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China's Global Influence and Interference Activities

Panel: Chinese Influence and Interference by Sector

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Introduction

Hearing Co-Chairs Wessel and Borochoff, distinguished commissioners and staff of the U.S.-China Economic and Security Review Commission, and fellow panelists, it is an honor to participate in today's hearing.

I aim to emphasize four fundamental points in my remarks:

- China's global influence campaign includes an industrial influence campaign. This campaign develops and exerts leverage over key international financial and economic players in the international system in order to shape government policies.
- Beijing's industrial influence campaign exists within the Chinese Communist Party's (CCP's) broader international industrial offensive, which seeks to weaponize the interdependencies of a globalized environment to secure asymmetric dependence and, with it, coercive power.
- The Chinese Communist Party pursues its industrial influence campaign by leveraging market, capital, and supply chain and technological reliance, thereby threatening the integrity of international political and economic systems as well as the market-based global trading system.
- Congress is uniquely situated to respond. While no established tools or fora exist for countering Beijing's industrial influence campaign, it is an area that demands American leadership — specifically in the trade and investment policies that fall within Congress' mandate.

Just weeks ago, in a press conference on the sidelines of the Two Sessions, Chinese Foreign Minister Qin Gang issued a not-so-subtle warning to the United States about confrontation with China — and its consequences for American industry:

> The American people, like the Chinese people, are friendly and simple, and all pursue a happy life and a better world. When I was working in the United States, the dock workers at the Port of Long Beach in Los Angeles told me that the livelihoods of their whole families depended on the freight trade with China and that the United States and China should prosper together. Farmers in Iowa told me that there are still many hungry people in the world, and they want to grow more food to meet that demand.[1]

Qin was addressing escalating U.S.-China tensions and, in particular, Washington's decision to shoot down Beijing's spy balloon transiting over the continental United States in February 2023. The message was simple: For Washington, confront Beijing and domestic economic interests will suffer; for American industry, resist a U.S. China policy that could degrade U.S.-China economic ties.

[1] "外长记者会｜秦刚：遏制打压不会让美国变得伟大，更阻挡不了中国迈向复兴的步伐 [Qin Gang: Containment and suppression will not make the United States great, nor will it stop China from moving towards rejuvenation]," *Chinese Ministry of Foreign Affairs*, March 7, 2023. (https://www.mfa.gov.cn/wjbzhd/202303/t20230307_11036890.shtml)

Such messaging is by no means anomalous for Beijing vis-à-vis the United States or the international system more broadly. The Chinese Communist Party routinely leverages its industrial might, and the world's dependence on it, to shape market behavior and government decision-making globally.

Among other lines of effort, this approach involves an industrial influence campaign. Beijing builds and exerts influence over key international financial and commercial actors in order to shape the political ecosystems in which they have clout. Beijing does so by leveraging investment, market access, and supply chain and technological dependencies. Few clearcut tools or fora exist in the United States, let alone internationally or multilaterally, to respond. The Chinese Communist Party's industrial influence campaign weaponizes the interdependencies of a globalized world. Those interdependencies are perpetuated by government and private sector incentives and codified in international rules — including trade law. And while Beijing subverts those rules, they also stymie efforts on the part of rule-followers to respond to China's industrial offensive.

In the following, I will first outline what China's industrial influence campaign entails: How it operates, targeting whom, and to what ends. I will then point to some concrete cases to illustrate the campaign at work in the United States and internationally. I conclude with a roadmap for action: Key lines of effort for the United States as it works with allies and partners to counter China's industrial influence campaign — and to shore up the integrity of the global market.

Defining China's Industrial Influence Campaign

The Chinese Communist Party's industrial strategy hinges on taking advantage of an era of global interdependence to secure asymmetric dependence. The goal, very simply, is to ensure that the world depends more on China than China does on the world. Such positioning promises Beijing relative insulation from reprisal as it expands its international footprint. Such positioning also promises the ability to compel and to coerce — whether at the commercial level, in terms of securing access to strategic and critical technology and information, or at the geostrategic level.

This strategy manifests, among other ways, in Beijing's international industrial influence campaign: The CCP positions to leverage industrial dependencies in order to shape the actions of international financial and commercial players — and in doing so to affect national and subnational government policy.

What Industrial Influence Isn't

Beijing's industrial influence campaign is just one element of China's larger subnational, national, and international influence effort.[2] It is also just one discrete manifestation of China's broader economic and industrial offensive.

[2] Emily de La Bruyere and Nathan Picarsic, "All over the Map: The Chinese Communist Party's Subnational Interests in the United States," *Foundation for Defense of Democracies*, November 15, 2021.

Industrial influence here does not refer to the CCP's weaponization of dependence on the part of non-financial and non-commercial players, as with institutions of higher education or media outlets. I leave those activities to my esteemed colleagues on this panel and renowned experts testifying on other panels in this hearing.

Nor does industrial influence cover operations in the commercial and financial space that serve purely industrial ends, such as forced technology transfer and data localization. And it does not cover actions that leverage economic dependencies directly to influence national government behavior, as with Beijing's 2010 decision to restrict exports of rare earths to Japan over a geopolitical dispute or its 2022 decision to sever trade with Lithuania in retaliation for Vilnius' Taiwan policy.[3]

Such cases of economic coercion are absolutely important in China's overall positioning and in understanding and shoring up corresponding international vulnerabilities. For the purposes of this testimony, I have narrowed in on Beijing's less obvious — and more nefarious and impactful — industrial influence campaigns. Blunt actions, as directed at Japan and Lithuania, tend to be explicit. They receive newspaper headlines and spark action. China's industrial influence campaign is more obfuscated, less documented and less straightforward to document, and, in many cases, designed precisely to prevent action.

