chinese agents, although some may be unaware that they are collaborating with Chinese security services. The U.S. government must prepare for Beijing to retaliate through further hostage diplomacy and avoid the practice of trading CCP criminals for hostages.

Allies: China's illegal police operations are a global phenomenon. U.S. allies and partners also struggle with these actions, and some—including Australia⁵⁵—have had residents of Chinese origin kidnapped on their own soil and smuggled to China by Chinese agents. U.S. leadership is crucial for showing the path forward in confronting this threat and spurring other countries to action.

Ban Dangerous Chinese Apps.

Issue: Chinese apps are widely used on digital devices in America. TikTok, for example, claims to enjoy 150 million active users in the U.S. Capitalizing on the paralysis of U.S. regulators, Chinese app makers, such as ByteDance and Tencent, have abused an ever-expanding suite of applications used in the U.S. to obtain critical information on American citizens. On the surface, the activities of these Chinese firms differ little from those of American app makers, which also collect vast amounts of data. The risks posed by Chinese apps are much greater, however, due to China being an adversarial state and Chinese laws that require companies to provide data to, and cooperate in the intelligence work of, the Chinese government upon request.⁵⁶

China has already weaponized mobile applications as a tool for data harvesting and surveillance. Through exploiting weak security protocols on mobile app stores and the absence of real oversight, the CCP has infiltrated the mobile devices of over one hundred million Americans, gaining unfettered access to troves of personal data, including the geolocation patterns of Americans, keystroke logs, and sensitive login information.⁵⁷ Analysts have identified these kinds of activities to collect and exploit data as integral to the Chinese methods of information warfare.⁵⁸ Beyond data security and privacy concerns, the widespread adoption of CCP-controlled social media platforms in the United States represents a major national security threat. Today, TikTok is the most popular social media platform self-reported by U.S. teens and plays an increasingly prominent role in U.S. electoral messaging.⁵⁹ Given the CCP's leverage over ByteDance due to the aforementioned laws and a "golden share" of the company owned by a Chinese government entity, TikTok is an unacceptable vector for election interference, disinformation campaigns, and other malign intelligence-collection activities.

Action: The U.S. government should ban TikTok. In addition, the Departments of State, Treasury, and Commerce should institute a risk-based framework for assessing potential bans from the U.S. market on foreign-owned digital platforms that meet specific criterion for a national security justification. This action is vital to address malicious exploitation of Americans' data and personal information as well as to mitigate impacts of potential foreign influence operations conducted by and on these platforms. Congress should also consider the merits of updating the Economic Espionage Act of 1996.⁶⁰

Implementation: Congress should consider delisting applications that meet stated criteria via an agreed upon risk-based framework from app stores operating in the U.S. Under the authority of the powers given to the Committee on Foreign Investment in the United States (CFIUS) through

the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018, Congress should direct CFIUS to continuously review the activities of all Chinese mobile app companies and recommend specific apps to be banned on national security grounds.⁶¹ Some state governments have already acted. More than 20 states have banned or acted against TikTok in one form or another.⁶² Others should consider similar actions. At the very least, all levels of the U.S. government should immediately ban Chinese apps from devices used by government employees.

Impact: Banning Chinese apps that pose security risks will inhibit a key element of China's information-warfare strategy against the U.S. The removal of these applications will also result in a more secure environment for consumers with better protections for their privacy and personal data. For too long, applications, such as ByteDance's TikTok and Tencent's WeChat, have successfully evaded regulatory action while collecting invaluable and incalculable volumes of sensitive American data.

Allies: In prohibiting Chinese apps with national security risks from operating in the U.S. the U.S. can share best practices with partners and allies. There is growing momentum for these actions. Other nations, such as India, have identified similar threats and risks, banning hundreds of Chinese apps in recent years.⁶³ The U.S. should lead the charge among free nations promoting a comprehensive and cooperative effort to reform the mobile application markets and add stronger security protocols to digital marketplaces.

Engage State and Local Governments.

Issue: The PRC has engaged in systematic and aggressive influence operations at the state and local level that threaten U.S. interests. The CCP's strategy for exploiting subnational governance to advance its objectives is led by its official foreign influence agency, the United Front Work Department (UFWD). The UFWD, through its various front organizations, including the Chinese People's Association for Friendship with Foreign Countries, has established an extensive network of associations, sister cities, cultural groups, friendship societies, and business forums in all 50 states.

In July 2022, the National Counterintelligence and Security Center issued a bulletin warning that "Leaders at the U.S. state, local, tribal, and territorial levels risk being manipulated to support hidden PRC agendas. PRC influence operations can be deceptive and coercive, with seemingly benign business opportunities or people-to-people exchanges sometimes masking PRC political agendas."⁶⁴ Furthermore, the U.S. intelligence community noted that "financial incentives may be used to hook U.S. state

and local leaders.”⁶⁵ The advisory concluded that “geopolitical reality has placed state and local officials in the United States on the front lines of national security.”⁶⁶

Action: The scope of CCP influence and activities at the state and local level are vast and complex, requiring a whole-of-nation effort to mitigate. “We must take this opportunity to expeditiously advise, inform and detail the threat to every fabric of our society and why it matters,” insists former director of the National Counterintelligence and Security Center, William Evanina.⁶⁷ State legislatures bear significant responsibility for meeting this threat by formulating legislation to confront China’s influence in areas under their jurisdiction. Governors can also take executive action, including through the issuance of executive orders to address threats posed by the CCP at the state level. Mayors and local government officials need to remain vigilant and educated about nefarious CCP actions at the local level.

Implementation: State and local governments must address vulnerabilities that the CCP is exploiting.⁶⁸ They must prevent Chinese companies from obtaining contracts to build critical infrastructure, resist purchasing Chinese products and technology that can pose espionage or national security risks, limit and roll back nefarious PRC activities on U.S. university campuses, encourage public funds—particularly pension funds—to divest from problematic Chinese entities, prevent the purchase of sensitive land or property near critical infrastructure or strategic farmland by PRC agents, and identify and halt lobbying of state and local governments by Chinese agents.

Impact: More robust state and local action will mitigate PRC efforts to exploit unprepared state and local government officials and regulations as the weak links through which to advance its broader aims in the U.S. and to exploit economic and national security vulnerabilities.

Allies: The U.S. government must share best practices in terms of state actions and lessons learned with friendly allied nations grappling with their own challenges related to PRC influence and activities at sub-national governance levels.

Prevent Malicious Land Use.

Issue: Undisclosed and unregulated investments in U.S. agricultural assets and acquisition of land by Chinese individuals, state-owned enterprises, or affiliated entities can present a national security risk. The greatest concerns relate to the purchase of land in sensitive areas, particularly near U.S. military installations and critical infrastructure. Since 2017, U.S. officials have “investigated Chinese land purchases near critical infrastructure...

and stonewalled what they saw as clear efforts to plant listening devices near sensitive military and government facilities.”⁶⁹ Yet, not all current and previous land purchases have been subject to adequate review. While purchases of land by Chinese actors remain limited, the U.S. Department of Agriculture (USDA) found that Chinese land investments in the United States grew from roughly 14,000 acres in 2010 to 194,000 acres in 2020—more than a tenfold increase. If joint ventures are included, the total exceeds 350,000 acres.⁷⁰

Action: Protecting U.S. military and critical infrastructure installations is of paramount importance. The PRC has a long and proven track record of taking advantage of American openness to conduct espionage activities and could leverage ownership of U.S. land in a variety of ways that are detrimental to U.S. national security interests. The U.S. must take additional measures to prohibit, limit, or scrutinize Chinese land acquisitions, particularly when they are located near sensitive U.S. facilities.

Several states already have various prohibitions, conditions, and disclosure requirements on foreign agricultural land ownership, but more must be done at both the state and federal level to harmonize and enforce the patchwork of legislation.⁷¹ That will require not only greater scrutiny of future investments, but assessments of past purchases as well. Effective action will also require a greater understanding of Chinese tactics to obscure financing and ownership structures that could pose national security risks or contribute to intellectual property theft and transfer.

Implementation: New federal and state reforms must require greater transparency of foreign agricultural and land purchases from countries of particular concern. This action must include additional information on downstream ownership mechanisms, and greater enforcement of penalties for non-disclosures. While CFIUS can seek input and data from the USDA, the USDA currently sits outside the formal review process. To counter downstream and convoluted ownership structures designed to obfuscate and circumvent restrictions, Congress should require that the USDA be included in the CFIUS process. The Department of Homeland Security should define and locate critical infrastructure that could be affected by proximity-based purchases of land near installations and military facilities of concern, coordinating with the Department of Defense, Department of Agriculture, Department of Justice, and other departments or agencies as appropriate.

Impact: Mitigating threats from acquisitions of agricultural, industrial, and commercial property and other infrastructure in the U.S. by CCP-linked entities, including ventures with U.S. co-ownership, will reduce China’s

ability to compromise U.S. security near sensitive infrastructure and military assets.

Allies: The U.S. should engage with allies and partner nations on this issue, raising awareness about the threats posed by Chinese land acquisitions, and encouraging them to conduct their own internal threat assessments and create their own review mechanisms. Information sharing among allies and strategic partners will aid in identifying problematic Chinese acquisitions and setting standards to identify Chinese exploitation tactics.

Ban CCP Lobbyists.

Issue: The CCP conducts widespread lobbying campaigns targeting U.S. officials and influencers at the federal, state, and local levels. While influence operations by foreign governments require disclosure under the Foreign Agents Registration Act (FARA), most of China's lobbying activities are conducted indirectly, including through businesses, allowing lobbyists to skirt disclosure requirements under FARA. Chinese businesses tied to the CCP spend considerable sums on lobbying efforts and, in some cases, are represented by prominent former U.S. officials, few of whom are ever required to register as a foreign agent.⁷² These officials are often able to register under the more lenient, and less stigmatizing, Lobbying Disclosure Act, which is administered by House and Senate clerks rather than the Justice Department, which administers FARA. There is often confusion over who must register and under which regime, which has led to the underenforcement of existing laws.

Action: The U.S. government must seek to increase the transparency and accountability of the Chinese government's lobbying activities in the U.S. and, where necessary, ban them outright. There is no constitutional prohibition against such action: Restrictions on some forms of lobbying activities by Americans are already in place.⁷³ Furthermore, foreign governments, foreign political parties, and foreign corporations lack the same legal standing in the U.S. as their American counterparts, as indicated by the restrictions on their contributions to U.S. political campaigns. The U.S. government should also increase the penalties on U.S. citizens and non-citizens for failing to disclose foreign lobbying activities.

Implementation: Congress should ban lobbying by agents of the Chinese government. It should pass legislation that requires lobbyists representing Chinese government-controlled companies to register as foreign agents, as well as a law that prohibits foreign agents from lobbying representatives or agents of U.S. national or sub-national government entities on behalf of these companies or the Chinese government. Taken

together, these actions would make it illegal for individuals—American or Chinese—to lobby the U.S. government on behalf of either the Chinese state or Chinese companies.

Impact: Prohibiting lobbying by Chinese agents—including agents of Chinese government-controlled companies—will reduce the amount of influence an adversarial regime can exert on local, state, and federal governments. It will not completely eradicate the problem, though. These measures will not prevent U.S. companies from lobbying the U.S. government on behalf of their China-related business interests. U.S. businesses frequently oppose U.S. actions that will damage their interests either directly or indirectly by inviting retaliatory action by Beijing, as is their right under the U.S. Constitution. Those rights would be unaffected by these recommendations.

Allies: Banning lobbying by agents of China will not significantly harm U.S. allies. Other countries would be unaffected and allowed to continue regular lobbying activities. These actions would set a precedent that some allied and partner countries might want to replicate.

Ensure Border Security and Immigration Enforcement.

Issue: The Biden Administration has an open-border policy that has facilitated illegal entry and presence in the United States. At the current pace of illegal immigration, the illegal population in the country will more than double by the end of Joe Biden's term. These policies will negatively affect the U.S. economy in a variety of ways, from increased transnational criminal activity to drug overdose deaths, human trafficking, and massive additional burdens on U.S. taxpayers. In addition, open borders pose national security threats specifically related to China. These include China's role in global drug trafficking, exploiting instability in the U.S. and Latin America caused by illegal migration, and using opportunities to undermine American security through its uncontrolled borders. The U.S. government should close loopholes in immigration law and policy that China is exploiting.

Action: The Administration must reverse its current open-border policies. The U.S. should move quickly to regain operational control of the border, blocking illegal border crossings, interdicting transnational criminal activity, and denying illegitimate asylum and refugee claims. Further, the U.S. must more aggressively enforce U.S. immigration laws and detain and deport illegal aliens as quickly as possible, in as large numbers as possible, to show consequences for illegal behavior in order to deter the flow of current and future illegal immigration.

Implementation: States and local governments should move aggressively to complement federal border and immigration enforcement.⁷⁴

Congress must reassert its authority and undo much of the Biden Administration's destructive immigration policies. In particular, Congress should insist on fully funding thorough border and immigration enforcement and explicitly reject amnesty for violators of immigration law. Furthermore, Congress should exercise more expansive oversight of federal activities as well as close loopholes in the system that have long been exploited by the cartels and human traffickers.⁷⁵ Finally, the Administration should implement a full spectrum of reforms to ensure a secure border and regular legal immigration system.⁷⁶

Impact: Effective border and immigration enforcement will benefit the U.S. economically by significantly reducing unnecessary burdens on American taxpayers and the associated costs of criminal, drug, and human trafficking activity. U.S. national security objectives require a secure border.

Allies: The U.S. must insist on cooperation from other nations in combating human trafficking, illegal migration, and refugee and asylum abuse. In particular, U.S. policies must foster cooperation with Latin America that discourages illegal migration and combats transnational criminal activity. Further, the U.S. government should return to a requirement and enforcement of the "safe third country" concept. This means that a migrant fleeing his home country to protect his life must request that protection in the first safe country he enters, not traverse multiple countries to claim asylum in the U.S. Because the "safe third country" directly affects Mexico and Central American countries, the U.S. must also pursue new Asylum Cooperative Agreements with those governments.

Address China's Role in the U.S. Drug Crisis.

Issue: China is contributing to a deadly drug crisis in the U.S. that is devastating American communities, harming the U.S. economy, and exacerbating national security concerns by facilitating transnational criminal activity and making the open U.S. border even more dangerous. In recent years, the U.S. homeland has been flooded with fentanyl, a synthetic opioid drug of Chinese origin that has 50 times the potency of heroin and 100 times the potency of morphine.⁷⁷ Chinese fentanyl reaches American shores in two primary ways: as nearly pure fentanyl shipped directly from China and in much larger proportions as shipments of "cut" or diluted fentanyl manufactured by Mexican cartels using chemical precursors from China.

In 2019, authorities from the U.S. and Mexico seized enough fentanyl to kill the entire population of the U.S. more than three times over.⁷⁸ Since then, things have only gotten worse, producing a crisis that has in a single year

resulted in the death of more than 70,000 Americans.⁷⁹ Although Beijing is very effective at controlling drugs within its borders, it lacks the same dedication when it comes to controlling the export of controlled substances to other countries. In 2019, China made a commitment to President Trump to schedule all fentanyl derivatives as controlled substances.⁸⁰ This was important, as fentanyl, a synthetic substance, could be altered in minor ways to distinguish its chemical structure from pure fentanyl while retaining—or even enhancing—the same level of lethality and addictiveness. Yet, enforcement in China has been lackluster, as Chinese precursors remain the number one source of Mexican-developed fentanyl.⁸¹

Action: The U.S. must adopt a family of policies and actions aimed at forcing China to end the export of dangerous precursor chemicals to Mexico. The U.S. should not allow the CCP to establish linkages between gaining China’s cooperation in drug trafficking—a responsibility Beijing already has—in exchange for U.S. cooperation on other issues.

Implementation: U.S. sanctions on China for non-compliance should be direct, punitive, and severe. The U.S. should sanction individuals and entities within China, Mexico, and the U.S. that are involved in enabling this drug trade and rigorously enforce the sanctions regime.

Impact: Preventing Chinese fentanyl precursor chemicals from reaching Mexico could substantially disrupt the production of fentanyl, significantly increasing the cost and decreasing supply. Reductions in drug-trafficking volume will help to address the U.S. drug crisis. In addition, by highlighting how the CCP is a “silent partner” in this deadly drug trade, the U.S. will diminish the legitimacy of China’s claim that it is a responsible global actor.

Allies: The U.S. must encourage its allies to schedule fentanyl, fentanyl derivatives, such as Alfentanil, Sufentanil, Remifentanil, and Carfentanil, and fentanyl precursor chemicals as controlled substances. While fentanyl serves an important function in hospital settings, the ease of abuse requires significant oversight in all nations. It will also be important to engage with other major drug-making countries, such as India, which have also begun exporting more precursor chemicals to Mexico to compete with Chinese companies.

Ban the Import and Sale of Chinese Manufactured Drones.

Issue: Aerial drones and other unmanned vehicles represent key present and future technologies with both significant military and economic implications.⁸² Most recreational and commercial drones used in the U.S. are manufactured in China and the associated operating systems are both impressive and troubling.⁸³ A growing number of drones employed by federal, state, and local agencies are also Chinese origin. The collection

capabilities of these systems have improved dramatically, as miniaturization brings capabilities once associated with large drones to those used for recreation. The data collected by those systems is stored on servers owned by Chinese corporations that are legally obligated to share that data with the CCP upon request, effectively giving the Party access to government, corporate, and private data on request.⁸⁴

The Chinese corporation Da-Jiang Innovations (DJI) accelerated the introduction of these systems in April 2020 by providing drone-collection systems free of charge to 45 law enforcement and first responder organizations across 22 U.S. states during the COVID-19 crisis. Those “gifts,” along with hundreds of other purchased systems are now being used in major metropolitan areas to monitor every aspect of life in these cities. The data and images collected hold the precise location of critical infrastructure and other sensitive information, including the location of influential figures, their movements, and interactions.⁸⁵

Action: The U.S. government must prohibit any federal agency from purchasing, operating, or deploying Chinese drones, and it must encourage states and local jurisdictions to take the same preventive measures. Several bipartisan attempts have been made to prohibit the use of federal funds to purchase or operate unmanned aircraft systems made by foreign entities through language in the National Defense Authorization Act (NDAA). These amendments, however, were stripped out in the conference committee process. Language preventing federal government acquisition of these systems should be reinserted the next time the NDAA is re-authorized and signed into law. Once implemented, Congress should task federal agencies with educating officials at the state and local level about the goal of both preventing the purchase of future systems and removing existing platforms.

Implementation: In anticipation of a legislative solution, the White House should implement a ban on the federal purchase and use of Chinese drones through executive order. The ban could include exceptions for agencies capable of significantly altering the operating code of these systems to ensure that they can no longer transmit data to entities accountable to the CCP. Once the ban is in place at the federal level, the Departments of Defense and Homeland Security should present briefings to state and local entities and compel them to take similar actions.

Impact: Although Chinese attempts to infiltrate data portfolios and information systems within the U.S. will continue, eliminating drones will significantly reduce their collection capabilities and the associated threat to the US. Further, the banning of drones will highlight the broader risks of doing business with technology companies linked to the CCP.

Allies: The precedent set by a U.S. drone ban could influence allies and strategic partners to take similar measures to protect their own vital security interests. This could also stimulate more global competition, innovation, and development in drone technology and a more robust and resilient industrial base.

Protect the U.S. from Life Science and Biotechnology Threats.

Issue: China has one of the world’s most advanced life sciences research and development (R&D) enterprises and is striving to become the world’s biotechnology leader. Chinese civilian and military institutions are engaged in national security–related work in life sciences and biotechnology programs that could threaten U.S. and global security. The Pentagon has already registered concerns about Chinese biotechnology developments, especially in several life sciences subfields, including precision medicine, biological warfare, enhanced soldier performance with gene-editing technologies, and human–machine teaming.⁸⁶

China, according to the U.S. Defense Department, also continues to develop “biotechnology infrastructure and pursue scientific cooperation with countries of concern.”⁸⁷ Previous security issues and leaks of pathogens at medical research labs⁸⁸ and continuing questions about the origins of COVID-19 highlight additional risks associated with this work. Finally, China possessed a biological weapons (BW) program from the 1950s to the late 1980s that Beijing still refuses to acknowledge,⁸⁹ and questions remain about China’s compliance with the Biological Weapons Convention (BWC).

Action: The U.S. must significantly limit dual-capable life sciences technology transfers to China, especially biotechnology, for national security reasons. These prohibitions should include stricter “guardrails” on technology transfers, greater transparency of approved transfers, and greater oversight of academic and commercial joint R&D in life sciences and biotechnology with Chinese entities. Finally, the intelligence community must increase attention and resources dedicated to Chinese military and security-related R&D in the life sciences.

Implementation: Congress should appoint a blue-ribbon commission of security-cleared, non-governmental experts to assess the military-related life sciences and biotechnology threats emanating from China and the U.S. This assessment should serve as the basis for an updated framework of controls and counter actions. A final report should include public policy recommendations to mitigate conceivable threats and an unclassified report for public consumption. Congress should provide oversight, including additional resources and authorities needed for the intelligence community

to properly evaluate these threats. For example, the CIA's recent creation of the China Mission Center and Transnational and Technology Mission Center⁹⁰ should address these biotechnology threats as part of a broader focus on addressing dual-use life science threats. Finally, the executive branch should consider additional appropriate International Traffic in Arms Regulations (ITAR) restrictions specifically aimed at China.

Impact: Decisive action could help to prevent more severe future biological and technological threats. The CCP has identified life sciences and biotechnology as critical for future strategic dominance. U.S. leadership in the science of biotechnologies and protection of intellectual property and research will undercut Beijing's plan to both dominate the global biotechnology and life science industries and to weaponize these capabilities as national security threats.

Allies: In concert with like-minded international partners, the United States should pressure China to comply fully with the BWC and challenge Chinese leadership positions under the BWC while these questions linger. Finally, the U.S. should halt or restrict Department of Defense and National Institutes of Health (NIH) funding for overseas research partners involved in programs that could contribute to a Chinese BW program. The United States should establish further ties with international partners on life sciences R&D while sharing, where applicable, intelligence on Chinese efforts to obtain military and national security-related life sciences technology from leading institutions globally.

B. Safeguard and Advance U.S. Prosperity

Strengthen the U.S. Economy.

Issue: America enjoys a stronger and more vibrant free-market economy than China yet has consistently squandered its economic advantages. The U.S. enjoys an enormous domestic consumer market; advanced technology research, development, and expertise; and deep, low-cost capital markets. China takes advantage of these American strengths, sending its citizens to be trained in America's world-class research institutions, legally and illicitly obtaining advanced U.S. technology, and raising capital in America's financial markets. The stock of Chinese initial public offerings (IPOs) in the U.S. stood at \$1.5 trillion in 2021,⁹¹ dwarfing domestic Chinese IPO issuance of just \$58 billion that year (with an additional \$13 billion in Hong Kong).⁹²

However, some of America's economic advantages are rapidly fading. Since 2000, the U.S. real GDP growth per capita has slowed by nearly half compared to the previous 50 years to just 1.1 percent per year.⁹³ Washington's

failure to implement pro-growth policies has squandered opportunities to take advantage of President Xi's economic mismanagement, which has dramatically cut China's own growth rates.⁹⁴

Action: To outcompete China, the U.S. must pursue pro-growth economic policies that can simultaneously meet unprecedented federal debt obligations while fully funding U.S. defense requirements and sustaining the U.S. dollar as the global reserve currency. Tax reforms, long-term entitlement reforms, restrained discretionary non-defense spending, and relief from growing regulatory burdens are essential reforms to ensure that the U.S. economy can outcompete China's for the foreseeable future.

Implementation: America cannot prevail without reforming an unsustainable social welfare state and dismantling a spending model that is on course to cripple America's economic foundations. While taxes on business and investment were eased during the Trump Administration, policymakers must oppose efforts by the Biden Administration to raise them again.⁹⁵ Meanwhile, the current explosion in business regulations, particularly mandates in environment and energy, as well as labor, ESG, and equity, must be reversed.⁹⁶ Further, the U.S. Congress must return to producing annual budgets aimed at systemic reductions in debt and deficit spending.⁹⁷

Impact: Beyond strengthening U.S. leverage against China, pro-growth policies strengthen America's negotiating position with other countries, including in market-access negotiations across Europe and Asia. Furthermore, pro-growth policies buttress America's international influence and coalition-building efforts by combating perceptions of the U.S. as a declining power incapable of sustaining a long-term competition with China while making America a more attractive partner for friendly capitals and trading partners.

Allies: The U.S. is the top export market for a wide variety of U.S. allies and partners, and robust U.S. growth benefits their economies as well. As the size and gravity of the U.S. economy expands, it draws trade and investment away from adversarial regimes. Stronger growth also allows the U.S. to offer more credible alternatives to emerging markets and developing economies, building responsible economic partners for U.S. workers and producers. Strong trade ties between free-market nations can complement national security objectives. Expanding economic freedom helps to create a community of nations with shared interests, including protecting their right to exchange goods, services, and ideas freely.

Ensure Reliable Semiconductor Supply Chains.

Issue: Semiconductors, also known as microchips, are omnipresent, critical to the function of every electronic device from smartphones to fighter jets. As a result, semiconductors are vital to U.S. national security and economic prosperity. Secure supply chains of critical goods are especially vital during war time and war mobilization, including in any potential conflict scenario in the Taiwan Strait. Yet, semiconductor supplies are vulnerable to disruption. The geographic distribution of critical semiconductor supply chains is heavily weighted toward East Asia. Taiwan alone accounts for a disproportionate share of global semiconductor manufacturing capacity: Taiwanese company TSMC fabricates 92 percent of the world's most advanced semiconductor chips, with South Korean company Samsung accounting for the remaining 8 percent.⁹⁸

The PRC, meanwhile, is investing considerable resources in expanding its own semiconductor production capabilities. Beijing's Made in China 2025 plan sets goals for China to achieve 70 percent self-sufficiency in semiconductors by 2025, although to date Chinese companies have faced considerable challenges in realizing these ambitions. COVID-19-related disruptions demonstrated that fragile supply chains can threaten the resilience of many economic sectors. Although calls for more diversified and secure supply chains are increasingly bipartisan, effective solutions have been lacking. The Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act passed in 2022, for example, fails to address this issue comprehensively.⁹⁹

Action: The U.S. must ensure that developments in U.S. industrial policy address the national security and competitiveness shortcomings of the CHIPS and Science Act. The U.S. should increase American competitiveness by cutting red tape, removing regulatory burdens, reducing federal spending, reforming the tax code, and addressing delays at the federal, state, and local levels. In particular, the U.S. should remove punitive taxes on investments that expand the economy. Returning to allowing full and immediate expensing of R&D and capital expenditures would foster expanding opportunities to advance manufacturing and research and development in the U.S. In 2022, TSMC announced a new \$40 billion investment to build a second semiconductor-chip plant in Arizona.¹⁰⁰ Productive efforts such as this will be greatly facilitated by pursuing pro-growth tax reforms. An absence of reforms to remove burdensome and punitive taxation on investments and business operations will hinder any effort to stop offshoring of U.S. industrial capacity to China.

Implementation: Congress must eliminate security loopholes and add additional oversight mechanisms in the funding and execution of the CHIPS and Science Act.¹⁰¹ Additional investments in counterintelligence education and capabilities will reduce insider threats and legal and illegal technology transfers that boost the PRC’s semiconductor industry. Congress should further improve the tax environment for capital investments for semiconductors where current recovery periods heavily disadvantage the construction of commercial infrastructure, such as chip fabricators. Pro-growth tax and regulatory reforms would incentivize semiconductor reshoring, encouraging companies to move manufacturing to the United States. Furthermore, Congress should instruct the Development Finance Corporation—an institution created ostensibly to promote strategic investments to counter the PRC—to prioritize foreign investment support in sensitive high-technology sectors where China is gaining ground, such as semiconductor supply chains.

Impact: Securing reliable semiconductor supply chains will mitigate a critical U.S. national security vulnerability and improve self-reliance and sustainability for strategic industries. It will prevent China from weaponizing semiconductor supply chains (as it did when it restricted rare-earth exports to Japan amid geopolitical tensions in 2010) and build resilience and flexibility in America’s industrial base while creating high-quality manufacturing jobs and facilities in the U.S.

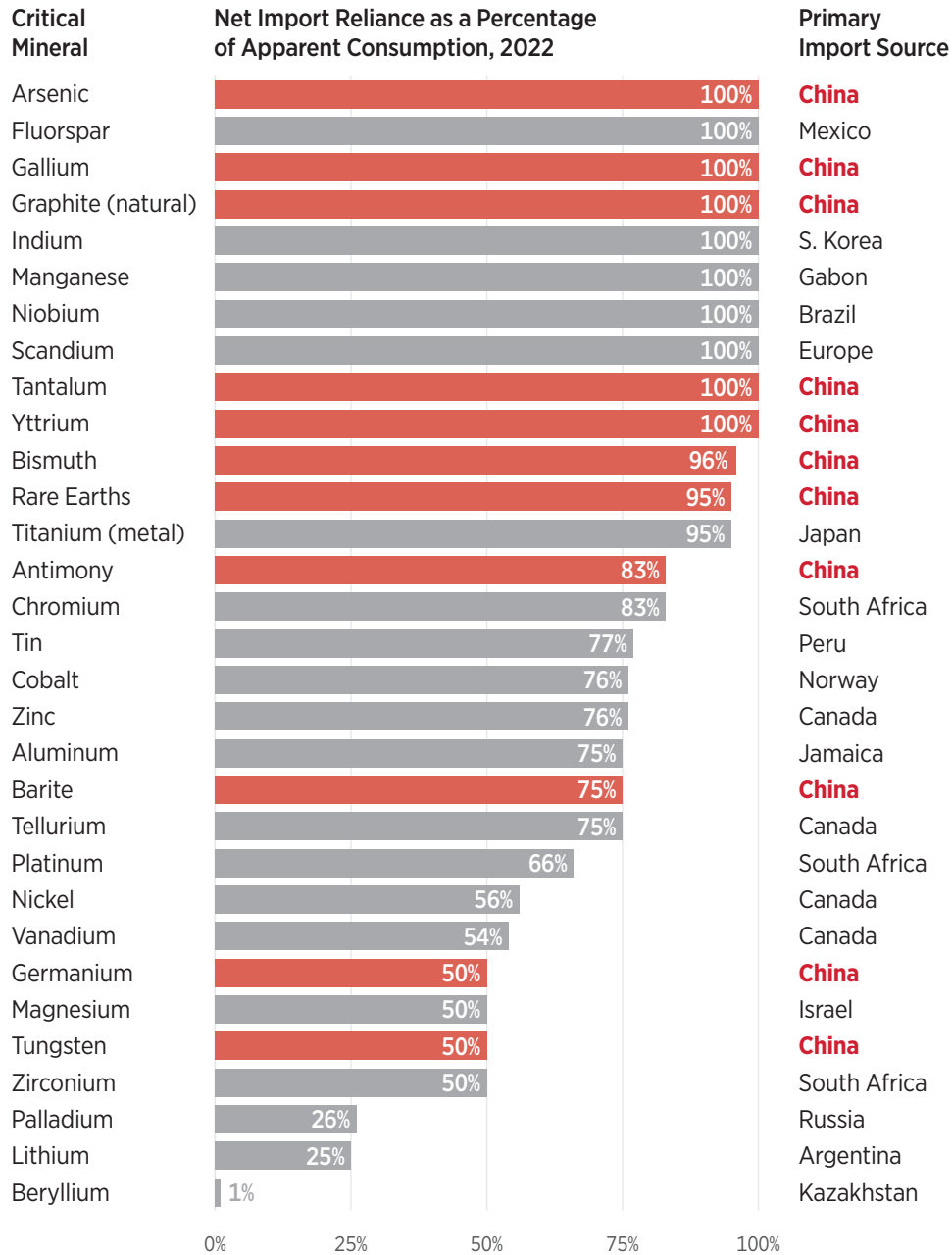
Allies: The U.S. should pursue further bilateral and multilateral trade initiatives to enhance semiconductor supply-chain resilience. Encouraging allies and like-minded partners to harmonize export-control measures to deny the CCP advanced semiconductor technology with those of the United States should be a diplomatic priority. The U.S. government should further diversify the technology industrial base by pursuing arrangements with strategic partners, such as Germany, India, Japan, the Netherlands, and South Korea. Finally, Taiwanese firms should be encouraged to continue building more resilient industrial capacity and infrastructure, including through making new investments in semiconductor production capacity inside the United States.

Secure Critical Mineral Supplies.

Issue: China’s domination of the critical minerals and rare earth elements (REEs) supply chains is a core vulnerability that threatens U.S. national and economic security. REEs can be found in everything from mobile phones to nuclear-powered submarines and fighter aircraft. In 2021, the Department of the Interior identified 35 minerals as critical to sustaining America’s national defense, economic growth, and manufacturing

CHART 1

U.S. Heavily Reliant on China for Critical Minerals



SOURCE: U.S. Geological Survey, "Mineral Commodity Summaries 2023," January 31, 2023, p. 21, Table 5, <https://pubs.usgs.gov/periodicals/mcs2023/mcs2023.pdf> (accessed February 13, 2023).

base.¹⁰² The U.S. is 100 percent dependent on imports for at least 20 of them.¹⁰³ According to the International Energy Agency, although China only has around 36 percent of the world's REE reserves,¹⁰⁴ it controls more than 70 percent of the world's extraction capability and nearly 90 percent of processing capacity.¹⁰⁵

Action: The U.S. must reform the permitting process and update federal and state regulatory policies to allow additional mining production without compromising air and water quality standards. At present, it can take up to a decade for a new REE mine to receive government approval.¹⁰⁶ Excessive red tape, including one dozen major environmental statutes and competing federal, state, and local rules, inhibit U.S. competitiveness.¹⁰⁷ The U.S. already has the means to more cleanly process and handle waste from REE mining and processing than China. Thus, U.S. recalcitrance is a greater environmental threat than expanding mining operations in America.

Implementation: The U.S. must reform outdated federal and state environmental statutes, including the National Environmental Policy Act, the Clean Water Act (CWA), and the Clean Air Act, eliminating redundant state regulatory barriers while maintaining commonsense environmental standards. This should include prohibiting pre-emptive and retroactive vetoes under Section 404 of the CWA, empowering states to manage their water resources, preventing abuse of Section 401 of CWA for non-water matters, and significant reforms to the Endangered Species Act (ESA).¹⁰⁸ The federal government must also identify and account for all land subject to administrative withdrawal for critical mineral mining purposes and streamline fruitful underwater REE mining potential. Further, as a report by the Congressional Research Service concludes, it is unclear if production and process independence "could be achieved relying on markets alone."¹⁰⁹ The U.S. should be prepared to use tariffs for national security reasons to ensure that materiel vital to the U.S. military can be sourced domestically and from strategic allies.

Impact: Proactive policies can help to counter China's use of REE as leverage over the U.S. and other countries with significant economic and national security implications. Alongside its international partners, the U.S. will be positioned to build a more resilient, environmentally friendly, and secure supply chain of critical minerals. Not only would China's leverage over U.S. supply chains be reduced, but these efforts would support a resurgent manufacturing and industrial base. Domestic mining and processing of REEs protects U.S. industries, the Armed Forces, and consumers from potential supply shocks from adversaries, ensuring a more stable and resilient economy and robust military capabilities.

Allies: Critical minerals are a crucial issue for U.S. partners and allies. China will continue to seek to drive a wedge between America and its allies by leveraging its dominance in critical mining and processing markets. Partners and allies should embrace actions that, with U.S. leadership, break Chinese bottlenecks. Major consuming economies are seeking more resilient suppliers. Producing countries are also concerned about their environmental conditions and economic opportunities. They should see U.S. willingness to mine and produce as a signal to upgrade their own competitive efforts. In turn, the U.S. will need to work closely with allies, including Quad partners, Canada, Mexico, and those in South America, Africa, and Europe, to collectively diversify REE processing. The executive branch should use Development Finance Corporation authorities more proactively and direct financing support toward critical mineral development and processing capabilities in allied and partner nations.¹¹⁰

Risk-Manage Inbound Investment.

Issue: According to a report requested by the U.S.–China Economic and Security Review Commission, Chinese foreign direct investment in American companies peaked at more than \$15 billion in 2015.¹¹¹ Yet, an independent accounting that tracked Chinese money funneled through third countries showed the true figure to be closer to \$53 billion.¹¹² Wary of capital outflows, the Chinese government began cracking down on “irrational” outbound investment in 2017.

In 2018, the U.S. Congress implemented significant reforms to the regulator for inbound investments under the Foreign Investment Risk Review Modernization Act (FIRRMA) to strengthen and modernize CFIUS.¹¹³ Among other things, the reforms added protection of personal data as a criterion for CFIUS to review transactions.¹¹⁴ By 2021, the annual volume of inbound investment from the PRC was estimated to have fallen to below \$2 billion.¹¹⁵ Some asserted that a tighter review of Chinese investments would harm the American economy. There has, however, been no noticeable impact so far. Moreover, allies did not rush to court investments blocked by the U.S.; rather, they upgraded their own review mechanisms.¹¹⁶ In that regard, CFIUS reform was a success. However, the U.S. government’s foreign investment review process can be strengthened further to address CCP threats. While large-scale Chinese spending in the U.S. has substantially declined, Chinese investments in the U.S. with national security implications remain an ongoing concern.

Action: The U.S. must improve review of and strengthen control over inbound investments from China. Among other things, CFIUS must address

the lack of information about China's participation in private-equity deals, where an American entity is the lead but a substantial Chinese stake in the investment could result in access to sensitive technology or data. Addressing this challenge requires a combination of better monitoring capabilities and harsher penalties. PRC greenfield investments¹¹⁷ in the United States that present national security concerns must also be subject to CFIUS review. While FIRRMA requires mandatory CFIUS review over transactions involving emerging and foundational technologies,¹¹⁸ the Commerce Department is solely empowered to implement this provision of the law and has refused to do so. Other CFIUS members, such as the Department of Defense, should be granted authority by Congress to assert that a technology meets the FIRRMA criteria.

Implementation: Congress must add regulation of private equity and venture capital financing for designated “countries of concern” and sensitive transactions as already defined in the 2018 CFIUS reform. U.S. companies deliberately concealing Chinese participation in this subset of activities should face severe penalties. The U.S. must enhance situational awareness of potential threats by re-establishing and refocusing the Department of Justice's China Initiative.¹¹⁹ The executive branch should direct the Department of Commerce's more than 100 offices across the U.S. to educate state and local government investment offices about the threats and risks of Chinese investments. Finally, new legislation should define critical sectors, and CFIUS should review acquisitions by countries of concern to ensure that they do not compromise supply-chain integrity in these sectors. This legislation should expand CFIUS review to cover PRC greenfield investments and ensure that Congress's intent to require CFIUS review for emerging and foundational technologies is implemented.

Impact: Fixing loopholes in the CFIUS process and ensuring proper implementation of the legislative intent of FIRRMA will protect the country from national security threats emanating from CCP investments that continue to exist following the 2018 passage of FIRRMA.

Allies: The U.S. should consult with allies on the oversight of critical sectors and protecting supply chains from malicious Chinese investments. The U.S. should continue to encourage other nations to establish CFIUS-type mechanisms of their own, while pressing them not to allow these tools to be manipulated to create non-tariff barriers to legitimate and competitive trade and investment or hinder joint national security and defense ventures with partners and allies. The U.S. government must also work to ensure that problematic private-equity transactions denied by the U.S. government do not simply shift to allied jurisdictions.

Protect Intellectual Property.

Issue: China engages in wide a range of malicious cyber activities ranging from espionage and information warfare to potential threats to national infrastructure.¹²⁰ Of perhaps greatest concern, China's ongoing intellectual property (IP) theft stifles innovation and creates opportunities for the CCP to exploit U.S. government and private-sector data for significant economic gain and threaten U.S. national security. In 2022 alone, Chinese-sponsored hacking groups compromised hundreds of gigabytes of sensitive information in the U.S.¹²¹ China's expansive IP theft operations are estimated to cost the American economy upwards of \$600 billion annually. In addition, Chinese companies like Huawei and ZTE use their technology infrastructure to illegally capture the corporate data of U.S. companies and the personal data of Americans.¹²² China also utilizes bulk data collection to steal American IP.¹²³ Finally, China seeks to dominate the U.S. in the future information-warfare competition by seeking an overwhelming advantage in the application of emerging technologies in AI and quantum computing.

Action: The U.S. must substantially limit the employment of Chinese technology in the U.S. that could pose national security threats and expand prohibitions on outbound investments in Chinese military-related and surveillance-related companies by prohibiting joint ventures and R&D partnerships with Chinese state-owned entities in these fields.¹²⁴ The U.S. must expedite the development of countermeasures to thwart emerging Chinese AI- and quantum-related security threats. The U.S. should also expand cooperative action with allies to ban the import of Chinese technologies that pose espionage and national security threats.

Implementation: Congress should direct the Federal Communications Commission (FCC) to review and reject approvals for the export of advanced technology equipment to Chinese state-linked entities more aggressively. Regulators must better define the term "sensitive data" to include "personally identifiable information" and "geolocation data," limiting the commercial transfer of such data to Chinese entities. These actions would also prevent further proliferation of Chinese tech products that facilitate corporate espionage.¹²⁵

To address future threats, the U.S. government should expedite post-quantum cryptography plans, beginning with rapidly identifying public-key cryptography and how it is used within government agencies. While experts lack consensus on when the cryptanalytically relevant quantum computer (CRQC) will become capable of breaking public-key cryptography, there are legitimate concerns that China or another state-based adversary

may acquire these capabilities before the U.S., exposing it to massive risks. This is a significant concern and should be a priority for action.

Impact: The U.S. government has a responsibility to help to ensure that foreign adversaries do not rob American citizens and American firms of the fruits of their labor. The actions outlined here will help to ensure that the creative spark of the American people is not dimmed by the PRC. These policy proposals are measured and targeted to prevent the CCP from stealing valuable American IP without inhibiting the engines of the U.S. economy or harming America's trading partners. Greater IP protections will complement other policies in this *Special Report* to drive economic growth and retain America's leadership position in the global economy.

Allies: The U.S. should coordinate measures with allies and partners to prevent the adoption and proliferation of Chinese technologies that jeopardize the sensitive data of both the private and public sector. The U.S. should expand its Clean Network initiative and promote world-class digital trust standards.¹²⁶ In the ever-evolving digital environment, cooperation with allies will be a critical aspect of preventing Chinese dominance of future technology sectors.¹²⁷

Promote “Reshoring,” “Nearshoring,” and “Friendshoring.”

Issue: The U.S. is overly dependent on China for imports of a wide variety of vital goods. China supplies 90 percent of the raw materials used in antibiotics, 80 percent of rare earth minerals, and 72 percent of America's smart phones.¹²⁸ Excessive interference in business operations by Chinese regulators has made disruptions of critical supply chains more common in recent years, as seen in the shortages of pharmaceuticals and other goods caused by COVID-19 lockdowns in China. Furthermore, China has repeatedly shown that it is willing to weaponize economic interests to punish or coerce uncooperative countries.¹²⁹ Should Chinese authorities temporarily disrupt activity in key manufacturing plants, critical U.S. supply chains could be disrupted. Additionally, prices for imported goods could skyrocket and Americans could be denied access to everyday essentials. These risks would grow exponentially in the event of armed conflict with China.

Action: To enhance U.S. national security, the U.S. government should proactively encourage businesses operating in strategically relevant fields to move operations out of China and work toward “reshoring” supply chains back to the U.S., “nearshoring” to countries in the Western Hemisphere, or “friendshoring” to allies, partners, and non-adversarial countries. To be clear: This targeted decoupling is just one tool at America's disposal, and not an economic strategy. Decoupling is a defensive measure, not an offensive

weapon. In the most sensitive sectors, these efforts must be undertaken irrespective of the short-term, medium-term, or even long-term financial costs. Decoupling actions are critical to reducing dependence on unreliable supply chains; eliminating opportunities for strategic blackmail or disruptions to the U.S. economy; disengaging with entities conducting predatory practices, human rights abuses, and other malicious actions; and ensuring reliable alternatives for strategic materials, technology, goods, and services.

Implementation: The U.S. government should provide comprehensive assessments to U.S. firms highlighting the strategic risks of doing business in and with China, both in articulating concerns and helping to develop responsible alternatives. U.S. actions must be deliberate, systematic, sustained, and sequenced. For critical industries vital to U.S. national security and economic well-being, the U.S. government must be prepared to employ punitive policy measures to enforce compliance, including sanctions and entity-list restrictions. Congress should establish authority for “specific U.S. entities or U.S. entities operating in specific sectors to divest in a timely manner.”¹³⁰

Where large, complex supply chains cannot be speedily redirected without irreparable harm, firms should receive time to complete their supply-chain restructuring. The process should mitigate costs and disruptions to U.S. firms, if possible. Fully switching the U.S. tax system to a territorial system would remove penalties present in the current U.S. tax system that can leave assets stranded in countries such as China.¹³¹ In some cases, companies may not need to cease operations in China altogether. There is no single model for executing decoupling. The U.S. must take a risk-management approach.

Impact: The U.S. must strengthen the resilience of the American economy by mitigating China’s ability to harm U.S. security and business interests through coercive measures. China will have less economic leverage to wield against the U.S. in response to bilateral tensions, while U.S. businesses will reduce vulnerability to coercive Chinese measures. Foreign countries that benefit from friendshoring and nearshoring operations will have new opportunities and incentives to do business with the U.S. and, presumably, less incentive to turn to China for economic opportunities. Strategic decoupling from China also maximizes the benefits of free, fair, and open-market practices for U.S. businesses in proven, stable, and friendly markets. China will not allow businesses to decouple easily—trade restrictions and punitive responses should be expected.

Allies: Partners are essential for any successful decoupling and friendshoring measures. Public and private U.S. entities need to proactively coordinate with foreign countries that can serve as new destinations for

American financial and physical investments. A number of developing countries are uniquely positioned to secure increased investments from the U.S. in Latin America, Africa, and South Asia. Friendshoring will benefit partner nations by bolstering trade and investment ties, as well as their domestic economic capacity.¹³²

Reject Damaging Environmental, Social, and Governance Policies.

Issue: U.S. financial institutions have strong financial incentives to pursue ESG policies that strengthen China and weaken the U.S. They are incentivized to do so by progressive interest groups and “blue states” who use their status as market participants to pressure financial institutions to push ESG goals, such as “net-zero” carbon emissions.¹³³ Net zero requires companies to phase out fossil fuels, which increases dependence on a Chinese government that controls the supply chains for key components of renewable energy.¹³⁴ Thus, ESG is not simply an instrument promoting social justice, it is a political agenda with implications beyond domestic politics or the environment. ESG policies represent a framework of potentially destructive policies that undermine U.S. foreign and national security policies and America’s capacity to safeguard vital interests. Increasing dependence on China, and a Chinese climate industry rife with forced labor, is at odds with responsible corporate governance.

Action: Legislators and regulatory agencies should adopt policies that discourage ESG compliance in ways that benefit the CCP. Private-sector companies should scrutinize corporate governance and business practices and their implementation of ESG. Congress should establish legal mandates that prevent state and federal agencies from imposing regulatory requirements that make critical infrastructure or a company’s supply chain more dependent on China.

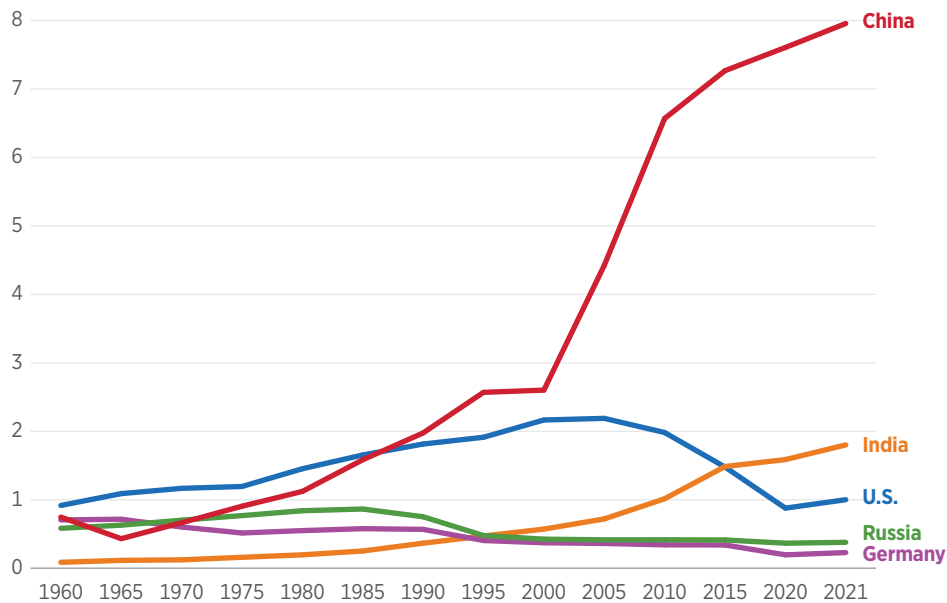
Implementation: Actions to stop the weakening of the United States through the adoption of ESG policies include enforcing existing legal duties to prevent financial services from being used to promote net zero and other ESG goals, establishing new state and federal legal obligations that discourage ESG compliance that aids China, enhancing scrutiny of ESG ratings and preventing regulators from taking actions that promote ESG scores, and encouraging states to prevent the imposition of net-zero policies.

These actions are critical because the market concentration of large financial institutions means that they can shape corporate behavior and function as quasi-regulators. Such proactive measures can be undertaken through educational briefings and partnerships with state Attorneys General, Treasurers, Governors, and state and federal legislators.

CHART 2

China Is World Leader in Coal Emissions

CARBON DIOXIDE EMISSIONS FROM COAL, IN BILLIONS OF METRIC TONS



SOURCE: Statista, “Carbon Dioxide Emissions from Coal Use in Selected Countries Worldwide from 1960 to 2021,” <https://www.statista.com/statistics/1198050/carbon-dioxide-emissions-from-coal-use-in-select-countries/> (accessed February 10, 2023).

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Impact: Proactive counter-ESG policies will boost U.S. economic growth and promote energy independence, both of which are vital to success in outcompeting China. Further, diminishing the influence of ESG policies will reduce dependence on China, diminish CCP manipulation of the topic, and reverse poor public policy.

Allies: ESG policies are increasingly prevalent in friendly and allied nations and can represent risks to their economic well-being, corporate governance, and energy security. The White House should direct U.S. federal agencies to educate foreign governments, the private sector, and civil society about CCP manipulation of ESG issues. Further, the U.S. government should adopt a proactive strategy to resist and combat harmful ESG activities promoted by international and multinational institutions.

Address Energy and Climate Challenges.

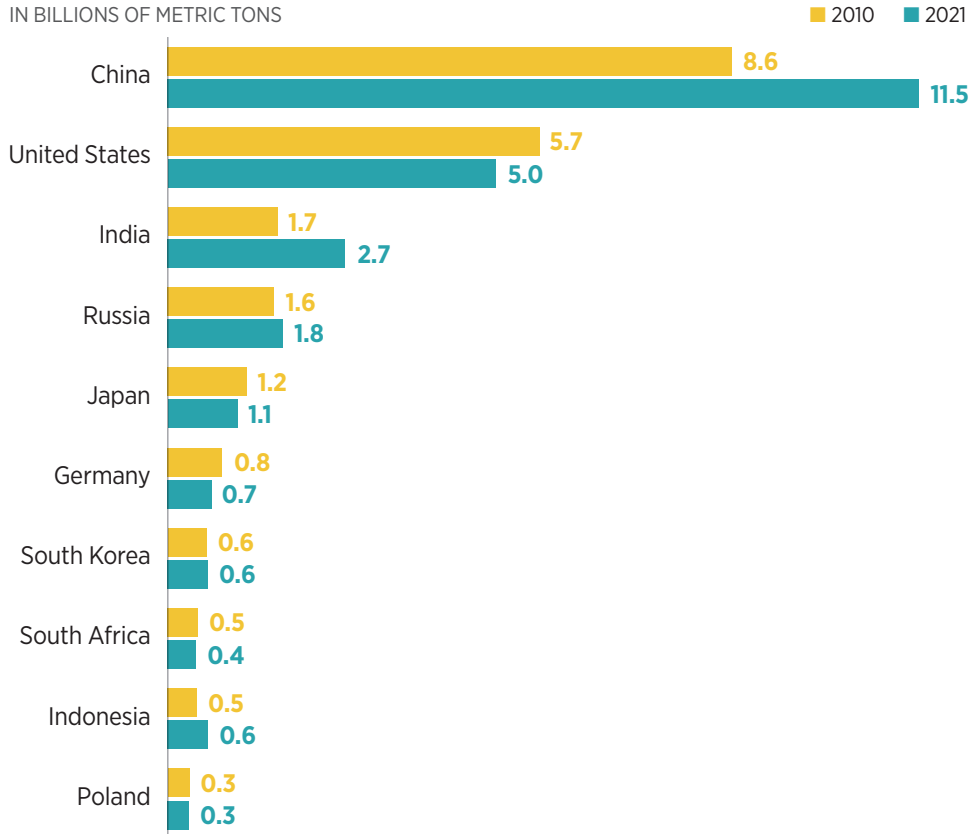
Issue: China has an aggressive energy consumption agenda and an abhorrent environmental record. Its energy and climate policies are designed to fuel rapid domestic economic growth, exploit the West's obsession with the transformation to green energy, and expand China's power and influence. China is a major investor, consumer, and producer of energy and environmental technologies at a scale that influences global markets.¹³⁵ Despite being the world's largest polluter, China also enjoys the favorable terms and flexibility afforded to developing nations under international climate and finance bodies.¹³⁶ Prior U.S. governments have approached climate negotiations with China naively, allowing Beijing to block any effective verification or enforcement provisions while expanding greenhouse gas emissions and claiming credit as a responsible champion of the environment. Beijing has also sought to force the U.S. to make geopolitical concessions on trade, human rights, and transparency in order to "earn" China's cooperation on climate change.¹³⁷ Finally, Beijing has aggressively pursued traditional energy investments abroad while supporting U.S. and European mandates, regulatory standards, and subsidies that force a transition to renewable energy and electric-vehicle technologies dominated by Chinese firms.¹³⁸

Action: The U.S. government must discount the climate agenda as the organizing principle governing foreign and domestic energy policy. America must reorient its energy policy away from pursuing a "net-zero" economy and toward ensuring reliable, affordable, and abundant energy (ideally with ample domestic supplies) for the American people. Critical actions include eliminating arbitrary, self-imposed restrictions that impose competitive disadvantages for no environmental benefit; reducing domestic dependencies on China for energy and transportation technologies; eliminating the more than \$250 billion of newly enacted green energy-related tax credits from the Inflation Reduction Act (IRA); enacting tax reform that would lift burdens from investments that would strengthen the ability of American companies to meet global energy needs; and increasing global energy supplies to mitigate adversarial countries' leveraging of energy markets for political ends.

Implementation: The U.S. must eliminate the special treatment of China, as well as domestic energy policies that reduce American competitiveness, while strengthening partnerships with allies and trading partners. Because many renewable energy technologies and components come from China, the executive branch and Congress must ensure compliance with the Uyghur Forced Labor Prevention Act (UFLPA) of 2021 and strengthen its implementation. The UFLPA prevents American entities from purchasing

CHART 3

Carbon Dioxide Emissions: China Surges and U.S. Declines



SOURCE: Statista, “Carbon Dioxide Emissions Worldwide in 2010 and 2021, by Select Country,” <https://www.statista.com/statistics/270499/co2-emissions-in-selected-countries/> (accessed February 10, 2023).

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Chinese goods produced in Xinjiang prison camps. Congress must repeal and replace policies seeking to force a costly and ineffective transition away from conventional energy to renewable energy as enshrined in the Paris Agreement. This includes the Biden Administration’s regulatory agenda restricting numerous aspects of energy exploration and production, from financing and private-sector investment to pipeline construction and operation, and consumer use.¹³⁹

Congress should also address outdated statutes and regulations that subsidize certain energy technologies, inhibit efficient distribution of energy, and block access to domestic resources.¹⁴⁰ Finally, the U.S. should continuously highlight China’s abhorrent use of forced labor in the

energy-technology sector as well as find innovative ways to highlight China's poor environmental stewardship, as former U.S. Ambassador to China Jon Huntsman did when he directed the U.S. embassy in Beijing to publish daily data on air-quality readings in the Chinese capital.¹⁴¹

Impact: Implementing dramatic changes to energy policy will support American energy security and dramatically increase U.S. capacity to influence global energy markets, as well as deliver more resources and means to address climate and other environmental concerns. At the same time, these actions will undermine Chinese efforts to exploit Western economies and end its abuse of claiming “developing nation” status to skirt its responsibilities.

Allies: The U.S. can build international consensus for actions by emphasizing how America will contribute to energy security for partners and allies, increase prosperity, and address China's human rights abuses and its poor track record on reducing emissions, all while delivering better environmental outcomes. Strengthening partnerships with allies requires modifying protectionist policies, including eliminating tariffs and trade barriers that target allies. This includes domestic content requirements on steel, timber, minerals, semiconductors, shipping, vehicles, and biofuels.¹⁴² The U.S. should also improve energy trade across North America, permitting efficient energy-infrastructure projects (such as pipelines, export facilities, and transmission lines). Finally, the U.S. should encourage energy diversity and production of global energy resources, including nuclear energy, and extend technical, regulatory, and legal support for European nations to use hydraulic fracturing and directional drilling technologies.¹⁴³

Promote Good Corporate Governance.

Issue: U.S. businesses have for decades actively contributed to China's rise, at times putting their own long-term economic welfare and U.S. national security at risk.¹⁴⁴ U.S. corporations operating or investing in China face risks of espionage, IP theft, and state administrative sanctions. In many cases compensation and reporting structures incentivize companies to transfer technology to China and increase dependence on Chinese supply chains. U.S. corporations also must navigate a growing web of U.S. government sanctions on China.¹⁴⁵ Finally, there remains significant risks that U.S.–China geopolitical tensions could escalate, which could devastate businesses exposed to the Chinese market. While U.S. business decisions should be sensitive to market forces and responsibilities to shareholders, properly balancing national security and profitability is also necessary and will ensure long-term stability for U.S. companies operating in the international market.

Action: U.S. corporations should meet their fiduciary responsibilities by adopting specific measures to create greater awareness of the threats of doing business in and with the PRC and mitigate the risks of enriching CCP-linked entities in critical strategic sectors. Shareholders should be aware that the longer U.S. corporations engage with and support such CCP-linked businesses, the more likely they are to suffer adverse consequences and risk endangering national security and American economic interests.

Implementation: U.S. companies with significant China exposure should be encouraged to select leadership and board members who understand the geopolitical context of the China challenge and recognize that incorporating national security considerations in their corporate governance practices is in the long-term interests of shareholders. Corporate boards should consider the following steps: diversifying critical supply chains by beginning to move production out of China, diversifying export markets to reduce CCP leverage over their decision-making, refusing deals that involve exposing or transferring advanced U.S. technology or trade secrets to any CCP-linked entity, rejecting ESG and DEI compliance measures that undermine U.S. competitiveness¹⁴⁶ and advantage Chinese competitors, and applying due diligence to prospective employees and counterparties that may have connections to the CCP. Finally, given the stakes involved, corporate leaders operating or investing in sensitive industries should not wait until the government forces them to divest or take associated protective measures.

Impact: Reducing economic ties with China in critical sectors will enhance the long-term profitability, mitigate risks of espionage and IP theft, and reduce sanctions-related economic disruptions. Additionally, the U.S. will reduce strategic vulnerabilities caused by dependencies on Chinese markets and supply chains. As corporations adopt policies that safeguard their entities from CCP influence, both the entities themselves and U.S. national security will benefit from more secure investments.

Allies: U.S. corporations are uniquely positioned to lead globally, combating the CCP's economic exploitation tactics. The substantial influence and economic power of U.S. business may encourage allies and partners that may be hesitant to implement their own economic safeguarding measures to follow America's lead. Furthermore, as U.S. corporations look for new markets, allies and partners can benefit from U.S. nearshoring and friendshoring operations.

TABLE 1

China's Current Threat Levels

	HOSTILE	AGGRESSIVE	TESTING	ASSERTIVE	BENIGN
Behavior		✓			
	FORMIDABLE	GATHERING	CAPABLE	ASPIRATIONAL	MARGINAL
Capability	✓				

SOURCE: Dakota L. Wood, ed., *2023 Index of U.S. Military Strength* (Washington, DC: The Heritage Foundation, 2023), <http://www.heritage.org/military>.

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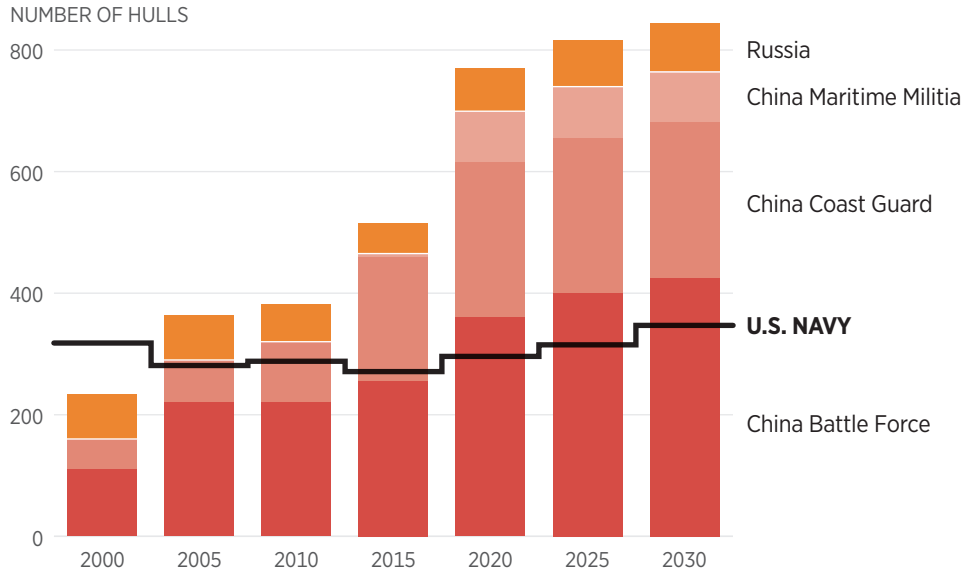
C. Reorient America's Defense Posture***Recalibrate America's Defense Posture to Meet the China Threat.***

Issue: China is building the capacity to diminish and overcome U.S. means of strategic and conventional deterrence.¹⁴⁷ If successful, China hopes to “win without fighting,” deterring the use of U.S. military force in the Indo–Pacific or, if necessary, prevailing in a conventional conflict, including in the Taiwan Strait.¹⁴⁸ A regional conflict between China and the U.S. would be disastrous with significant human and economic costs, disrupting supply chains, the energy trade, and other critical economic activity. Deterring a regional conflict will require robust capability to operate in the maritime and air domains (subsurface, surface, and air) as well as conducting supporting operations in space and cyberspace and on land.

As the People's Liberation Army Navy (PLAN) rapidly modernizes, the U.S. Navy remains unprepared for protracted great-power conflict, with an aging fleet of fewer than 300 ships.¹⁴⁹ The PLAN's expanding fleet, by contrast, will soon exceed 300, even as the CCP enjoys an advantage over the U.S. in enlisting civilian or commercial vessels and its “maritime militia” for quasi military activities. As a result, the credibility of U.S. conventional deterrence in the Western Pacific is fading. This is not a problem that can be solved only by “pivoting to Asia.”¹⁵⁰ The preponderance of U.S. Navy assets, more than 70 percent by some estimates, are already positioned in the Indo–Pacific. However, U.S. Air Force assets, particularly fighter, bomber, and air-refueling squadrons remain in short supply in the region.

CHART 4

U.S. vs. Chinese and Russian Navies: Fleet Expansion Trends



NOTE: U.S. figures are actual through 2020. Figures for 2025 and 2030 are from the Navy’s December 2020 30-year shipbuilding plan. See U.S. Navy, Office of the Chief of Naval Operations, Deputy Chief of Naval Operations (Warfighting Requirements and Capabilities–OPNAV N9), *Report to Congress on the Annual Long-Range Plan for Construction of Naval Vessels*, December 9, 2020, https://media.defense.gov/2020/Dec/10/2002549918/-1/-1/1/SHIPBUILDING%20PLAN%20DEC%2020_NAVY_OSD_OMB_FINAL.PDF (accessed September 3, 2021).

SOURCES:

- U.S. Department of the Navy, U.S. Marine Corps, and U.S. Coast Guard, *Advantage at Sea: Prevailing with Integrated All-Domain Naval Power*, December 2020, p. 4, Figure 1, “Growth of China’s Maritime Forces Since 2000,” <https://media.defense.gov/2020/Dec/16/2002553074/-1/-1/0/TRISERVICESTRATEGY.PDF> (accessed September 2, 2021).
- Ronald O’Rourke, “China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress,” Congressional Research Service *Report for Members and Committees of Congress* No. RL33153, updated January 27, 2021, p. 32, Table 2, “Numbers of Chinese and U.S. Navy Battle Force Ships, 2000–2030,” <https://crsreports.congress.gov/product/pdf/RL/RL33153/248> (accessed September 2, 2021).
- U.S. Navy, Office of Naval Intelligence, *The Russian Navy: A Historic Transition*, December 2015, <https://nukes.fas.org/guide/russia/historic.pdf> (accessed September 2, 2021).
- Michael A. McDevitt, Rear Admiral, U.S. Navy (Ret.), prepared statement in hearing, “Department of Defense’s Role in Competing with China,” Committee of Armed Services, U.S. House of Representatives, 116th Cong. 2nd Sess., January 15, 2020, pp. 76–88, <https://www.govinfo.gov/content/pkg/CHRG-116hrg40508/pdf/CHRG-116hrg40508.pdf> (accessed September 2, 2021).

Action: China has an advantage in purchasing power parity and a robust defense industrial base.¹⁵¹ The U.S. must adopt a cost-imposing strategy that pairs significantly expanding asymmetric U.S. and allied naval and air capabilities with greater efforts to outcompete China economically. Preparing

for regional contingencies and deterring China from taking provocative military actions will require additional warships, aircraft, and munitions, paired with an effective deterrence strategy. The U.S. will also require a more capable industrial base to enhance the U.S. naval fleet's performance at sea, as well as increasing production of the F-35 and B-21 aircraft.

Implementation: The U.S. government must make it a priority to reduce the longest lead time for delivery, enhancing naval warfighting capacity through expanded shipbuilding. To leverage the savings inherent to making large block purchases and economies of scale, Congress should craft a Naval Act of 2023. This one-time legislation would authorize and appropriate the funds necessary for a large block purchase of naval assets for a total of \$152.3 billion before anticipated savings.¹⁵² Ships covered by this purchase would only be those with approved, stable designs and that are in production today at numbers already stipulated in the current approved Future Years Defense Program that runs through 2027.

Impact: Establishing a modern Naval Act would provide industry with the predictability to make needed infrastructure investments and increase the workforce, creating a virtuous cycle of follow-on effects in improving maintenance and repair capacity. As a discrete legislative act, it would draw attention to a vital national security priority while not competing directly with other military service budget needs. A modern Naval Act, echoing the nation's historic success in preparing for war in the Pacific during World War II, would galvanize meaningful action.

Allies: Effective deterrence with an undersized U.S. Navy and U.S. Air Force necessitates allied support and combined action as the U.S. rebuilds its naval and air forces. This will include greater access to each other's shipyards for repairs and sustainment of deployed operations. At a minimum, other key allies in Pacific warfighting scenarios include Japan, and potentially the Philippines, as well as Pacific Island nations to secure critical transpacific sea and air lines of communication.

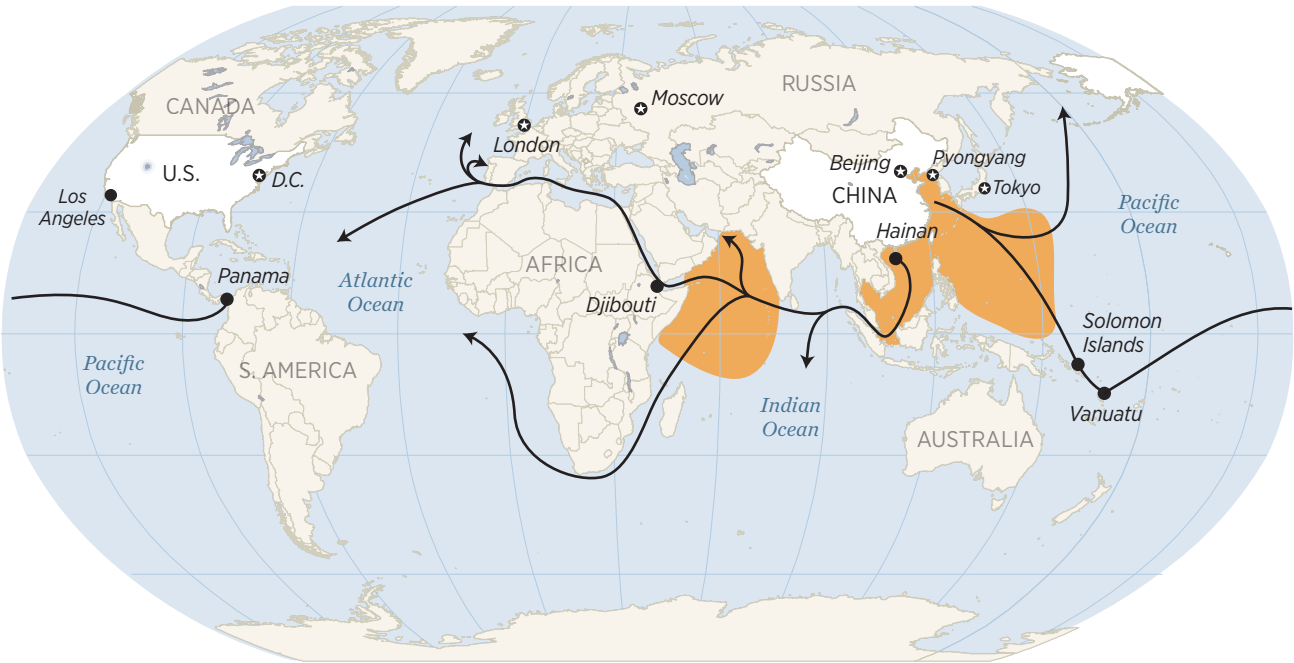
Restore Conventional Deterrence in the Indo-Pacific.

Issue: The unquestioned military advantage that the U.S. enjoyed in the Indo-Pacific for decades following World War II has atrophied significantly. Today, it is uncertain whether the U.S. military can present a credible conventional deterrent against the PLA in the near future. Indeed, there are growing concerns among U.S. defense planners and experts that the U.S. military may prove unprepared to win a regional conflict with the PRC, including a conflict over the Taiwan Strait. The next several years—before the U.S. delivers critical military platforms to Taiwan—present an elevated risk for the U.S.

MAP 4

Chinese Naval Activity

■ Operating areas — Deployments outside normal operating areas



SOURCE: Heritage Foundation research.

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and Taiwan. Preparedness acts as the strongest deterrent against Chinese aggression, yet the PLA's modernization has left U.S. forward-deployed and rotational forces potentially overmatched in the first island chain.

Action: The United States should immediately adopt and resource a strategy of deterrence by denial against the PLA.¹⁵³ This will require disciplined prioritization, advantaging improvements to U.S. military capabilities in the Indo-Pacific over competing objectives in other theaters. This strategy must also account for the possibility that attempts to deter an invasion could fail, providing adequate resources and capabilities to sustain and win a longer-term conflict if necessary.

Implementation: The Administration and Congress should prioritize providing the U.S. Indo-Pacific Command with the funding and capabilities identified as requirements in the Commander's annual independent assessment under the Pacific Deterrence Initiative. Additionally, the Pentagon should prioritize the Indo-Pacific for rotational deployments necessary to

backfill any capabilities removed from the region, a need highlighted recently by congressional concern over the removal of F-15 squadrons from Okinawa.¹⁵⁴ The Pentagon and State Department should make the realization of a more distributed and resilient force posture a primary goal of U.S. foreign policy.

The Pentagon should accelerate efforts to expand basing in the Freely Associated States of the Pacific Islands, and the State Department should undertake a major effort to solidify America's alliance with the Philippines, with the goal of regaining the ability to operate from the Philippines in a regional contingency, which will prove invaluable in any China conflict scenarios. To counter the PLA's massive advantage in ground-based missiles,¹⁵⁵ the U.S. government must make determined efforts to develop and regionally deploy ballistic and cruise missiles formerly prohibited by the Intermediate-Range Nuclear Forces (INF) Treaty.

Impact: Apart from reducing near-term risks of conflict, the decades of stability and peace in the Indo-Pacific underwritten by U.S. military strength not only served American and allied interests, but also helped China enrich to itself. Restoring conventional deterrence in the Indo-Pacific is the surest way to extend this peace dividend and avoid a PLA *fait accompli* over Taiwan, or any armed conflict with China, for that matter.

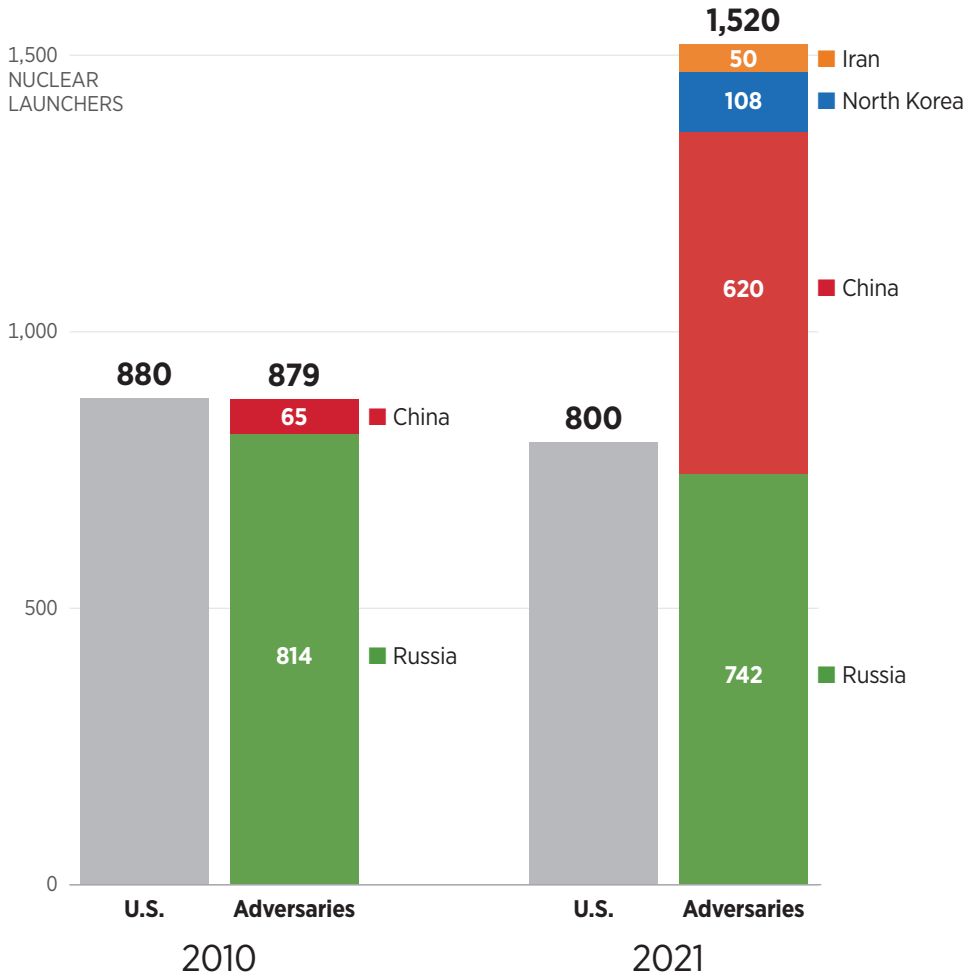
Allies: A more credible U.S. conventional deterrent would reassure U.S. partners and allies in the region. While allied forces cannot replace the need for the United States to implement a strategy of deterrence by denial, the U.S. should lean on allied capitals to complement and enhance this strategy, particularly through expanded access to local military and logistics facilities and through the hosting and deployment of ground-based missiles.

Enhance Nuclear Deterrence.

Issue: China is rapidly expanding its nuclear forces as part of what U.S. senior military leaders have defined as a "strategic breakout."¹⁵⁶ China is building hundreds of new missile silos capable of carrying its most advanced intercontinental ballistic missiles and is projected to have *at least* 1,000 nuclear weapons by the end of the decade, and 1,500 by 2035, which roughly equals the number deployed by the United States.¹⁵⁷ China is also upgrading its arsenal qualitatively, with around 900 nuclear-capable missiles in the Indo-Pacific capable of striking Guam with precision. By contrast, the United States does not base nuclear forces in the Indo-Pacific.¹⁵⁸ China is also developing novel technologies, including a fractional orbital bombardment system armed with a hypersonic vehicle, a technology not found in the U.S. and Russian nuclear arsenals. As a result, China has rapidly become a peer nuclear competitor to both the United States and Russia.¹⁵⁹

CHART 5

Aggregate Adversary Nuclear Launchers Significantly Outnumber U.S.



NOTES: Figures include only launchers (ICBMs, SLBMs, and long-range bombers), not warheads delivered by ballistic missiles, ballistic missile submarines, or long-range nuclear-capable cruise missiles. U.S. and Russian data include deployed and non-deployed launchers reported by the State Department, and Chinese data include strategic systems and dual-capable IRBMs and MRBMs. The figure for Iran assumes that, in a nuclear-armed threat, the Shahab-3 would be the most likely delivery system. North Korea was assessed as not having a viable nuclear warhead and long-range delivery system until 2013, when a nuclear test suggested effective miniaturization to enable delivery by means of its long-range rockets.

SOURCES: Heritage Foundation calculations.

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Action: The United States must strengthen its nuclear forces to maintain a suitable level of nuclear deterrence amid rapid gains in China’s nuclear arsenal. Currently, U.S. nuclear forces are sized only to deter Russia—not

both Russia and China at the same time. When decisions were made regarding the future of U.S. nuclear forces under the Obama Administration, policymakers were not expecting a Chinese nuclear expansion of this magnitude.¹⁶⁰ As a result, current U.S. nuclear modernization plans will not suffice to deter two nuclear peers at once, and the United States will need to bolster its nuclear forces in response.

Implementation: First, the United States should increase the size of its nuclear arsenal by preparing to more quickly utilize its capacity to transfer additional warheads to deployed forces in crisis scenarios and by planning to procure more modernized nuclear systems than initially planned. Second, the U.S. needs to develop additional capabilities tailored specifically to deter China. Investing in the development of a nuclear sea-launched cruise missile (SLCM-N) would mark an important first step. Third, the United States should seek to accelerate timelines for developing new warheads and increase production of plutonium pits for storing nuclear warheads.¹⁶¹

Impact: Enhancing U.S. nuclear forces will strengthen deterrence by enabling the United States to demonstrate to the PRC that during a crisis or conflict, escalating to the nuclear level would be disastrous for Beijing. It will also help to prevent Chinese nuclear coercion. With a stronger nuclear force and posture tailored to the unique Chinese threat, the United States can disabuse China of the notion that it can continue to engage in nuclear blackmail or coercion toward the U.S.

Allies: China's nuclear expansion threatens the credibility of U.S. commitments to extended deterrence for its regional allies. The U.S. government must continue working with allies through extended deterrence dialogues to ensure that they do not feel compelled to develop nuclear weapons of their own, an outcome that would run contrary to long-standing U.S. non-proliferation efforts.

Urgently Increase Munition Production and Arm Taiwan.

Issue: Russia's invasion of Ukraine has demonstrated that America's defense industrial base is not currently capable of producing munitions at a sufficient rate or quantity. This failure is most concerning for Taiwan's defense, as it has rendered the foreign military sales (FMS) process—the only mode of U.S. military support to Taiwan beyond training—unreliable. While successive Administrations have continued to announce high-profile sales to Taiwan, few of the capabilities that Taiwan has purchased in recent years have actually been delivered.¹⁶² Many of the most critical capabilities to defend against PLA aggression, such as Harpoon missiles, are still years away from delivery. Taiwan's Harpoon purchase likely will not be fully delivered until at least 2029.

Action: The Administration must deliver critical munitions to Taiwan as soon as possible, as current delivery timelines stretch beyond when the PLA will reach a 2027 deadline reportedly set by General Secretary Xi to be prepared to wage a successful invasion of Taiwan. In the medium term and the long term, a whole-of-government effort will be necessary to revitalize the defense industrial base and ensure that the United States is able to produce munitions at the levels required for great-power competition.

Implementation: When the Administration sends capabilities that are backlogged for Taiwan to other places, it should be required to justify the decision to Congress with full transparency about the trade-offs to deterrence in the Taiwan Strait. Suggestions that future military aid to Ukraine will not impact Taiwan¹⁶³ ignore the additional stresses on the defense industrial base and obscures the higher opportunity costs of arming Taiwan with depleted U.S. stocks. The executive branch should use the drawdown authority in the Taiwan Enhanced Resilience Act to arm Taiwan with critical munitions to fill the gap left until delayed FMS platforms are delivered.

Impact: Failure to deliver munitions that Taiwan has purchased undermines U.S. credibility as a defense partner and can heighten the threat of PLA aggression across the Taiwan Strait. Addressing the shortcomings of U.S. munitions productions with short-term and long-term solutions would help to repair the damage and enhance deterrence of the PLA.

Allies: U.S. allies and partners manufacture defense systems relevant to Taiwan's defense that may not be available from U.S. sources. They should be encouraged to sell or otherwise transfer such capabilities to Taiwan without regard to PRC opposition. In some cases, it may be appropriate for the U.S. to purchase the defense material from third parties and sell or transfer it to Taiwan.

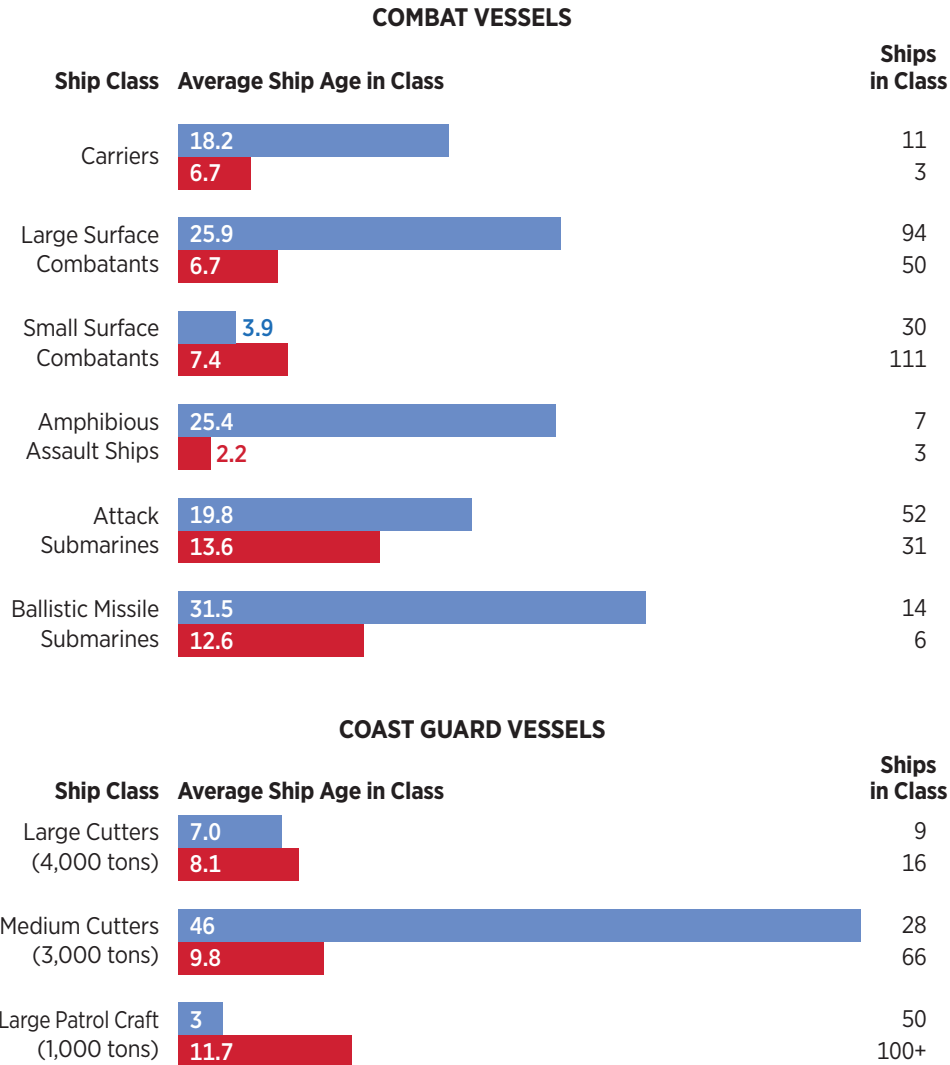
Foster Innovation in the U.S. Maritime and Shipping Sectors.

Issue: An uncompetitive and outdated shipbuilding and shipping sector diminishes U.S. competitiveness, undermines the resilience of the economy, constrains the nation's ability to mobilize and sustain a wartime economy, and meet the U.S. Navy's global responsibilities. Furthermore, it inhibits U.S. prosperity, hindering transportation-intensive strategic industries including energy and heavy manufacturing. Passed more than 100 years ago, the current legislative framework governing the commercial maritime space, the Jones Act, has severely restricted the U.S. maritime industry's ability to modernize.¹⁶⁴ Since 2000, the paucity of U.S. shipyard capacity and expeditionary battle-damage repair capacity has resulted in prolonged

CHART 6

U.S. Navy Fleet Older than China's More Modern Fleet

■ U.S. ■ China



SOURCES: Manfred Meyer, China's Maritime Forces, The Admiralty Trilogy Group, July 1, 2022, <https://admiraltytrilogy.com/mcmf.php> (accessed February 13, 2023), and Werner Globke, *Warships of the World: Fleet Handbook 2020–2022* (Bad Neuenahr-Ahrweiler: Bernard & Graefe, 2020), pp. 49–78 and 448–498.

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delays in warship production and sustainment.¹⁶⁵ Several key U.S. ports have seen historic shipping backlogs¹⁶⁶ and are hobbled with protracted labor negotiations.¹⁶⁷

Action: The U.S. government should create domestic commercial–military naval infrastructure that can foster a sustainable competitive advantage in American shipbuilding, shipping, and logistics. Such an initiative would have the additional benefit of jump-starting the U.S. economy. Revolutionizing American shipping and shipbuilding industries will enhance America’s ability to compete with China globally and meet urgent military logistic needs, in addition to making the U.S. an even larger global logistics hub.

Implementation: Congress should repeal and replace the antiquated Jones Act with a naval act that makes American shipping globally competitive. Doing so would ensure adequate sealift for the U.S. Navy while creating a new paradigm for domestic shipbuilders and supply-chain innovation. Greater free-market competition will offer superior results even as it accommodates national security protections. Technological developments will bring a revolution in shipping on the scale of the container shipping revolution of the 1950s.¹⁶⁸ The U.S. must be on the cutting edge, including developing the capability to secure bulk, containerized, and liquefied natural gas (LNG) cargo on a competitive commercial basis. Any revolution in shipping must consider redesigning twenty-foot-equivalent unit (TEU) containers, opening new more competitive means of managing, packaging, and shipping goods.

Additive manufacturing, such as computer-aided-design hardware and software, will be a crucial enabler, supporting both defense and commercial efforts in reducing costs and delivery delays and lowering transportation capital investments.¹⁶⁹ Novel means of distributed production must be included in future naval logistics ship designs, leveraging best practices from the commercial sector and providing incentives for American private-sector innovation. In addition, the U.S. should develop new capabilities for aerial vertical cargo lift to reduce dependence on ports and rail. Finally, new shipbuilding must be paired with expanding U.S. maritime constabulary capability, ensuring that the ability to expand the U.S. maritime economy is matched by the means to safeguard assets and interests.¹⁷⁰

Impact: Fostering an American revolution in shipping can energize a lethargic industrial sector and serve as a deterrent against Chinese economic coercion and military adventures abroad.

Revitalizing the U.S. maritime industry would both boost the economy and expand the defense industrial base. Positioning the U.S. at the cutting edge of shipbuilding innovations will advance U.S. security and prosperity.

Allies: Allies and partners increasingly anxious about China’s expanding naval capabilities will be reassured by a renewed U.S. shipbuilding industry capable of increasing the quality and quantity of American naval platforms and enhancing its ability to export warships and auxiliary naval vessels to

allies and partners. Other nations will also be eager to leverage new technologies, platforms, and processes wrought by a revolution in American shipping and shipbuilding.

Align National Security Spending with National Security Priorities.

Issue: Successive U.S. Administrations have repeatedly identified the PRC as the United States’ top national security challenge, and the Indo-Pacific as the most important theater for countering that threat. The 2022 National Defense Strategy explicitly states: “The most comprehensive and serious challenge to U.S. national security is the PRC’s coercive and increasingly aggressive endeavor to refashion the Indo-Pacific region.... The PRC presents the most consequential and systemic challenge.” Meanwhile, the Defense Department will be “prioritizing the PRC challenge in the Indo-Pacific region, *then* the Russia challenge in Europe.”¹⁷¹

Nevertheless, the U.S. government has struggled to shift diplomatic and defense spending priorities to align with these threat assessments. Across the last three presidential Administrations, the U.S. diplomatic budget, which funds all tools of American statecraft short of military force, has allocated less than 10 percent of foreign assistance to the Indo-Pacific region each year. In fiscal year (FY) 2021, both Africa and the Middle East each received roughly five times the Indo-Pacific’s share of U.S. foreign assistance spending.¹⁷² The U.S. defense budgeting process has done a better job of providing the resources necessary to assert U.S. power in the Indo-Pacific, but significant shortcomings remain.

Action: Congress should require the Administration to produce budgets that reflect the current national security threat environment, rather than repeating the inertia of past budgets. The U.S. should organize foreign assistance in a way that advances U.S. national interests in its priority theaters, counters America’s highest-priority threats, and achieves tangible and measurable outcomes.

Implementation: Congress should require the Administration to produce a plan to double the *share* of foreign assistance spending in the Indo-Pacific within two years, bringing the Indo-Pacific to approximately 15 percent of annual foreign assistance spending. If the Administration fails to do so, Congress should reorient foreign assistance through the appropriations process, rather than continuing to appropriate strategically deficient budget requests from the White House with only incremental changes.

As a part of this process, Congress should consider establishing an Indo-Pacific companion to the Assistance for Europe, Eurasia, and Central Asia account, which provides a dedicated line item in appropriations legislation. Furthermore, Congress must fund the Taiwan security assistance programs

authorized in the Taiwan Enhanced Resilience Act, which the FY 2023 omnibus bill failed to do, while renewing Compacts of Free Association with the Pacific Islands nations of Palau, the Marshall Islands, and the Federated States of Micronesia.

Impact: Taxpayer funds entrusted to the government are not infinite and should be managed in a way that reflects the nation’s top priorities. The CCP seeks hegemony in the Indo–Pacific, and it is a national security imperative to sustain partnerships and alliances in the region and to promote diplomatic and economic alternatives to countries seeking alternatives to Chinese regional hegemony.

Allies: Reorienting U.S. spending for the Indo–Pacific will strengthen the American allies and partners on the front line of the CCP’s territorial aggression and hegemonic ambitions. The United States can offer the region capabilities that no other country can provide, such as the ability to significantly boost the maritime law enforcement capacity of South China Sea claimant states under duress from China’s “maritime militia.” At the same time, the United States still lacks critical capabilities that are necessary for great-power competition in the 21st century, including the ability to offer alternatives to PRC-provided infrastructure with strategic implications. Appropriately prioritizing limited resources for the Indo–Pacific will strengthen U.S. allies and partners by leveraging comparative advantages and addressing America’s diplomatic, military, and economic shortcomings in the region.

D. Diminish the CCP’s Influence and Hold It Accountable

Expand Export Controls.

Issue: America should not be exporting technology to China that makes the PLA more capable; threatens the security of the U.S. or its allies and interests abroad; or contributes to the CCP’s human rights abuses. From surveillance data to hypersonic missile components, the U.S. has for too long assisted the CCP in achieving its technology-related objectives.¹⁷³ Beijing’s aggressive quest to acquire U.S. technology through illicit means is a serious problem compounded by the wholly inadequate measures taken by the U.S. government to stop it.

In 2018, the U.S. Congress voted to restrict “foundational” technology exports to China¹⁷⁴ but the executive branch still has not carried out its mandate.¹⁷⁵ Implementing authority for export controls lies with the Department of Commerce’s Bureau of Industry and Security (BIS), which has a history of prioritizing export revenue over national security. In 2022, the BIS acknowledged that it had failed to designate a single

foundational technology as controlled, despite legislation instructing BIS to do so.¹⁷⁶ Nevertheless, in 2022, Congress announced new export controls on high-end chip technology, with promises of more to follow.¹⁷⁷ It remains to be seen whether the BIS will implement these controls as the BIS has in the past ignored congressional oversight requests in contravention of the 2018 export-control reform law. Compounding the problem, the scarce data available shows that the BIS approves almost all transactions with malign PRC entities even when controls are in place.¹⁷⁸

Action: The U.S. must develop a more systemic and disciplined approach to export controls that eases barriers to sharing technology with critical allies and denies important dual-use technologies to China. Congress must apply greater scrutiny and oversight to the BIS and require the agency to be transparent about licensing decisions for PRC entities that present national security threats. Congress should require the Department of Commerce to explain, not simply assert, the legal justification for setting aside the 2018 congressional mandate on foundational technology export controls. Congress should apply the findings of this enhanced oversight to fundamentally revamp the export control system in light of the national security threat of the CCP's military-civil fusion efforts and effective control of all economic entities in the PRC.

Implementation: Federal agencies do not have authority to overrule or ignore legislative guidance to protect the national interest from a threat like the CCP.¹⁷⁹ The BIS should provide written justifications and public testimony to relevant congressional committees on previous and future rulings on granted licenses subject to the 2018 mandate. After a review, Congress should decide if transferring export-control authority elsewhere is warranted. Among other options, one legislative proposal introduced in Congress in 2022 would transfer export-control authority from the Department of Commerce to the Department of Defense.¹⁸⁰ In the interim, Congress should mandate the regular release of licensing data for malign PRC entities on the Commerce Department Entity List. Congress should also authorize at least one national security agency in the export-control license decision-making process to veto license approvals to malign PRC entities.

Impact: More aggressive implementation of strategically targeted export controls against China will invariably create short-term and medium-term economic disruptions. Some firms will see deals scuttled, operations impeded, and drops in revenue or stock prices. It is worth the cost. The CCP has already turned against China's own tech innovators¹⁸¹

and the party distrusts large private firms.¹⁸² Without ready access to American technology, China could face the same dilemma that confronted the Soviet Union, unable to keep pace technologically with the United States. Expanding export controls, combined with new U.S. investments in defense capabilities, promoting domestic economic growth, and cooperating more with allies could dramatically reverse the relative gains that China has made in the past decade and further tip the balance of military and economic power in America's favor.

Allies: For U.S. export controls to be successful, American partners and allies must also limit Chinese access to advanced technology with dual-use applications. Export controls can be limited in scope: Only a few countries have products at the top of the value chain and restrictions can be narrow. But they must resist growing pressure from a Chinese state determined to gain access to their technology. In the immediate term, it should be a top foreign policy priority of the U.S. government to ensure that the controls on semiconductor manufacturing equipment in other high-end producers, such as the Netherlands and Japan, align with U.S. actions.

Moving forward, the U.S. must set an example, and American firms must be willing to accept lost corporate profits, in service to the national interest. If necessary, the U.S. must also be willing to apply secondary sanctions to companies from friendly countries if they are involved in high-tech transfers to China. Such secondary sanctions will involve applying foreign direct product rules protecting U.S.-origin technology and barring transactions with firms that offer sanctioned technology to China and other countries of concern.¹⁸³ Finally, the U.S. must ensure that export controls do not do active harm, such as not slowing down military joint-development projects with allies, including in the AUKUS initiative, to co-develop submarines and collaborate on other defense industrial initiatives.¹⁸⁴

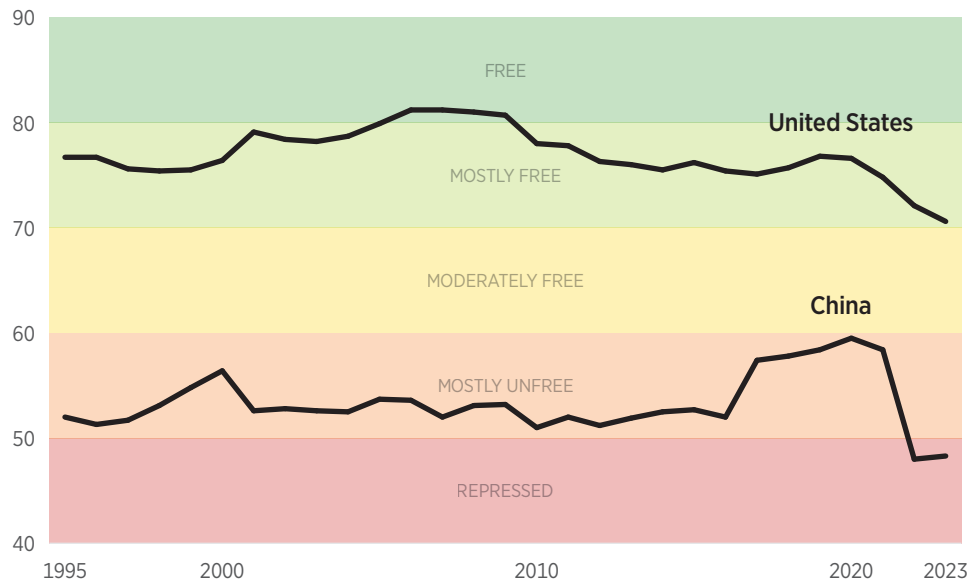
Restrict Outbound Investment into China.

Issue: For decades, U.S. investments in China have empowered the CCP, undermined American security and prosperity by eroding its industrial base, and created profit-seeking constituencies in the U.S. that are financially incentivized to contribute to the CCP's economic goals and are opposed to more forcefully confronting Beijing. Of greatest concern are material investments in China by U.S. actors that endanger U.S. national security. The U.S. government currently lacks adequate tools and transparency for assessing national security risks engendered by outbound American investments in China or the appropriate mechanisms to manage them.

CHART 7

Economic Freedom in the U.S. and China

OVERALL SCORES IN THE *INDEX OF ECONOMIC FREEDOM*



SOURCE: Anthony B. Kim, *2023 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

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The U.S. Treasury Department currently lacks comprehensive data on the amount of U.S. money invested in China and how those funds are being used. Thus, the U.S. government is unable to determine how much investment is supporting capabilities and companies that are detrimental to U.S. national security, let alone take decisive action to address this problem. What is known, however, is that the scale of U.S. investments is massive. In 2020, the stock of American portfolio investment in China (excluding Hong Kong) stood at \$1.15 trillion.¹⁸⁵ Not all this capital outflow is helping to strengthen Chinese military capabilities or aiding in the repression of the Chinese people—but even 10 percent of that total exceeds \$100 billion. Furthermore, there are Chinese companies facing U.S. sanctions that can still freely receive American funding.¹⁸⁶

Action: As a moral and practical matter, the federal government should encourage state governments and private entities to divest away from China. Investments with direct implications for U.S. national security should receive first priority, but any investment that benefits a regime with an abhorrent human rights record should be heavily scrutinized. The U.S. government should insist on greater disclosure by American funders

of significant investments to countries of concern, beginning with China. Existing tools, such as the Treasury Department's Specially Designated Nationals and Blocked Persons List are neither designed for, nor capable of, answering the scale of this challenge. Congress must establish a review process that focuses first on advanced technology with implications for U.S. national security.

Implementation: For large-scale investments in critical economic sectors, in accordance with guidelines established by Congress, the U.S. government should require American entities investing in China to submit information on their counterparties and anticipated use of funds for approval prior to investing, under a presumption of denial. This process must cover joint ventures with PRC entities. Penalties for circumvention, such as routing through offshore financial centers, should be severe.

Impact: These actions will impose costs on China, denying it access to critical resources and capabilities that can threaten the U.S. and harm American interests. They will dampen China's global reputation and attractiveness as a target of foreign investment.

Allies: The U.S. should encourage partner and allied nations to implement their own outbound investment controls; however, the U.S. should take the lead. As American (and Australian) leadership against CCP-controlled 5G networks showed, it is possible to convince aligned capitals that they, too, should refrain from financing Chinese investments in sensitive technologies, such as genetics, high-end semiconductors, and other capabilities that have significant national security and economic implications.

Counter Xi's Big Data Ambitions.

Issue: The threat of CCP-controlled apps operating in the U.S. is one part of a larger national security challenge stemming from the CCP's ambition to dominate big data. In 2013, Xi told the Chinese Academy of Sciences: "The vast ocean of data, just like oil resources during industrialization, contains immense productive power and opportunities. Whoever controls big data technologies will control the resources for development and have the upper hand."¹⁸⁷ This philosophy informed the CCP's industrial policy laid out in the Made in China 2025 initiative which prioritizes the storage, management, and accumulation of vast quantities of bulk data.

Xi and the CCP understand that in the 21st century, big data is irreplaceable fuel for critical technologies, economic competitiveness, and national security applications. Accordingly, China seeks an upper hand over this resource not only through its illicit activities, but by exploiting commercial data while walling off China's data from reciprocal access.¹⁸⁸

Action: The U.S. should significantly reduce data flows from the United States and allies and partners to entities that are based in China or answer to the CCP and seek to diminish CCP efforts to block China's data from the rest of the world. These measures should be guided by commercial reciprocity, as the PRC restricts some transactions of data that is stored in the U.S. China's legal framework and the CCP's leverage over economic actors in the PRC means that any sensitive data can be accessed or co-opted by the party in malign ways.

Implementation: In the immediate term, the Department of Commerce must begin robust implementation of executive orders relating to the Information and Communications Technology and Services (ICTS) supply chain, including by publishing and enforcing final ICTS supply-chain regulations. Proper implementation of the initial executive order on the ICTS supply chain, dated May 15, 2019,¹⁸⁹ should entail the blocking and unwinding of transactions that cause large amounts of U.S. data to flow to the PRC.

CFIUS and other investment review mechanisms should prohibit the transfer of large amounts of data to PRC entities, and the U.S. government should seek to prohibit any U.S. entity from aiding the CCP's data localization efforts. Congress should enact a personal data privacy law to protect Americans' privacy, reform sanctions laws to ensure that relevant data flows can be blocked under the International Emergency Economic Powers Act, and legislate to extend export controls over commercial transfers of data which threaten national security.

Impact: Curtailing the flow of U.S. data to PRC entities would blunt the CCP's espionage activities, protect Americans' privacy, counter the CCP's predation on the United States for commercial advantage, and mitigate national security threats. Halting contributions to the CCP's big data ambitions is consistent with American values, as AI-enabled technologies reliant on vast data sets are crucial to the CCP's efforts to implement a draconian police state, including its genocidal programs in Xinjiang.

Allies: The U.S. should encourage its allies and partners to take similar actions to stop the nonreciprocal flow of data to CCP-controlled entities. As evidenced when several allies adopted investment review mechanisms in the years following CFIUS reform in the United States, American leadership can help to spur allies to action.

Address China's Abuse of the World Trade Organization.

Issue: China's violations of its World Trade Organization (WTO) commitments have led to calls from U.S. Members of Congress for the United States to review the U.S.–China Relations Act of 2000 that granted China

permanent normal trade relations (PNTR) status.¹⁹⁰ Since its ascension to the WTO in 2001, China has routinely violated its WTO commitments, costing U.S. businesses, U.S. workers, and the U.S. economy dearly. By one estimate, the U.S. manufacturing industry has lost 2.8 million jobs to China since its WTO ascension—nearly 75 percent of the 3.7 million total jobs lost since then.¹⁹¹

Despite U.S. victories against China in WTO litigation, the CCP has demonstrated a history of making cosmetic changes to ensure narrow compliance rather than reforming the underlying economic policies that violate the spirit of the WTO.¹⁹² The U.S.–China Economic and Security Review Commission (USCC)¹⁹³ and Congressional–Executive Commission on China have produced more than 100 examples of lamentable Chinese economic and human rights practices.¹⁹⁴ China’s PNTR status, however, limits the U.S. government’s ability to hold China accountable.

Action: The U.S. government should make the case that China has violated the 1999 Agreement on Market Access between the PRC and the U.S., as well as its WTO accession commitments, including its commitment not to condition approval of foreign investments on “the transfer of technology.”¹⁹⁵ The U.S. government should consider the merits of suspending PNTR status for China.

Implementation: The Office of the U.S. Trade Representative (USTR) should conduct a comprehensive review of China’s compliance with its WTO commitments, as recommended by the USCC.¹⁹⁶ Supporting evidence, such as previous USTR assessments¹⁹⁷ and WTO rulings, should be included.¹⁹⁸ If the USTR assesses China to be noncompliant, Congress should consider legislation to revoke PNTR status. Should legislation be signed into law, Congress could develop conditions for reconsidering China’s PNTR status. H.R. 7193, the China Trade Relations Act of 2022,¹⁹⁹ and S. 785, the China Trade Relations Act of 2021,²⁰⁰ offer potential templates for action and implementation.

Impact: Action on China’s PNTR status would underscore the United States’ shift away from an engagement-first model while forcing China to re-evaluate its exploitive economic practices. China could well respond with tariff escalation and other retaliatory action on U.S. trade and investments. Before revoking PNTR status, Congress should produce a report that assesses the potential economic impact and explore ways to mitigate effects on American businesses and consumers.

Allies: Although the U.S. can unilaterally revoke PNTR, it would be advisable to consult with allies. American leadership on combating China’s economic violations should inspire other states to consider revoking their

own “most favored nation” designations for China. Due to China’s global economic reach, allies may be reluctant to join the U.S. On the other hand, if revocation were executed in concert with the other economic initiatives in this plan, the cumulative effect would create more momentum for others to follow the U.S. lead and create more economic opportunities for friendly and allied nations.

Make Limited Use of Tariffs and Non-Tariff Barriers.

Issue: In the 21st-century global economy, American consumers have benefited from low tariffs. American firms, through exporting goods to other countries and importing low-cost, high-quality industrial inputs to bolster U.S. manufacturing, have benefitted when other nations have reduced their tariffs. While that generally remains the case today, China poses a unique set of challenges. China’s 2001 entry into the WTO opened its market to foreign trade and investment, resulting in lasting disruptions to the U.S. labor market and the entanglement of supply chains.²⁰¹

At the same time, the CCP failed to implement robust reforms to its state-led economic system while taking advantage of the global free-trading system. China’s economic policies and currency-manipulation tactics have distorted markets beyond its borders. To date, tariff and non-tariff actions have failed to address the underlying problems and in some cases U.S. tariffs have needlessly increased costs for Americans and harmed relationships with friends, allies, and key trading partners. For instance, the Inflation Reduction Act of 2022 championed by President Biden included several measures criticized by partners and allies.²⁰²

Action: Tariffs have long been a tool for U.S. foreign, national security, and economic policy and have acceptable applications vis-a-vis China when employed in specific, targeted ways to respond to direct national security threats or in response to egregious Chinese trading practices and non-tariff barriers. The use of punitive tariffs to combat unfair trade practices and protect U.S. national security is consistent with U.S. obligations as a member of the WTO and the principles of the international trading system routinely violated by Beijing.²⁰³

Implementation: The U.S. government should be less risk-averse in implementing and enforcing tariffs to punish Chinese predatory behaviors and facilitate the reshoring, nearshoring, and friendshoring detailed earlier. Tariffs, however, are no panacea and can be a double-edged sword. To ensure continued growth and prosperity, the U.S. must equally focus on unleashing the power of America’s greatest comparative advantage against China: the ingenuity and work ethic of its people. To support American workers, the

U.S. government must eliminate and lower regulatory barriers, cut taxes, carefully consider intermediate goods tariffs, and rein in government spending. These measures can restore vitality to the American economy and will mitigate the economic burdens of imposing tariffs and Chinese retaliatory countermeasures.

Impact: Tariffs can reduce China’s access to American markets and the U.S. should anticipate a symmetrical response from Beijing. The CCP is likely to respond with its own tariff and non-tariff barriers as well as measures to punish U.S. companies engaged in business with or in China. Negative impacts on the U.S. economy can be mitigated or offset with reforms in domestic economic policies, such as pro-growth tax and regulatory reforms.²⁰⁴

Allies: China’s coercive economic practices are common concerns for the United States and its allies. As opposition to unfair Chinese trading practices grows, the United States must work with allies to develop pragmatic ways to impose costs on Beijing and restructure global value chains. An inability to provide substitutes will make it challenging for allies to fully support U.S. actions against China’s market distortions. The U.S. must make clear to international partners that it is narrowly focused on advancing free and fair international trade and punishing illiberal economic policies practiced by the CCP.

Hold China Accountable for Its Role in the COVID-19 Pandemic.

Issue: The coronavirus that caused global economic recession and tremendous human suffering and loss of life originated in China. While the evidence pointing to a “lab leak” from one of the Chinese facilities in Wuhan that was experimenting with novel coronaviruses has strengthened with time, there may never be definitive proof of the virus’ origins, in part due to the Chinese government’s destruction of evidence and obstruction of any impartial investigation.²⁰⁵ It is nevertheless clear that the Chinese government’s initial cover-up, delayed response, opacity, and stonewalling of independent investigations into the virus’s origins contributed to the spread of the disease and caused countless casualties.²⁰⁶ The World Health Organization’s (WHO’s) response to the COVID-19 pandemic was also inexcusably poor, exposing itself as vulnerable to politicization and coercion from the CCP.

Action: The U.S. should use its influence and leverage to improve focus, effectiveness, and accountability at the WHO and support alternative frameworks to accomplish the essential mission of international cooperation for pandemic detection and response. Although conclusive evidence

on the origins of COVID-19 is unlikely to appear anytime soon, recent congressional studies illustrate that there is more to be learned.²⁰⁷ The U.S. should continue to investigate the origins of COVID-19 through its own initiatives and advocate a truly independent, international investigation both to advance the principle of accountability and to better prepare for the future.²⁰⁸ A new draft pandemic treaty under consideration called “WHO CA+” fails to adequately address China’s intransigence, and the Biden Administration should reject it.²⁰⁹

Until a transparent and thorough investigation is conducted with full Chinese cooperation, the U.S. should suspend funding and cooperation with Chinese laboratories on biomedical research. In addition, funding for the WHO should be conditional on continued and objective investigations into the origins of the disease. International efforts to bolster pandemic detection and response, whether by updating the International Health Regulations (IHRs) or through a new pandemic treaty, should require full transparency and cooperation with regular international assessments of facilities and, should an outbreak occur, an unbiased international inspection by experts.

Implementation: U.S. leadership is vital to ensuring that the international pandemic response framework prevents the type of non-cooperation that China practiced during COVID-19, at great cost to the world. To address global pandemics, an impartial and science-oriented international health framework is vital to protect the American people and U.S. interests. The U.S. should propose an international framework that champions new standards for pandemic detection and response while respecting U.S. sovereignty.²¹⁰ Accountability is also important: China faced no consequences for its lack of transparency and cooperation on COVID-19. This creates perverse incentives for the future. The CCP’s mishandling of COVID-19 has been historically disastrous and consequential, but accountability is vital for more than just addressing past misconduct. Understanding COVID-19’s origins is necessary to mitigate future dangers. The U.S. government must pursue accountability as the basis for enhancing the IHRs that currently govern pandemic detection and response.

Impact: These steps are essential to protecting the U.S. economy and the American people from future shocks emanating from these threats. The U.S. government should also force China to incur greater reputational costs for its malpractice early in the pandemic. Unless the U.S. applies strong diplomatic and financial pressure, pushes for greater accountability, and works closely with allies to effect change, the current system will remain inadequate and unchanged when the world confronts its next global pandemic.

Allies: Every nation should have a strong interest in ensuring robust international cooperation in the ability to detect, respond to, and suppress communicable diseases. Since most decisions in international organizations are adopted by a majority or super majority, the U.S. should focus on rallying support from other governments to address these vulnerabilities. U.S. policies should emphasize proactive mitigation measures rather than intrusive measures that would undermine national sovereignty, personal liberties, or create intrusive and burdensome requirements on international travel.

Expose CCP Influence over U.S. Cultural Institutions.

Issue: Enterprises that shape and influence American culture—such as Hollywood studios and sports leagues like the NBA—are popular in China, earn considerable revenue for the CCP, and have courted significant investments from Chinese entities. At times, these linkages have made U.S. cultural enterprises unwitting, and sometimes witting, partners in Chinese censorship and oppression. In some cases, owners and investors have additional business interests tied to China and the CCP that influence their behavior.

Beijing manipulates these entities by coercing or enticing the leadership into censoring speech and content in ways that benefit the CCP. For example, the NBA in recent years silenced athletes and franchise owners who spoke out against Chinese human rights abuses in Xinjiang or in support of the Hong Kong pro-democracy movement.²¹¹ For Hollywood, the size of China's movie market and the difficulty getting a film approved for screening in a country with hypersensitive censors and a strict quota on foreign films results in self-censorship by studios, as well as expensive measures to infuse movies with narratives that will appeal to the CCP.²¹²

Action: The United States House Select Committee on Strategic Competition between the United States and the Chinese Communist Party should organize public hearings to shine a transparent light on the ways in which the CCP coerces U.S. firms operating in China to avoid falling afoul of the CCP's policies and priorities. The committee should exercise its subpoena powers to force senior executives of U.S. firms and cultural enterprises to explain to the American public the ways in which they have been coerced to meet censorship demands and questioned on cases in which they engaged in blatant self-censorship. Congress should also consider legislation that would authorize corporations and businesses that are in, or that affect, interstate commerce to establish best practices so that they can publicize CCP attempts to influence their business decisions. Finally, U.S. civil society

should mobilize to bring greater transparency to CCP influences over U.S. cultural institutions.²¹³ One example of civil society mobilization is The Heritage Foundation's China Transparency Project, a network of open-source information documenting the nefarious domestic and foreign activities of the CCP.²¹⁴

Implementation: The federal government should take the steps noted above to shed light on the problem of Chinese influence operations. Philanthropic institutions should support transparency efforts. Institutions that address, educate, and advise on corporate governance should develop and promote proposals to address Chinese malicious influence and manipulation tactics. These proposals should make clear that they are addressing activities and influence by a threatening adversarial power and are not intended to discriminate against ethnicity or any specific group of persons.

Impact: Such measures might reduce cases of censorship by Chinese authorities and cultural entities consulting with Chinese authorities on content. At a minimum, they will educate the American audience about how the CCP seeks to manipulate U.S. businesses to serve its geopolitical agenda. In addition, greater transparency of Chinese influence over U.S. cultural entities and the national security implications will help to make censorship on Beijing's behalf reputationally harmful for businesses in these sectors.

Allies: Beijing conducts similar activities in countless countries, seeking to manipulate cultural businesses into self-censorship on matters related to the PRC. From South Korean movie studios and record companies to European soccer leagues, cultural enterprises from around the world have had their financial interests in China held hostage by the CCP for political reasons.²¹⁵ The U.S. should share its best practices with others, as well as situational awareness on CCP activities and practices.

Combat Malicious CCP Activity in International Organizations.

Issue: The U.S. and other global capitals hoped that China's integration into the international system would "liberalize" China. Instead, China has sought to reorder the international system to its benefit and manipulate the United Nations and other international organizations from within to advance CCP interests.²¹⁶ Over the past two decades, China has substantially expanded its influence in international organizations in ways that have undermined U.S. interests, the global rule of law, and international norms, such as on human rights.²¹⁷ These efforts are at odds with the stated principles of the U.N. and the interests and values of America and like-minded countries. Should China succeed, the United States will face an even steeper uphill battle to ensure that international institutions adhere to

their founding principles and promote the norms and policies that have led to transformative developments throughout the world to advance freedom, human rights, and economic prosperity.

Action: The U.S. should launch a focused campaign, in concert with partners and allies, to counter Chinese-led policies and initiatives that infringe on U.S. interests or violate the founding principles of the U.N. and other international organizations. In general, the U.S. should oppose Beijing's preferred candidates to lead certain international organizations. Similarly, the United States should more vigorously highlight China's hypocrisy and regular violations of international norms by pressing for investigations into its human rights practices and seeking to expel it from bodies like the Human Rights Council.

The U.S. government should conduct a detailed assessment of China's expanding reach in international organizations and the tactics it deploys to exert influence and advance its preferred candidates to leadership positions, sharing its findings and coordinating with partner capitals to counter those efforts. The U.S. should contest the PRC's distortion of Resolution 2758 as a core element of its engagement with the U.N. and also advocate Taiwan's participation in an array of appropriate international organizations.²¹⁸

Implementation: The U.S. should target international organizations whose responsibilities affect key U.S. interests and challenge Chinese nominations that will threaten U.S. interests in the respective organizations.²¹⁹ The U.S. must be purposeful and judicious in applying pressure on international bodies, including withholding financial contributions, if necessary. Previous successes include opposing China's attempt to elect Wang Binying of China as director-general of the World Intellectual Property Organization (WIPO) in 2020²²⁰ and pressuring the Office of the High Commissioner for Human Rights to release its report on human rights violations in Xinjiang.²²¹ The U.S. government should also work to fracture traditional pro-Chinese voting blocs. Not all international organizations are equally important, though. The U.S. should not squander time, effort, and resources on organizations where China's capacity for mischief is limited, such as the World Tourism Organization.

Impact: These measures will counteract China's shrewd diplomatic and economic tactics to advance its interests, maximize its benefits, and minimize its costs in international organizations. Stronger resistance against Chinese actions will limit China's ability to wield influence in international organizations in ways that are inimical to U.S. interests.

Allies: Since most decisions in international organizations are adopted by a majority or super majority, the U.S. needs support from other

governments to achieve its goals. It should work with like-minded partners and use its influence as the top funder of many international organizations to organize opposition to Beijing's preferred candidates to lead international organizations by coordinating support for alternative candidates. Votes in international organizations are often the product of bartering, trading, and coalition building, and the United States is one of the only countries that can muster the resources and coordination to counter malign Chinese practices and preferences in international organizations.

Highlight the CCP's Abhorrent Human Rights Record.

Issue: The CCP has a long and established record of egregious human rights violations. Fundamental freedoms like speech, assembly, press, and religion, are undermined by CCP policies designed primarily to protect the pre-eminence of the party. The CCP has systemically targeted ethnic and religious minorities for persecution, including Uyghur Muslims, Tibetan Buddhists, Hong Kong citizens, Chinese Christians, and others.²²² Perhaps no group has faced greater deprivations at the hands of the CCP more than the Uyghurs. In recent years, at least one million Uyghurs have been held in political re-education camps²²³ and the U.S. government determined that the CCP is committing ongoing genocide and crimes against humanity against the Uyghurs.²²⁴ In Xinjiang, the CCP is arguably committing some of the worst human rights atrocities of the 21st century. U.S. foreign policy toward China is incomplete without a plan to highlight and address the CCP's gross human rights violations.

Action: Condemning China's human rights record should be a core element of a broader U.S. effort to hold China accountable.²²⁵ Holding CCP officials and entities accountable for undermining human rights should be a consistent priority for U.S. foreign policy, emphasizing it in every diplomatic engagement and international forum. The U.S. should also provide support to those persecuted in China by providing access to information and resources to help them advocate for their basic human rights and individual liberties.

Implementation: The U.S. should increase the quality and quantity of unilateral and multilateral sanctions against Chinese individuals and entities responsible for undermining freedom and basic human rights. The U.S. should also prioritize the release of political prisoners like Jimmy Lai in Hong Kong, Christian pastor Wang Yi, and the Panchen Lama.²²⁶ In addition to sanctions, the U.S. should extend safe haven by issuing "Priority 2" refugee status to some persecuted Uyghurs and Hong Kongers.²²⁷ The U.S. should also enforce the Uyghur Forced Labor Prevention Act and identify

additional means at its disposal to shift the CCP's risk calculus and alter its willingness to continue committing human rights violations.²²⁸

Impact: Highlighting the CCP's gross human rights violations will further undermine the legitimacy of China's claim that the nation is a responsible global actor. Further, there are few more tangible ways to assist the Chinese people than to advocate freeing political prisoners and assisting legitimate political refugees and asylum seekers. Enforcing the ban on goods produced with forced labor in China makes it less likely that ordinary U.S. citizens will inadvertently aid and abet the CCP in its human rights abuses.

Allies: There is already substantial momentum building in the international community to place greater emphasis on China's human rights violations. The U.S. should adopt proactive policies to support and lead this effort by encouraging countries to partake in joint education programs like those organized by the Victims of Communism Foundation, and collaborative parliamentary forums, such as the Inter-Parliamentary Alliance on China, to draw global attention to the CCP's draconian domestic policies.

Address the Persecution of Christians.

Issue: Estimates on the number of Christians living in China vary widely, from 30 million to more than 130 million and growing,²²⁹ divided between the state-run churches with clergy chosen by the CCP and underground churches. The CCP's goal to diminish religion in Chinese culture and everyday life has accelerated since Xi became general secretary. Nevertheless, the Vatican has entered into an agreement in which the papacy and the CCP share authority to appoint Chinese Catholic bishops.²³⁰ The arrangement undermines religious freedom. Over the past four years, conditions for Christians have deteriorated dramatically, with churches demolished, bishops jailed, and Bibles burned. According to some media reports, the CCP is also in the process of writing its own version of the Bible.²³¹ Along with the Uyghur genocide, the persecution of Christians is one of the most critical religious liberty violations that the U.S. must address.

Action: The U.S. should challenge the CCP assault on religious liberty, underscoring China's animus toward freedom and human rights. A key component of this challenge must focus on the papacy. The Vatican is a state. Therefore, the U.S. government, together with partners and allies, should vigorously engage with the papacy, encouraging the pontiff to revoke the agreement with Beijing, highlight the regime's persecution of Christians, and adopt policies and measures to support the underground church. Furthermore, the U.S. government should educate the American

public on China's draconian suppression of religion and mobilize governments and nongovernmental partners in a global information campaign. The U.S. government should also look for ways to support organizations and initiatives that advocate for Christians and religious liberty in China, such as ChinaAid.²³²

Implementation: The U.S. should demonstrate to the Vatican how seriously it takes this issue, including through legislative action. Legislation has already been proposed in the U.S. Congress to "hold accountable senior officials of the Government of the People's Republic of China who are responsible for or have directly carried out, at any time, persecution of Christians or other religious minorities in China, and for other purposes."²³³ Further, the U.S. should apply Global Magnitsky sanctions and other applicable sanctions to Chinese officials involved in the torture, sexual abuse, or death of prisoners who are in state custody because of their religion.

Impact: A human rights campaign targeting those responsible for abuses against Christians in China should impose reputational costs on the CCP. For help, the U.S. should look to partners in the transatlantic community, where the majority of the world's Christians reside, including in Latin America, Europe, and North America. Ideally, in addition to imposing reputational costs on China, the pressure campaign would result in a relaxing of draconian restrictions on China's Christian population.

Allies: Some of America's partners and allies have already highlighted violations of religious liberty by the CCP. The European Parliament, for instance, passed a resolution criticizing the detention of Hong Kong's Cardinal Joseph Zen, a vocal critic of the Vatican-China deal, who was convicted and fined in 2022 for his involvement with a fund to support pro-democracy protestors, and who may face additional charges under Hong Kong's National Security Law. The EU's resolution called for dropping all charges against him, as well as demanding that the Vatican "strengthen its diplomatic efforts and its leverage on Chinese authorities to demand Cardinal Zen's unconditional release and the end of persecution and human rights violations in China."²³⁴ A core group of concerned parties already exists that should make this campaign a multilateral initiative rather than a unilateral U.S. effort.

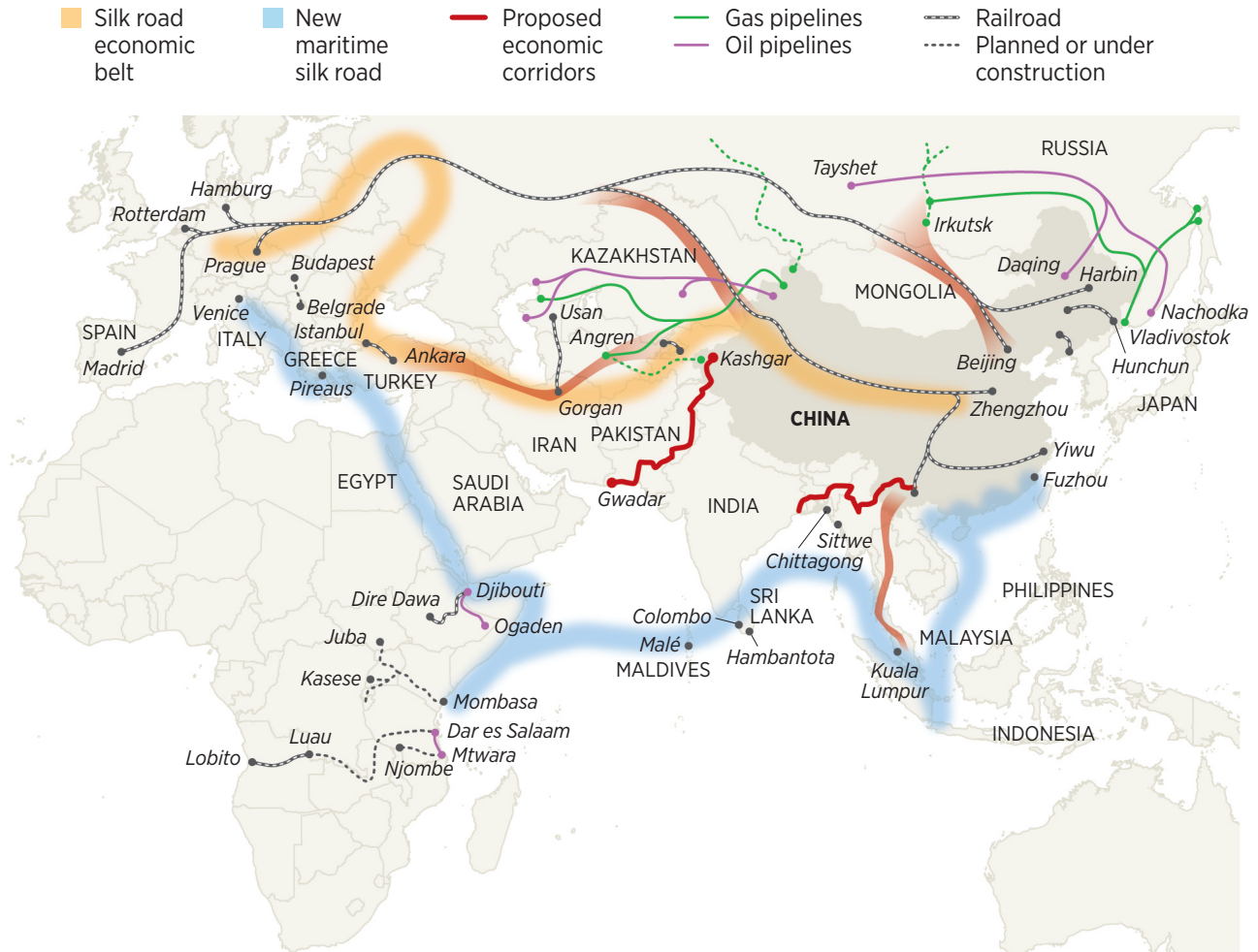
Revitalize the Blue Dot Network.

Issue: China's Belt and Road Initiative (BRI) remains a crown jewel of Chinese foreign policy, a multibillion-dollar project to fund new infrastructure and connectivity investments across the globe. Yet, the BRI has faced substantial criticism in the U.S. and abroad for promoting low labor and

MAP 5

China's Belt and Road Initiative

Through its Belt and Road Initiative (BRI), China wants to reshape the economic and geopolitical landscape of Eurasia and the Indian Ocean with an unprecedented wave of infrastructure investments. However, in America, Australia, Europe, and India, concerns about the BRI are growing.



SOURCES: "Reviving the Silk Road," Reuters, May 10, 2017, map, <https://pictures.reuters.com/archive/CHINA-SILKROAD--C-ET1ED5A1MD43P.html> (accessed March 20, 2023), and Heritage Foundation research.

environmental standards and low-quality infrastructure, lacking transparency, ensnaring countries in "debt trap diplomacy," and advancing China's strategic interests atop ostensibly economic projects.²³⁵ To outcompete China and offer countries quality infrastructure options with higher standards, the

Trump Administration established the Blue Dot Network (BDN), a collaborative program among Australia, Japan, and the U.S. to certify infrastructure projects that meet robust international quality standards. In 2021, the Biden Administration encouraged the Group of Seven (G7) to adopt the Build Back Better World (B3W) initiative.²³⁶ The Blue Dot Network was subsequently co-opted into B3W. This change was more political than substantive, shoe-horning the BDN into an overly broad and politicized initiative that will complicate efforts to counter China in the global infrastructure space.

Action: The U.S. should re-focus on the BDN as a strategic priority for establishing and enforcing constructive rules for international development. The BDN can provide a high-standards certification to give potential investors confidence and begin treating infrastructure investments as an asset class that can be rated. It will also highlight the projects and investments that do not meet international standards.

Implementation: The U.S. should disaggregate the BDN from the B3W and focus on promoting better standards, greater transparency, and a new vision for regional connectivity. The U.S. must shine a light on the risks and consequences of the BRI where necessary, aid friendly countries subject to Chinese economic coercion, and assist like-minded partners and institutions in providing investment alternatives. The U.S. should also align aid and economic engagement agencies in execution of the BDN and support Organization for Economic Co-operation and Development proposals for Blue Dot certification.²³⁷

Impact: Standardized contracts, quality certification, and quality audits could help to remove uncertainty and minimize risk for outside investors while facilitating confidence and private capital flows. Certified projects will embody transparency and openness, mitigate financing risks, and offer regional capitals better alternatives to China's BRI. A successful BDN will create economic opportunities for U.S. and other high-standards investors, and in the long term will strengthen the resilience and prosperity of recipient nations.

Allies: The BDN already has momentum. Australia and Japan embraced the BDN program to introduce "high-quality trusted standards for global infrastructure development."²³⁸ The three partners began working together during the Trump Administration through the U.S. Overseas Private Investment Corporation, Australia's Department of Foreign Affairs and Trade, and Japan's Bank for International Cooperation.²³⁹ The U.S. should seek participation from other friendly capitals, including New Delhi, Seoul, and Taipei, to enlarge its scope and capabilities. The U.S. should also encourage BDN certification for reconstruction projects in Ukraine, the Three Seas Initiative, and infrastructure projects along the Middle Corridor. The

U.S. should also seek buy-in for the BDN from partners in the Middle East, especially to include those countries that signed the Abraham Accords.²⁴⁰

Address Illegal Fishing and Maritime Militia Activities.

Issue: Illegal fishing practices condoned or permitted by the CCP are widespread and damaging, and the U.S. should highlight them as Beijing seeks to bolster its reputation as a responsible international actor. China deploys a massive flotilla of fishing vessels and the CCP uses these vessels partly to buttress its unlawful claims in international waters, such as its claims over all the water and territory within the “Nine Dash Line” encompassing virtually the entire South China Sea. Chinese fishing vessels also engage in uncontrolled and illegal practices that violate maritime law.²⁴¹

Apart from the serious damage that illegal Chinese over-fishing has done to fishing stocks,²⁴² Chinese fishing vessels regularly harass and clash with maritime vessels registered to other nations while fishing far beyond China’s territorial waters and exclusive economic zone (EEZ). Chinese fishing vessels are increasingly operating further abroad, including in the Western Hemisphere. In August 2022, for instance, Chinese fishing vessels clashed with a U.S. Coast Guard vessel while the latter was on a legal patrol of the high seas near Ecuador’s Galapagos Islands.²⁴³

Action: The U.S. should take both unilateral and multilateral diplomatic action to pressure Chinese fleets to operate in compliance with relevant maritime law. The U.S. should also increase its capacity to conduct maritime constabulary activities and collaborate with other nations to increase their capacity, including through expanding the size, capabilities, and mandate of the U.S. Coast Guard.²⁴⁴

Implementation: The U.S. must draft a clear declaratory policy against China’s illegal fishing practices. This policy should directly attribute the fleet’s actions to the CCP—Chinese fishermen would not operate with such blatant disregard for international laws and maritime norms without at least implicit support from Beijing. The U.S. should increase its global maritime presence, enhancing naval and Coast Guard patrols in strategically sensitive international waters and in the EEZs of U.S. partners and allies where welcomed. In particular, the U.S. should increase the Coast Guard’s capacity to operate in Arctic waters.²⁴⁵ The U.S. should also consider the merits of banning the import of Chinese fishing products until those products are verifiably harvested in a legal way. The U.S. should refuse to recognize so-called Chinese fishing bans in the South China Sea, which use the cover of concern for the environment to enforce Chinese claims to control the region.

Impact: Restraining China’s illegal fishing will have a modest impact on China’s economy but shining a light on its unlawful activities will diminish Beijing’s claim to be acting as a responsible global power. In addition, U.S. actions will have environmental and economic benefits, preserving fishing stocks for use by other nations, including the U.S. Finally, it will deprive the CCP of a weapon that Beijing uses to buttress its unlawful claims of sovereignty over international waters and the EEZs of other countries.

Allies: U.S. action cannot be effective on its own. Nations from Vietnam to the Philippines to Ecuador resent the aggressive approach by the Chinese fishing fleet and the theft of natural resources. The U.S. should coordinate diplomatic action as well as Coast Guard patrols with friendly nations and, where practical, impose joint restrictions on Chinese fishing products obtained through unlawful means.

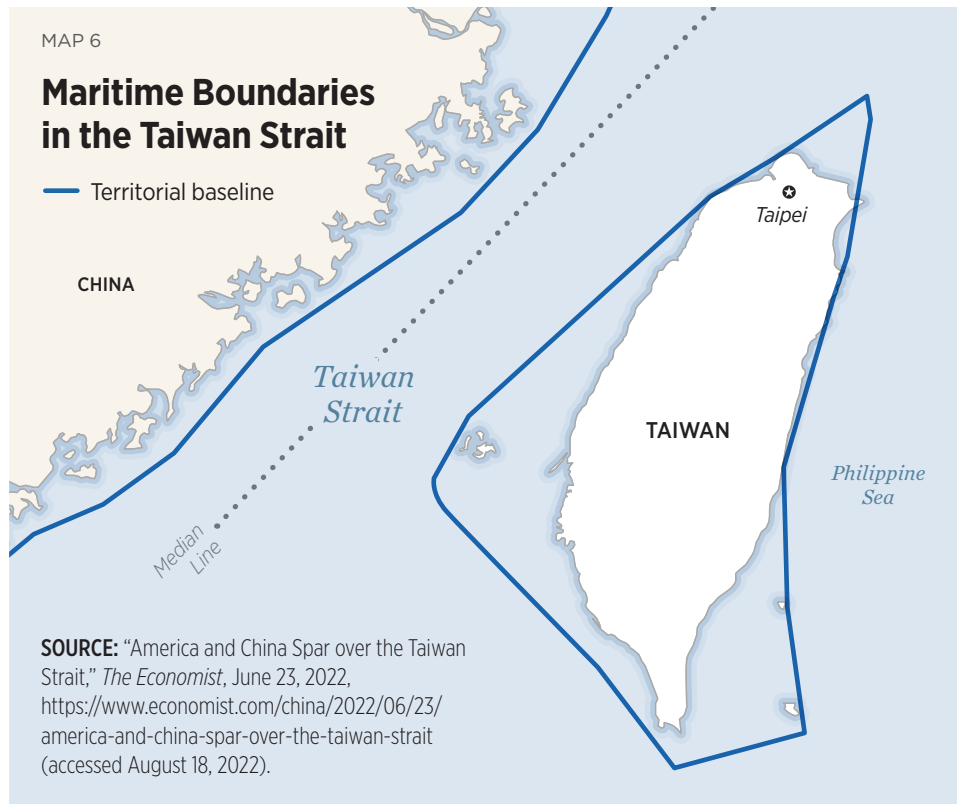
E. Exercise Global Leadership

Diminish China’s Threat to Taiwan.

Issue: Nowhere else in the world do the interests of China and the United States collide as directly or dangerously as they do in the Taiwan Strait. In recent years, the CCP has increased coercive military activities around the self-governing island, including live-fire military exercises, provocative missile testing, and encroachments into Taiwan’s EEZ. Since 2022, the PRC’s belligerence has reached new heights, conducting ballistic missile launches over Taiwan and conducting a mock blockade. If China’s stated goal of “reunification” with the island was to be realized, it would cement the PLA’s control of the Western Pacific, threaten critical interests of the U.S. and key allies, disrupt the global supply of semiconductors, and give the CCP unprecedented leverage over vital sea lines of communication and, therefore, the global economy. U.S. credibility among its regional allies and partners would be dealt a mortal blow, as would broader U.S. efforts to thwart China’s global ambitions.²⁴⁶

An armed conflict over Taiwan, whether the United States is directly involved or not, would be distinct from any conflict that generations of younger Americans have experienced, as it would inflict economic harm on every American household. Deterring the CCP’s aggression toward Taiwan must be an apex priority for U.S. foreign policy.

Action: The U.S. must deter China from any attempt to take Taiwan by force by expanding U.S. military capabilities in the Indo–Pacific and by providing robust political, diplomatic, and military aid to Taipei. The U.S.



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must demonstrate the resolve—and above all the capability—to support Taiwan against a Chinese invasion, up to and including direct U.S. military intervention. Further, the U.S. must work in partnership with the Taiwanese government to increase its own capacity to deter Chinese military adventurism and defend its territory. Finally, it must seek to persuade and incentivize Taipei to pursue the optimal strategies and military platforms necessary to defend the island.

Implementation: The U.S. government should push back on China’s efforts to distort the United States’ one-China policy and undermine the status quo in the Taiwan Strait. While avoiding any change in U.S. policy on the diplomatic status of Taiwan, the U.S. government should have a declaratory policy that unambiguously states its commitment to the peaceful resolution of disputes across the Taiwan Strait while demonstrating the capacity to support the defense of Taiwan. In addition to providing robust military support as required by the Taiwan Relations Act, the U.S. should deepen economic ties with the island, including by negotiating a free trade agreement to help Taiwan gradually to become less dependent on its trade

with China and open more business opportunities for U.S. companies.²⁴⁷ Following the authorization of up to \$10 billion of military aid to Taiwan over five years in the 2023 U.S. National Defense Authorization Act, the U.S. government must ensure that those funds are actually appropriated and are used to bolster Taiwan's defense by focusing on those capabilities that are most likely to be effective.

Impact: The most effective way to prevent a Chinese invasion of Taiwan is to convince Beijing of U.S. military superiority and its strong commitment to defending Taiwan without changing Taiwan's official status. This will secure a vital U.S. interest by denying China control of the first island chain and some of the world's most vital sea and air lines of communication that sustain global trade and supply chains.

Allies: The more that Taiwan enjoys the diplomatic space and engagement commensurate with its economic and geopolitical clout, the more the CCP will fear the international consequences of any reckless military intervention. The United States, along with other democratic states, should therefore ensure that Taiwan's diplomats can participate in discussions of relevant transnational issues. Taiwan should have meaningful participation at various international organizations, such as the International Civil Aviation Organization, the WHO, Interpol, and other entities that help to create and monitor international standards. The U.S. should also encourage other free nations to enhance their bilateral diplomatic and economic engagements with Taiwan, including establishing representative offices and free trade agreements where applicable. The Administration should set an example by accepting Taiwan's long-standing request to update the name of the Taipei Economic and Cultural Relations Office to the Taiwan Representative Office.

Enhance Regional Stability in Northeast Asia.

Issue: Countering China requires strong, confident, and secure regional allies in Northeast Asia, where both South Korea and Japan are critical economic partners and treaty allies hosting substantial U.S. military forces and personnel. North Korea, an ally of China, is a destabilizing threat to both these American allies. Beijing exploits its status as predominant economic trading partner to gain leverage over South Korea, Japan, and the United States.

Any future policy toward North Korea must respect two important U.S. interests: First, peace and stability in Northeast Asia is a vital U.S. strategic objective. North Korea must be deterred from military aggression against Japan, South Korea, or U.S. forces in the region. Second, the U.S.

cannot accept North Korea as a de facto nuclear power with the capacity to threaten the U.S. or its allies. This interest is critical to the defense of the American homeland and the future of the global nonproliferation regime. North Korea cannot be permitted to benefit from its blatant violations of U.N. resolutions and international law and threats of nuclear blackmail.

Action: The U.S. must eschew any effort to offer China concessions in exchange for cooperation on North Korea, explicitly rejecting linkages to other bilateral issues. Abandoning denuclearization as a policy objective would have significant repercussions. If the U.S. forswears denuclearization, it will undermine the 11 U.N. resolutions requiring North Korea to abandon its weapons programs in a complete, verifiable, irreversible manner.²⁴⁸ The U.S. should continually affirm its extended deterrence guarantee to Japan and South Korea while maintaining current levels of American forces in the region until the North Korean threats have been reduced. Washington should encourage Seoul to continue to improve its own deterrence vis-a-vis North Korea with an extensive conventional force build-up, including enhanced precision-strike capabilities and new missile defense systems. The U.S. should also work to strengthen South Korean, Japanese, and American trilateral cooperation on regional economic and security matters.²⁴⁹

Implementation: The U.S. government must craft an unambiguous policy to uphold U.N. resolutions and U.S. law requiring North Korean denuclearization backed by strategic and conventional deterrence. Arms control proponents mischaracterize denuclearization as requiring North Korea to abandon all its programs before receiving any benefits. In fact, denuclearization proposals call for incremental implementation over a period of years based on reciprocal actions.

Further, calls for an alternative “new” arms control approach are not all that new.²⁵⁰ North Korea has violated all its prior agreements.²⁵¹ The prospects for externally or internally fomented regime change are unrealistic. The U.S. must instead focus on continuing to seek a comprehensive agreement that retains denuclearization as a stated goal, implemented in verifiable incremental steps over time. This should be paired with the U.S. and allied efforts to protect their national security by augmenting and improving their deterrence and defense capabilities.

Impact: These efforts will help to deter North Korea from attacking American allies and interests in Northeast Asia and diminish Pyongyang’s ability for coercive diplomacy. Further, a stable Northeast Asia will make South Korea and Japan stronger allies in promoting a free and open Indo-Pacific and confronting threats from the CCP.

Allies: The U.S. must underscore the efficacy, viability, and practicality of a comprehensive approach to North Korea denuclearization with regional partners and allies. It must stress the importance of burden-sharing and joint economic and security cooperation to create a strong foundation for multilateral cooperation on North Korean policy.

Diminish the Value of Russia as China's Ally.

Issue: As one of Beijing's closest allies, Russia is a part of the China challenge. Russia has turned more decisively toward China since its 2014 invasion of Crimea, becoming one of Beijing's most important strategic partners in the process, providing energy, raw materials, market access, arms deals, geopolitical leverage, and support in international organizations. A strengthening entente between China and Russia presents the U.S. with a powerful adversarial coalition that seeks to challenge American interests in Europe, the greater Middle East, Latin America, and Africa, as well as to diminish U.S. influence in international institutions. As permanent members of the U.N. Security Council, Russia and China regularly work together to obstruct U.S. initiatives. Finally, Russian threats and actions destabilizing and weakening Europe create additional strategic challenges for the U.S. and NATO, distracting American attention and resources from focusing on diminishing the China threat.

Action: The U.S. must prioritize countering China in the Indo-Pacific while deterring further Russian aggression in Europe and diminishing Russia's capacity for military adventurism. To do so, the U.S. government must continue to stress the importance of burden-sharing among European partners and allies. As the U.S. focuses greater resources and attention on China and the Indo-Pacific theater, European states, particularly NATO members, will need to significantly increase their defense spending and capabilities. Furthermore, Europe must enhance its energy security by diversifying imports away from Russia, further limiting Moscow's influence over the continent.

Robust U.S. efforts to develop energy resources and increase U.S. energy export capacity will aid Europe's transition and further isolate Russia politically and economically. Ultimately, U.S. policy should strive to diminish the value of Russia to China. A progressively weakened Russia will add strain to the China-Russia relationship, forcing Beijing to carry a greater burden to sustain the partnership, although the PRC will simultaneously seek to benefit from Russian weakness, wielding increased leverage in negotiations over energy import prices and arms contracts, among other things.

Implementation: U.S. policy should promote the robust forward defense of NATO, a strong and independent Ukraine, a more resilient Georgia and Moldova, and greater Eastern European cooperation through the Three Seas Initiative.²⁵² The U.S. must continue to provide responsible military assistance to Ukraine with substantial transparency and accountability, push European capitals to provide more civilian and military aid, and press all parties involved to develop a responsible plan for reconstruction.²⁵³ Further, the U.S. must adopt robust energy policies that enhance European energy security.²⁵⁴

Impact: Bolstering European resilience against Russian aggression, further isolating Moscow and draining Russian finances, will serve U.S. interests, diminishing Moscow's capacity for aggression in Europe and allowing America to focus its energy and attention on China and the Indo-Pacific. Weakening and isolating Russia will make Moscow a less desirable partner for China, limit the two countries' efforts to co-opt and influence international organizations, and weaken their ability to work jointly to diminish U.S. influence and reputation. Seizing opportunities to showcase Russian atrocities and war crimes in Ukraine can increase the reputational costs to China for continuing to support a pariah regime in Moscow.

Allies: The U.S. must remain strong and capable in both the European and Indo-Pacific theaters, but it cannot provide adequate conventional deterrence in both without allied support. The U.S. must press all NATO members to expeditiously enforce their commitments to spend at least 2 percent of GDP on defense.²⁵⁵ Further, the U.S. must work with European partners to rebuild a robust and capable defense industrial base adequate to support NATO's long-term needs. Finally, the U.S. must press European partners not just to divest from Russian energy sources, but to adopt responsible energy policies that ensure reliable, affordable, and abundant energy in the future.

Expand Economic and Security Cooperation with India.

Issue: South Asia and the Indian Ocean are crucial theaters for countering China's expanding influence in the Indo-Pacific. India has become a vital U.S. partner in the region, a key strategic counterweight to China, and a cornerstone of U.S. efforts to advance a free and open Indo-Pacific. A foundational member of the Quad, India is a net-security provider in a region overseeing key lines of communication linking East and West across the Indian Ocean, "with nearly half of the world's 90,000 commercial vessels and two-thirds of global oil trade traveling through its sea lanes."²⁵⁶

India is also an important emerging economic partner for the United States, with bilateral trade reaching roughly \$150 billion annually. India is also a vital partner in confronting other regional challenges: The threat of transnational terrorism in the region remains acute, particularly after the Taliban takeover of Afghanistan in 2021. The long-standing nuclear-tinged India–Pakistan rivalry and tensions over the disputed territory of Kashmir continue to pose risks to regional stability.

Action: Strengthening the India–U.S. strategic partnership is critical both to U.S. interests in the region and to India’s ability to deter China at the disputed border. The U.S. should aid India in developing the capabilities necessary to prevent continued Chinese incursions across the Line of Actual Control and the naval capacity to remain a responsible steward of the Indian Ocean. Meanwhile, the U.S. must remain engaged with other regional powers—including Sri Lanka, Nepal, and Bangladesh—which remain strategically important and have experienced buyer’s remorse after assuming billions of dollars in loans from China. Finally, U.S. policy must be attentive to the risks of terrorism in the region and clear eyed and realistic about the perfidiousness of the Taliban regime in Afghanistan and Pakistan’s ongoing and highly problematic relationships with a wide range of terrorist and Islamist extremist groups.

Implementation: The U.S. should develop a new regional strategy for South Asia that resets American priorities in the region and enhances economic engagement.²⁵⁷ While U.S. economic engagement with the region, and India in particular, has grown exponentially since the turn of the millennium, the countries of South Asia still account for less than 3 percent of total U.S. external trade.²⁵⁸ While prioritizing the strategic partnership with India, the U.S. should continue to expand trade and investment opportunities with the rest of the region, improving defense cooperation, and promoting political and economic freedom. However, the U.S. must remain cognizant of the fact that regional capitals are wary of being seen as pawns in a larger geopolitical struggle between the U.S. and China.

Finally, in order to realize stronger cooperation with India on China, Washington should engage with New Delhi in setting an agenda for the Western Indian Ocean and Middle East. Looking west, India sees threats from piracy, a hostile Pakistani navy, and a new Chinese military base in Djibouti on the east coast of Africa. It also has a large diaspora population in the Middle East and is a major importer of energy from the region. The U.S. should be attentive to these concerns and collaborative opportunities, including through the India, Israel, United Arab Emirates, U.S. (I2U2) multilateral grouping.

Impact: A strong Indian–U.S. partnership, and sustained U.S. engagement with the rest of South Asia, will deter Chinese efforts to dominate the “Indo” half of the Indo–Pacific. Enhanced U.S. economic engagement with the region will provide regional capitals alternatives to dependence on Beijing, especially in the area of much-needed infrastructure development, where unfavorable terms and sovereignty-violating provisions of several agreements have exposed China to accusations of debt-trap diplomacy.

Allies: Strengthening the Indian–U.S. partnership, developing India’s role as a cornerstone of the Quad grouping, and enhancing India’s capacity to defend itself from Chinese military encroachments must remain top priorities for U.S. policy in the region. The State Department should also develop new “Quad-Plus” engagements in the region, inviting other South Asian powers to participate in select Quad activities, potentially as observers, on issues of mutual interest.²⁵⁹

Prioritize the Pacific Islands.

Issue: The Pacific Islands include Melanesia (the Solomon Islands, New Caledonia, New Guinea, Vanuatu, and Fiji), Micronesia (Guam, Northern Mariana Islands, the Federated States of Micronesia, the Marshall Islands, Palau, Nauru, and Kiribati), and Polynesia (Tuvalu, Samoa, Tonga, and a dozen other islands, including Hawaii). The Pacific Islands are strategically significant, forming a bridge between the U.S. state of Hawaii and East Asia. Any loss of U.S. presence and influence on the islands puts at risk critical economic and security air and maritime routes linking the U.S. to the Indo–Pacific. In recent years, China has made greater political, economic, and even military inroads into several Pacific Island nations, most notably signing a new security agreement with the Solomon Islands in March 2022.²⁶⁰ Beijing has also signaled its interest in the Pacific Islands by dispatching senior Chinese leaders on major tours throughout the region, offering discounted deals for infrastructure projects, and pushing for new security arrangements with regional governments.²⁶¹

Action: The U.S. should prioritize renewing the Compacts of Free Association (COFA) agreements with the Marshall Islands, the Federated States of Micronesia, and Palau through which the U.S. provides financial assistance in exchange for military access and responsibility for the defense of those islands. Citizens of those three islands serve in the U.S. Armed Forces. These COFA agreements are due for renewal in 2023 and 2024.²⁶² The U.S. should also explore options to sign new COFAs with Kiribati, Nauru, and Tuvalu.²⁶³ Maintaining exclusive defense access to these territories is critical to America’s defense posture in the Indo–Pacific.²⁶⁴

The U.S. must also deepen diplomatic and economic engagement with all Pacific Islands partners, and demonstrate sensitivity to their own interests and needs, which include economic development, fisheries management, and climate-change mitigation.

Implementation: The U.S. should take actions that will add momentum to the COFA negotiations: It should make the U.S.–Pacific Island Country Summit an annual event,²⁶⁵ and the President should tour the Pacific Island states. A U.S. President has never visited a Pacific Island state; meanwhile, Xi visited Fiji in 2014²⁶⁶ and Papua New Guinea in 2018.²⁶⁷ At a minimum, minister-level meetings must increase in frequency; Secretary of State Antony Blinken’s 2022 visit to Fiji was the first such visit by a Secretary of State since 1985,²⁶⁸ and former Secretary of State Mike Pompeo became the first U.S. Secretary of State to visit Federated States of Micronesia in 2019—despite a COFA agreement since 1986.²⁶⁹

In accordance with the 2023 National Defense Authorization Act, the U.S. should identify resources to provide Pacific Island partners with high-quality infrastructure projects.²⁷⁰ It should also encourage more Coast Guard engagement and agreements with Pacific Island nations to help to combat illegal fishing and establish a new Coast Guard station on American Samoa. Finally, the Administration should encourage the National Guard to form new state partnerships with Pacific Island nations and increase embassy and defense attaché representation throughout the region.

Impact: Improved political and economic engagement with the Pacific Islands will ensure continued U.S. military access to vital military bases and logistics hubs and prevent these strategically significant nations from dependence on the PRC, which can threaten vital U.S. interest in the region.

Allies: Several Pacific Island nations are having second thoughts about engagement with the PRC: Some states have terminated, rejected, or frozen high-profile Chinese investments while Chinese state aid to the Pacific Islands has decreased in recent years amid slowing Chinese growth.²⁷¹ The U.S. must seize the moment and take advantage of regional capitals’ desire for alternatives to the PRC. In addition, several U.S. partners and allies in the region have a shared interest in ensuring that the Pacific Islands remain sovereign, democratic, prosperous states free from dependence on China. The U.S. should emphasize joint action, specifically working with regional partners Australia, Japan, and New Zealand. Australia has been a particularly important partner, dispatching senior officials on regional tours and providing Pacific Island capitals with more than \$10 billion in official development assistance since 2009.²⁷²

Stay Engaged in Southeast Asia.

Issue: Southeast Asia is a dynamic and important region for the U.S. and the global economy. U.S. trade with the members of the Association of Southeast Asian Nations (ASEAN) in 2020 exceeded \$360 billion.²⁷³ ASEAN is a diverse grouping including democratic U.S. treaty allies like Thailand and the Philippines, important economic and political partners in Indonesia and Malaysia, emerging strategic partners like Vietnam, international pariah military regimes like Burma, and close autocratic allies of the PRC like Cambodia and Laos. Singapore remains a vital U.S. partner in the region, granting the U.S. military access to its naval and air force bases. China also maintains robust economic ties to ASEAN but has conflicting territorial claims with several of its members, including the Philippines.

In recent years the PRC has raised tensions in the South China Sea, whose sea lanes carry one-third of the global shipping trade, with unlawful and expansive territorial claims, military and grey-zone coercion tactics, and the construction of several militarized artificial islands.²⁷⁴ The PRC has also engaged in reckless behavior toward U.S. surveillance aircraft and clashed with the U.S. over U.S. freedom of navigation operations (FONOPs), wherein U.S. military vessels fly and sail through international waters and airspace to signal non-recognition of China's unlawful claims.²⁷⁵ Privately, Southeast Asian leaders reaffirm their support for U.S. FONOPs and America's ongoing military commitments in the region, even as they prefer to avoid publicly criticizing the PRC and incurring Beijing's wrath.

Action: The U.S. must remain diplomatically, economically, and militarily engaged with ASEAN and cognizant of its members' interests and concerns. ASEAN members are fairly consistent in their requests of the United States: Reaffirm ASEAN's "centrality" as the central convener of the region's various diplomatic forums, engage in these forums with senior political and military representation from the U.S., enhance trade and investment ties and join in the region's multilateral trade and investment initiatives, do not force ASEAN countries to choose sides between China and the U.S., and maintain a robust but non-provocative defense posture in the region as a hedge against Chinese militarism.

Most of these requests are reasonable and require modest commitments from the U.S. government, with the exception of U.S. ascension to regional trade agreements, such as the Trans-Pacific Partnership and Regional Comprehensive Economic Partnership agreement, which are currently politically untenable in Washington. Nevertheless, the U.S. retains a strong economic position in the region: While ASEAN trade ties with China have flourished, the stock of U.S. foreign direct investment (FDI) in ASEAN

countries was around \$330 billion in 2020, roughly five times China's stock of FDI in the region.²⁷⁶

Implementation: The U.S. should take measures to deepen engagement with ASEAN, including encouraging U.S. companies decoupling from China to consider Southeast Asian alternatives. The U.S. should also use tools at its disposal to help Southeast Asian capitals to find alternatives to China's BRI with high-quality, transparent, responsible infrastructure alternatives. The White House should make it a priority to attend or host ASEAN summits on an annual basis and ensure that other regional diplomatic forums are appropriately staffed.

The U.S. Navy should keep a robust pace of FONOPS in the South China Sea, ideally two per quarter, to both reassure regional partners of America's enduring commitment and signal to China that the U.S. will not be intimidated into abandoning its rights to fly, sail, and operate where international law allows. The U.S. should support efforts by Southeast Asian states to bolster their military and deterrence capabilities in light of the coercive military pressure that the PRC is applying to their maritime borders. The U.S. should support efforts to de-legitimize China's expansive territorial claims in the South China Sea, such as the Permanent Court of Arbitration ruling that invalidated China's "Nine Dash Line" claims in 2016.

Impact: The U.S. is unlikely to draw Southeast Asian capitals into any robust balancing coalitions, such as the Quad or AUKUS initiatives, but it can prevent regional capitals from being pulled too far into China's orbit by remaining economically, diplomatically, and militarily engaged in the region. ASEAN is an important center of economic and diplomatic activity for the entire Indo-Pacific, geographically linking South Asia and the Indian Ocean to East Asia and the Western Pacific. It is in America's interest to maintain military access in the region through basing and rotational arrangements in Singapore, the Philippines, and Thailand, while retaining robust economic ties with ASEAN.

Allies: The U.S. should look for opportunities to complement and engage with ASEAN on its ASEAN Outlook on the Indo-Pacific²⁷⁷ strategy adopted in 2019. The U.S. should ensure that it has senior representation at the ASEAN Regional Forum (ARF), East Asia Summit (EAS), and ASEAN Defense Ministers Meeting Plus (ADMM+). Finally, the U.S. should work with the Philippines to enhance and accelerate implementation of their Enhanced Defense Cooperation Agreement (ECDA), including through expanding U.S. access to new military bases in the Philippines and enhancing the U.S. presence at existing ones.

Establish and Resource an Atlantic Strategy.

Issues: Malicious activities by the CCP threaten America’s ability to defend its national interests, democracy, and free enterprise in the Atlantic area—a geopolitical and economic zone encompassing the Atlantic Ocean and the 80 littoral nations and territories from Greenland in the north to Antarctica in the south.²⁷⁸ China is an increasingly active player in the Atlantic space. In 2019, China, Russia, and South Africa held their first trilateral maritime exercise off Cape Town.²⁷⁹ In 2022, the PLAN joined other American antagonists, including Russia and Iran, in war games hosted by Venezuela.²⁸⁰ Chinese state-owned enterprises operate along the Panama Canal,²⁸¹ a choke-point for U.S. trade. The PRC may soon establish its first Atlantic Ocean naval base in Africa’s Equatorial Guinea.²⁸² China also declared itself an “Arctic power,”²⁸³ prompting the United States to increase its diplomatic presence in Greenland.²⁸⁴ China leverages its status as the top trading partner and, in many cases, the top financial partner for many African and Latin American countries along the Atlantic Ocean rim.²⁸⁵ Without a coherent, integrated national response, the U.S. could face greater threats from Chinese malicious activity in the Western Hemisphere in the years ahead.

Action: The U.S. should develop a comprehensive and coordinated Atlantic Strategy that mitigates potential Chinese threats and rolls back pernicious aspects of China’s influence. The Atlantic Strategy should harness America’s military, economic, diplomatic, and global leadership capabilities to ensure a stable, prosperous, and secure Atlantic region based on common economic, political, and security interests and shared values.²⁸⁶

Implementation: The U.S. should include an Atlantic Strategy as a priority in the next President’s *National Security Strategy* to ensure that policymakers across the U.S. government coordinate their respective responses to strategic challenges from the CCP. On the military front, the United States must enhance air, sea, undersea, space, intelligence, and cybersecurity cooperation with Atlantic partners to mitigate future threats from the CCP. Furthermore, the U.S. government must shift its foreign aid-based development model to one that promotes private sector-led wealth creation through robust commercial diplomacy, bilateral free trade agreements, and leveraging taxpayer-financed U.S. and international lenders to favor private companies over Chinese state-owned enterprises.²⁸⁷ The U.S. can host an Atlantic Summit of like-minded allies and designate the Undersecretary of State for Political Affairs to execute the strategy.

Impact: An effectively directed and resourced Atlantic Strategy should establish a comprehensive regional framework for addressing threats from the PRC in the Atlantic region. The strategy must promote greater synergy

and efficiency in employing U.S. capabilities in the theater while imposing additional costs on China for working against U.S. interests in the Atlantic and Western Hemisphere. An Atlantic Strategy would signal to U.S. partners and allies America's firm commitment to defend its interests and values in its own backyard.

Allies: The U.S. needs a core of like-minded leaders in Atlantic capitals to implement a proper Atlantic Strategy.²⁸⁸ Gibraltar (the U.K.), Greenland (Denmark), Honduras, Iceland, Portugal, Spain, and other NATO allies offer a strong Atlantic network of bases for military cooperation. Costa Rica, Guatemala, Panama, Paraguay, Uruguay, and Caribbean states remain strong hemispheric partners and targets for enhanced cooperation.

Expand Economic Partnerships in Eurasia.

Issue: China is expanding strategic and economic engagement with countries throughout Eurasia, as it increasingly challenges American global leadership. Major Chinese projects, such as the BRI, have undermined regional stability and the economic health of several participating nations. As a result, a growing number of regional capitals have soured on the BRI.²⁸⁹ While there is widespread recognition of the value that a modern Silk Road could bring to the region, many capitals are uncomfortable with the terms of the arrangement and Chinese control over the initiative. This discomfort creates an opportunity for the nations of North, Central, and Southern Europe, the Caucuses, and Central Asia to pursue alternatives to secure their futures. The U.S. is well suited to collaborate with regional capitals, even as it advances its own economic and strategic interests.

Action: The U.S. should support Eurasian development through four interrelated projects: (1) the European Three Seas Initiative (3SI); (2) the reconstruction of Ukraine; (3) an international campaign for a "free and open" Black Sea; and (4) the "Middle Corridor," an expanse of energy production and distribution, value-added supply chains, and transport infrastructure stretching from Central Asia to the Mediterranean. Together, the four projects will serve as a new backbone of prosperity linking East and West.²⁹⁰

Implementation: The U.S. should proactively support, and encourage private-sector firms to participate in, the 3SI, which invests in Eastern European physical, energy, and digital infrastructure through commercial enterprises rather than state-directed infrastructure programs. This support will offer participants a more dynamic, imaginative, responsive, and sustainable development model. The 3SI is a vehicle for attracting global private capital, investing in a responsible manner that respects the rule of law and transparency, and

offering a clear alternative to the development options offered by Beijing. The U.S. should also materially contribute to a “free and open” Black Sea.²⁹¹ An evolving yet critically relevant dimension to the 3SI is a trade route called the “Middle Corridor,” which encompasses linkages from Europe to the Caspian Sea, Azerbaijan, and Georgia, and from there, via the Black Sea, to Türkiye. The U.S. should encourage and support corridor development.²⁹²

Impact: The 3SI can offer the United States and Europe a concrete, alternative engagement model to the BRI in Central Europe and China’s faltering “16+1” development framework. The 3SI could also strengthen dual-use infrastructure for the forward collective defense of NATO. With support, the Middle Corridor could emerge as an alternative transcontinental trade route. A high-functioning Middle Corridor would give the whole of Europe resilient and diversified supply chains, new sources for energy diversification and energy security, and new opportunities for value-added manufacturing and resource development.

Allies: Proactive U.S. economic engagement would be welcomed by regional partners as a counterbalance to China’s expanding power and influence. Regional capitals desperately want new investments, but they also want options. The postwar reconstruction of Ukraine, coordinated in part through the 3SI, will speed European integration and political stability. That effort, paired with working for a “free and open” Black Sea and a high-functioning Middle Corridor, would give the whole of Europe resilient supply chains that are diversified from China and Russia. This is a game plan for regional prosperity and stability—and an opportunity that the U.S. government should seize on.

Establish a Quad Select Initiative.

Issue: The U.S. must foster an enduring, resilient regional coalition that challenges the expansion of Chinese power and influence in the Indo-Pacific while offering alternative leadership to the region. This group of like-minded nations must protect freedom of the commons, champion human rights, and foster alternative development paths based on economic freedom and resilient physical and digital infrastructure. The Quad is a critical diplomatic initiative joining Australia, India, Japan, and the United States. All four countries are committed to promoting a free and open Indo-Pacific, encouraging responsible environmental stewardship, protecting human rights, and fostering responsible infrastructure development. These elements form a capstone diplomatic framework for U.S. engagement in Asia, a coordinating structure that sits atop a network of trilateral and bilateral consultations.²⁹³

Action: To enhance the Quad even further, the Quad should consider expanding the network to include pursuing “Quad Plus” activities with like-minded nations.²⁹⁴ Where appropriate, other nations can be selectively invited to join Quad meetings, initiatives, and even military exercises, improving coordination and joint planning activities among a network of strategically aligned democracies in the Indo–Pacific.²⁹⁵ Separately, a new “Quad Select” initiative could add a more proactive economic dimension to the Quad. As the U.S. and other countries move toward greater decoupling from China, Washington should encourage the flow of investment, trade, and joint production toward Quad countries and select partners. At the same time, the four Quad capitals should collaboratively work to complement and enhance the Blue Dot Network and the Clean Network initiatives to promote responsible infrastructure and digital networks throughout the Indo–Pacific.²⁹⁶

Implementation: Rather than being limited to the bureaucracy and mandates of complicated regional free trade agreements, a Quad Select initiative would enjoy an open architecture facilitating deal-making and development within a community of like-minded nations. This community would value the principles of economic freedom, rule of law, and human rights and would reject the CCP’s predatory economic practices. Under the direction of the White House, cabinet officials would be charged with coordinating joint action and coordination of infrastructure investments that would have strategic impact and deliver a responsible financial return on investment. These projects could serve as pilot programs and blueprints for additional private-sector initiatives and cooperation. Educating and consulting with the private sector, and building support within Congress, will be critical to success.

Impact: A Quad Select initiative would enhance the scope, agenda, and profile of the existing Quad, and accelerate U.S. efforts to provide credible, responsive, and impactful alternatives to China’s BRI and its exploitation activities. It would strengthen trust and confidence among U.S. partners while contributing to economic growth and dynamism among a community of like-minded nations in the Indo–Pacific.

Allies: A new Quad Select initiative, working alongside the BDN and Clean Network initiatives would help to encourage and channel investments toward the four Quad core member countries and select partners across the Indo–Pacific, including the Pacific Islands.

Improve U.S.–Canadian Bilateral Cooperation.

Issue: The U.S. and Canada share borders, infrastructure, supply chains, natural resources, and responsibility for the protection of North American air and maritime space. Threats from China that affect one materially affect the other.

This reality necessitates greater U.S.–Canadian cooperation and shared threat assessments of China. Progress is being made. In addition to a new Indo–Pacific Strategy that frames China as a “increasingly disruptive global power,”²⁹⁷ Canada is also raising concerns over Chinese-linked radio deals and ordering China to divest from Canadian mining companies.²⁹⁸ Canadians were also alarmed by the unlawful detention of two Canadian citizens by the Chinese regime in 2018 for 1,000 days.²⁹⁹ But while awareness of China’s malign intentions is growing among U.S. partners and allies in the Indo–Pacific and Europe, Canada lags behind major strategic partners in appreciating the scope of the China challenge.

Action: A more proactive U.S. response to threats from the CCP will help to spark Canada’s own awakening. The U.S. government, private sector, and civil society must engage more proactively with Canada at the national level, as well as with provincial and local governments, to highlight growing threats posed by the CCP and press for joint action. In particular, the U.S. must seek to build consensus and operationalize efforts to counter China’s growing role in the Arctic, screen sensitive Chinese investments in North America, and resist repressive and subversive Chinese activities, particularly in universities and other civic institutions.³⁰⁰

Implementation: The U.S. should support implementation of Canada’s Indo–Pacific Strategy provisions that combat Chinese influence and nefarious practices in North America. While Canada has had policy disputes with China in recent years, the Canadian government has also attempted to improve its ties with Beijing and sought to expand trade with the CCP.³⁰¹

Impact: The U.S. should not expect immediate or dramatic shifts in Canadian policy. As in the United States, a change in Canada’s approach to China will not happen overnight. It will take patience and tenacity to build consensus and create the basis for implementing new policies. Successful efforts will further position Canada as a strong U.S. ally in securing their shared border and the Western Hemisphere from nefarious CCP influence.

Allies: Including Canada in international dialogues and multilateral decisions related to China will increase Canada’s resilience. As Canada is one of the United States’ strongest allies, U.S.–Canadian measures to combat China should be integrated and coordinated as closely as possible.

Facilitate Strategic Economic Partnerships with Deal Teams.

Issue: China engages in mercantilism, using the power of the state to achieve economic benefits for both state-owned and privately owned Chinese companies. The CCP works actively to aid and subsidize Chinese firms to win business deals, both abroad and when competing with foreign firms in China’s domestic market. China’s development deals and “packages” can

take several forms, including below-cost pricing and market-rate financing, government grants in unrelated areas, military assistance, and illicit or corrupt cash transfers. Many of these deals not only put the United States at a disadvantage, but also undermine governance, prosperity, stability, and rule of law in the affected countries. The U.S. government, by contrast, does not own, control, or aid businesses in the same ways, often putting U.S. firms at a competitive disadvantage. Further, traditional instruments of U.S. government economic engagement and assistance are inadequate to sustain and win a strategic competition with China.³⁰²

Action: The U.S. should create effective government interagency coordination mechanisms, including re-energizing the Deal Team Initiative (DTI), which supports U.S. firms competing with foreign firms backed by foreign governments.³⁰³ The U.S. government has considerable resources with which to aid American businesses while upholding free-market principles. Sometimes this assistance is required to level the playing field with foreign competitors that receive assistance from their governments. Other times, the U.S. has strategic or national security interests at stake that draw government interest in business transactions. Failure to support U.S. business in sensitive transactions can allow Chinese companies to acquire unfair advantages, forcing U.S. firms to cede opportunities and market share while U.S. consumers become more reliant on Chinese products.

Implementation: Deal Teams should consider the strategic competition with China, and transactions relevant to that competition and U.S. national security, as their overwhelming priority. The Department of State's Economic Undersecretariat and the Department of Commerce's International Undersecretariat manage the DTI. Coordination includes representatives from 13 government agencies.³⁰⁴ The Administration should coordinate Deal Team activities with the National Security and Domestic Economic Councils, integrating actions with the Administration's broader China strategy. It should ensure that Deal Teams in Washington, regionally, and at foreign embassies focus on nearshoring and friendshoring, with particular emphasis on Northern, Central, and Southern Europe, and partner countries in the Americas, the Caucuses, and South Asia.³⁰⁵

Impact: Revitalizing the DTI can help to level the playing field for U.S. firms, enhance the dynamism of the U.S. economy, and strengthen America's hand in its competition with China. It will provide a means to operationalize other nearshoring and friendshoring initiatives and counteract CCP advantages in deal-making. U.S. businesses will benefit by receiving government support in ensuring that foreign countries adhere to free-market principles and allow U.S. entities to fairly compete in the global marketplace.

Allies: Many countries across Europe and the Indo–Pacific have been targets of Chinese economic abuses and coercion.³⁰⁶ The U.S. should emphasize that DTI helps to promote a fairer global marketplace, leveling the playing field for non-Chinese firms. The U.S. should encourage partners—including members of the Quad and nations participating in the Abraham Accords and the 3SI—to promote their own initiatives, emphasizing that government intervention and support should be restricted to cases where domestic firms are competing with unfairly subsidized Chinese firms or to cases where there are overriding national security priorities.

Part III: Next Steps for the U.S. Government

In summary of key actions from Part II, in order to resist the malign influence of the CCP and to prepare for the threats that the regime poses, the U.S. government must:

Protect the Homeland. To protect the homeland, the U.S. must:

- **Improve cooperation and coordination** among federal, state, and local governments to combat China’s growing influence and malicious practices in the U.S.;
- **Insulate U.S. universities and research institutes from** nefarious Chinese influences, close down the Confucius Institutes, and curtail access to sensitive research programs by Chinese nationals;
- **Crack down on illegal Chinese police operations** in the United States, including by reinstating the Justice Department’s China Initiative;
- **Ban Chinese apps**, including TikTok, that pose national security risks;
- **Prevent Chinese entities from purchasing U.S. land** with strategic value or near sensitive military and civilian installations;
- **Ban CCP lobbyists and increase penalties on** U.S. citizens and non-citizens for failing to disclose foreign lobbying activities;
- **Increase pressure on the CCP to curb fentanyl exports** to the U.S. and improve security at the lawless southern border;

- **Institute federal prohibitions on federal agencies from purchasing, operating, or deploying Chinese drones** and advise state and local governments against using Chinese drones; and
- **Ban dual-capable life-science technology transfers** to China that pose biotechnological threats.

Safeguard and Advance U.S. Prosperity. To protect U.S. prosperity, the U.S. must:

- **Facilitate robust U.S. growth** and protect the U.S. economy from Chinese economic coercion while promoting sustainable, responsible spending;
- **Reform restrictive environmental statutes** and improve business incentives to expand domestic critical mineral mining and processing;
- **Restructure CFIUS to expand review jurisdiction and enforce criteria** that allow the U.S. government to better risk-manage inbound investments, particularly from the PRC;
- **Enforce a PRC-focused IP blockade in technologies** with military applications, including biotechnology;
- **Ensure reliable semiconductor supply chains** by encouraging greater investments in semiconductor manufacturing capacity in the U.S. and sourcing from non-adversarial countries;
- **Encourage strategic industries to shift operations out of China** and back to the U.S. or non-adversarial states;
- **Pursue U.S. energy security** and combat counterproductive climate policies; and
- **Encourage corporate boards to adopt anti-CCP measures** and reject ESG policies that undermine U.S. competitiveness.

Reorient America's Defense Posture. To reorient its defense posture, the U.S. should:

- **Enhance conventional deterrence and nuclear deterrence** and revive the U.S. defense industrial base to support a defense posture sufficient to meet the China threat;
- **Capitalize on the Taiwan Enhance Resilience Act's authorities** to prioritize the delivery of munitions and backlogged weapons systems to Taiwan;
- **Repeal and replace the Jones Act**, which hinders the U.S. shipbuilding and shipping industries; and
- **Align national security spending with national security priorities** by reallocating funds to the Indo-Pacific through the appropriations process.

Diminish the CCP's Influence and Hold It Accountable. To diminish the CCP's influence, the U.S. should:

- **Enhance restrictions on U.S. investments in China** in sensitive industries and increase penalties for non-compliance;
- **Expand export controls of sensitive technology to the CCP** and reform underperforming enforcement mechanisms;
- **Review China's compliance of U.S. and WTO agreements** for violations that may warrant revoking "most favored nation" status;
- **Employ limited tariffs and non-tariff barriers** to compel the CCP to end unfair and predatory economic practices;
- **Investigate the origins of, and China's culpability in, the spread of COVID-19** and hold Beijing accountable;
- **Counter China's growing influence in international institutions**, particularly where it directly infringes on U.S. interests and seeks to shape consequential laws and norms in its image;
- **Emphasize China's human rights violations**, including religious persecution, and sanction complicit Chinese officials and entities;

- **Reinvigorate the Blue Dot Network** as a counter to China's BRI and separate it from the Build Back Better World initiative; and
- **Draw international attention to Chinese illegal fishing practices**, their sovereignty violations, and their impact on regional fishing stocks.

Exercise Global Leadership. To exercise global leadership, the U.S. must:

- **Deter China from using military force against Taiwan** while supporting enhanced engagement between Taiwan and the international community;
- **Maintain denuclearization as an explicit goal of North Korea policy** and reject Chinese attempts to extract concessions for cooperation on the Korean peninsula;
- **Diminish the value of the China–Russia alliance by weakening Moscow**, including through the provision of arms to Ukraine;
- **Prioritize the Quad grouping** joining Australia, India, Japan, and the U.S. and look to create a new Quad Select initiative to guide infrastructure investments to Quad countries and select partners;
- **Develop a new regional strategy for South Asia that prioritizes the India–U.S. strategic partnership** and enhances India's ability to serve as a net security provider and deter Chinese military adventurism along their border;
- **Position the U.S. as the partner of choice for Southeast Asia** and maintain a robust economic and security presence in the region;
- **Produce an Atlantic Strategy that reaffirms American leadership** and combats China's expanding influence in the Western Hemisphere;
- **Bolster the development of the 3SI, Ukraine's reconstruction through the Middle Corridor, and the free and open Black Sea initiatives** to counter Chinese regional influence;

- **Cooperate with Canada to restrict China's growing role in the Arctic** and its subversive activities in North America;
- **Revive the Deal Teams Initiative** to assist U.S. firms in making strategic investments abroad; and
- **Commit to a new era of U.S. engagement with the Pacific Islands** and renew important defense pacts with the Marshall Islands, Palau, and the Federated States of Micronesia.

This plan describes the ends, ways, and means that, combined, will secure America's future while confronting the greatest external threat the U.S. has faced since the collapse of the Soviet Union.³⁰⁷ To achieve success, this plan requires an offensive-defensive mix of actions, including vouchsafing Americans and their interests from Chinese actions that undermine U.S. competitiveness and prosperity. While a spectrum of actions is required, the economic component of this competition is critical. In the end, raw economic power will help to determine the outcome of this contest.

This plan requires real and sustained U.S. growth, greater political will, stronger external partnerships, synchronized economic and security policies, resilient supply chains and borders, adequate military deterrence, and American energy independence. It also requires buy-in from the whole of American society. In order to galvanize a whole-of-nation effort, the U.S. government must educate the American public and business community, from Main Street to Wall Street, about the scope of the CCP's threats.

The measures outlined in this plan are comprehensive and ambitious. They will require coordinated action across multiple government agencies and Congress, state and local governments, and partner nations. Ultimately, however, China is foremost an Oval Office problem: The U.S. President must exercise leadership in directing a national plan, as the President's predecessors did during World War II and the Cold War. The President must galvanize Congress to act.

The President's Domestic Policy Council and National Security Council are appropriate instruments for coordinating interagency measures. That is precisely the role these two bodies were created to play. They must take responsibility for operationalizing government strategy into action. The councils and their staff are more than clearinghouses for consolidating inputs to the President. They must serve as instruments of implementation, organization, and staffing to serve this function. Furthermore, they must share the President's vision on the scope of the threat and the necessary

responses. The President's Cabinet and National Security Advisor must have the skills, knowledge, and attributes to oversee effective execution.³⁰⁸

The PRC is confronting the U.S. with new challenges in new domains every year, seemingly one step ahead of lawmakers. Poor enforcement of existing laws is arguably as much of a problem as the lack of new legislation and authorities. Agencies and departments with key responsibilities for managing the China challenge are understaffed, undertrained, under-resourced, or suffer from poor leadership and misguided priorities.

The role of Congress is also crucial. Effective action will require more than just liaison and negotiation with congressional leaders. The Administration must be proactive in educating and engaging congressional Members on the responsibilities and realities of dealing with an assertive China. Conversely, Congress must hold the executive branch accountable and should require all federal agencies and federally funded institutions to provide annual reports on any aid, loans, and technical or monetary assistance currently that they provide to the CCP or CCP-linked individuals or entities, including in science and health.

Congress also needs to do a better job of ensuring that executive branch bureaucrats enforce legislative policy actions. Too often, the Treasury and Commerce Departments have skirted their national security responsibilities by failing to enforce legislation related to export controls and inbound investment screening. What is more, both Congress and the Administration need to do a better job of supporting U.S. companies that face intimidation and theft or eviction from the Chinese market by the CCP or that seek to offshore their operations to safer destinations.

Meeting the China challenge will require an unprecedented degree of coordination among federal, state, and local governments. At a federal level, responsibility falls not just to the Departments of Justice, Defense, and Homeland Security—the scope of the China threat necessitates involvement from the Departments of Commerce, the Treasury, and Education, as well as the Cybersecurity and Infrastructure Security Agency. The Office of the Director of National Intelligence, the Securities and Exchange Commission, and the Federal Trade Commission will also have important roles to play, among others.

Chinese efforts to penetrate, exploit, manipulate, and influence officials and legislators at all levels of government is a persistent and obvious problem. Therefore, implementation of countermeasures must be accompanied by robust counterintelligence, law enforcement, and operational security. This implementation must address both overt lobbying and public activities as well as illegal influence peddling and would be aided by reviving the Department of Justice's China Initiative.

The U.S. government should also redouble its efforts to communicate with the Chinese people with Mandarin-language programming, including through Radio Free Asia. During the Cold War, Radio Free Europe was an oasis for anti-Communist dissidents in a desert of Soviet censorship and propaganda. Radio Free Asia could serve a similar purpose, but Congress would have to increase its Mandarin-language budget considerably.

Proper implementation of this plan will require a vast number of coordinated actions. Leaders that try to do everything at once, without adequate preparation and prioritization, tend to accomplish little. Sequencing actions and initiatives is crucial. The decisions made on how and when to take action are often as, if not more, consequential than the actions themselves. The first priority remains getting the right leaders in place to execute the plan. It is the responsibility of the core leadership to then take ownership of the plan and make the critical decisions of sequencing action and implementation.

Finally, many initiatives in this plan recognize the need for consultation, cooperation, and action with allied and partner nations. While the U.S. State Department plays a key role in the conduct of foreign affairs, proper implementation of a plan this vital to U.S. national security requires the U.S. President to direct timely, informative, and impactful engagement with other nations, using all the instruments of national power at the government's disposal.

The Way Forward

Michael Pillsbury, PhD

Some of the more avid readers of “Winning the New Cold War: A Plan for Countering China,” may well be in Beijing. Studying the enemy is a hallmark of Chinese strategy and statecraft. Sun Tzu’s *Art of War* advised that the best strategy is *fa qi mou*, meaning to “counter the enemy’s plans.” To do that, one must first identify the enemy’s strategy.

Beijing works hard at this goal. Chinese authors—and General Secretary Xi Jinping himself—claim that America today has adopted a “Cold War mentality” toward the Chinese Communist Party (CCP). Xi frequently warns that this alleged mentality mirrors the strategy the Americans used to overthrow the Soviet Communist Party during the Cold War with the USSR.

With this release of The Heritage Foundation’s new *Special Report*, the CCP now has something to attack: a transparent plan to win the New Cold War. What the Chinese leadership may not understand is that Heritage does not propose copying the Cold War ideas of George Kennan’s 1947 “X Article” or Paul Nitze’s “NSC 68” from 1950. This is a new plan tailored to a new adversary.

The authors of this *Special Report* hope that the U.S. government, state and local authorities, leaders in the private sector and civil society, and international allies and partners will help to implement this plan as quickly and comprehensively as possible. It would be a blow to China’s quest for global dominance.

That said, calibrating a new strategy will not come easy for Washington. The U.S. government’s weak response to the China challenge is deeply ingrained after all these years. Meanwhile, the Chinese leadership will start planning new actions even before the U.S. can begin to implement any new strategy.

China has a 3,000-year history of rising powers that toppled the old hegemon to create a new dynasty. Xi Jinping often quotes ancient authors, such as Han Fei Zi, to illustrate how the greatest dynasties were established by creating complacency and confusion in the mind of the old global leader. Xi has said many times that traditional Chinese history inspires his strategy.

China’s friends in the U.S. claim that there is no threat, that China is weak and may collapse soon, and that Americans must be calm about the new global order that China plans to create. They deny that China has any ambitions to replace America as the top global power. According to books written by eyewitnesses to history, such as John Bolton, Jared Kushner, and Peter Navarro, when Xi Jinping sat down with President Donald Trump to

enjoy a steak dinner at the G-20 Summit in Buenos Aires in 2018, Xi said that China's strategy was no "100-year marathon." China, he said, had no plan to replace America as the global leader.

American strategy must never be based on an adversary's assurances.

In the years ahead, China may seek to escalate tensions, which will require even more adjustments to U.S. strategy. After all, most Americans today believe that the U.S. China strategy failed because the U.S. government widely assumed China to be its friend, forever on the verge of major political and free-market reforms. Even Ronald Reagan, arguably America's most anti-communist President, famously said in 1984 that he had just visited "so-called Communist China." While I was serving as Reagan's policy planning chief in the Pentagon, he directed the U.S. government to sell weapons and share intelligence with China. It did.

Reagan's Secretary of the Navy, the respected conservative John Lehman, has written proudly about his transfer of high-tech Mark 46 torpedoes to Beijing for use in Chinese submarines. Chinese sources say that one American Secretary of State even offered a nuclear umbrella to China. Many Americans today cling to this obsolete strategy of aiding China. How else can one explain the assumption of friendship that motivated American funding for "gain of function" research in that Wuhan virology laboratory?

The New Cold War has begun because China has become the most capable and dangerous enemy the U.S. has faced since the end of World War II. The U.S. must acknowledge and respond to this reality. Dwight Eisenhower may have said that "no plan survives contact with the enemy," but he also observed: "Plans are worthless, yet planning is everything."

It is impossible to plan ahead of the enemy without a planning guide. When the U.S. entered World War II, Eisenhower (who, as a young Army officer was responsible for overseeing the original planning) knew his plan was far from the last word in determining how to beat a formidable, thinking, determined enemy. The U.S. today must be just as flexible and adept in its determination to alter its plans as needed to win the New Cold War against China.

There is bipartisan support for actions to protect the U.S. economy from China and to diminish Beijing's capacity to harm Americans and their interests. In the years ahead, The Heritage Foundation will draft model legislation for some of the proposals in this *Special Report* to assist government leaders in rapid implementation of the plan. Heritage will also provide research and policy support to state and local governments, some of which have already begun to take action by banning the use of Chinese-controlled

social media apps, the purchase of Chinese drones by government entities, and Chinese purchases of farmland near sensitive military installations.

These are the tactical fights that are necessary to win the next battles. However, the U.S. also needs to stop simply reacting to threats from China. The U.S. needs to be one step ahead, anticipating Chinese countermeasures and future plans.

Part of the Heritage Foundation's work to confront the CCP will involve expanding Heritage's China Transparency Project, working with like-minded partners around the world to highlight, through open-source (unclassified, publicly available) intelligence, what China is currently doing, what it might do next, and how U.S. actions with allies and partners are affecting its calculations.

In addition, I will lead a comprehensive project at Heritage to do something that has never been successfully accomplished in the unclassified world: building an index to assess the relative national power of the U.S. and of China. The *Index of Strategic Competition* will measure indicators of military might, economic wealth, and political influence in an objective, standardized manner. The intent is to improve understanding of how both Chinese and American leadership conceptualizes and employs national power. The *Index* will allow Heritage analysts to track the status of the competition from year to year and anticipate new measures that the U.S. must take to ensure victory in the New Cold War. Americans must understand that China has already surpassed America in many of these indicators.

In Part I of this *Special Report*, my colleagues did a fine job evaluating much of the contemporary analysis on the U.S.–China competition. I am proud that they included my work and analysis over the decades studying official, original Chinese strategic planning documents, many of them still little known in the West. A future Heritage Foundation goal is to provide a cogent list of the strengths and weaknesses of both sides, crafting a master plan that exploits China's weaknesses and diminishes their strengths, while protecting and enhancing American power.

“Winning the New Cold War: A Plan for Countering China” is an important first step, not a “one and done” document. This plan represents the current to-do list. Future recommendations will focus on how to adapt and operationalize U.S. strategy and how to organize and equip like-minded allies—from local communities to global partnerships. Given the goals of the CCP, much work lies ahead.

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