What Industrial Influence Is

The Chinese Communist Party's industrial influence campaign involves first, building ties with industrial actors positioned to deliver influence over their government ecosystems and second, exerting pressure on them to affect policy at the national and subnational levels. The Chinese Communist Party accomplishes this through overlapping levers that include market access, supply chain, and technological and investment dependencies.

In some cases, this activity takes place behind the scenes: Reporting in the United States in 2021 found that the Chinese embassy was pressing, via letters and other means, companies and business groups to urge members of Congress to reject or temper anti-China legislation.[4] In some cases, Beijing is brazen: In 2018, China's Ministry of Commerce publicly called on American companies to "lobby the U.S. government" against tariffs on Chinese goods.[5]

(https://www.fdd.org/wp-content/uploads/2021/11/fdd-monograph-all-over-the-map-the-chinese-communist-partys-subnational-interests-in-the-united-states.pdf)

[3] "EU Takes China to WTO over Lithuania Trade Dispute," *Associated Press*, December 7, 2022. (https://apnews.com/article/taiwan-technology-china-beijing-business-21547a18bcf4222b040a1180c0655e95)

[4] Michael Martina, "EXCLUSIVE Chinese embassy lobbies U.S. business to oppose China bills - sources," *Reuters*, November 15, 2021. (https://www.reuters.com/business/exclusive-chinese-embassy-lobbies-us-business-oppose-china-bills-sources-2021-11-12)

[5] Joe McDonald and Youkyung Lee, "China says U.S. companies should lobby Washington over trade," *Associated Press*, July 12, 2018. (https://www.dispatch.com/story/news/politics/2018/07/12/china-says-us-companies-should/11540431007)

China's Industrial Influence Campaign at Work

Beijing's industrial influence campaign takes place globally. It targets and has implications for everything from trade and industrial policy to tech and data policy, human rights to higher-level diplomatic positioning. Some concrete cases are useful for illustrating as much, as well as the pervasiveness of this strand of Beijing's influence apparatus across the United States and the international system.

Cases of Chinese industrial influence run the gamut, including advanced technology, agriculture, and the aerospace and automotive industries. Their broad scope tracks with Beijing's industrial priorities, as reflected in the Strategic Emerging Industries (SEI) initiative and reinforced in the highest-level of Beijing's industrial policy, including its five-year plans.

Importantly, clear-cut causal links between China's industrial influence efforts and government policy can be difficult to tease out. That is a reality of Beijing's approach, which takes place behind the scenes and in many cases seeks to create a favorable policy environment rather than directly generate a policy outcome. Still, some casual links are obvious. So are intentions and correlations.

Trade and Industrial Policy

The implications of China's industrial influence campaign are playing out in real time in the United States. Contemporary Amperex Technology Co., Ltd (CATL) — a Chinese state-backed electric vehicle supplier — and Ford Motor Company recently announced that they would collaborate in establishing a $3.5 billion battery plant in Michigan for electric vehicles. Ford will license technology for the facility from CATL.[6] This project raises the question of whether a facility dependent on Chinese technology can receive Inflation Reduction Act (IRA) credits and, by extension, whether China can benefit from those credits and secure a place for its commercial champions in the emergent U.S. new energy industry being fueled by American government support. And considering its dependence on CATL technology, it is now in Ford's interest to use its political clout to ensure that the answer to that question is yes.[7]

The Ford-CATL case risks being one of many. The IRA — and, generally, intensified government support for domestic production — risks opening the door to a wave of Chinese efforts to coopt that support and the domestic players benefiting from it.[8] Those efforts are particularly potent considering China's existing industrial dominance in the sectors being prioritized by government action. For example, just last week, China's LONGi Solar announced that it would partner with U.S. solar developer Invenergy to build a solar module facility in Ohio, which is poised to benefit from the IRA's extensive incentives for the production of solar

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[6] Emily de La Bruyere and Nathan Picarsic, "All Hat No CATL: Are State Leaders Wising up to China's Industrial Threat," *Force Distance Times*, March 2, 2023. (https://forcedistancetimes.com/ford-catl-ira-china-industrial-threat)
[7] Brett Foote, "Ford EV battery supplier CATL may get portion of IRA credits," *Ford Authority*, March 11, 2023. (https://fordauthority.com/2023/03/ford-ev-battery-supplier-catl-may-get-portion-of-ira-credits)
[8] Nathan Picarsic and Emily de La Bruyere, "When the Iron Is Hot: CCP Subversion of US Recovery Investment," *Horizon Advisory*, June 2020. (https://www.horizonadvisory.org/ccpsubversionreport)

hardware. China is the world's leader in the solar energy sector; LONGi is the world's largest manufacturer of solar modules.[9]

The potential that, due to dependence on a Chinese partner, non-Chinese companies might be incentivized to encourage lower restrictions on Chinese business activity is by no means new. In July 2012, China's State-owned CNOOC entered into a definitive agreement to acquire Canada's Alberta-headquartered Nexen for $15.1 billion, well over the market rate.[10] At the time, this was China's largest ever foreign takeover. It granted CNOOC, among other things, controlling interest in Nexen's Long Lake oil sands project in Alberta as well as assets in the Gulf of Mexico.[11] The deal also sparked furious debate in Canada: The sale surrendered control of one of Canada's most valuable resources to a Chinese state-owned enterprise. But, as a Chinese government statement at the time of approval put it, "both CNOOC and Nexen have been aggressive in securing the deal."[12] The transaction closed in February 2013, setting a precedent for Canadian foreign investment review.[13] The deal may also have paved the way for additional energy cooperation at the government level between China and the province of Alberta: Just months after CNOOC's acquisition went through, in October 2013, the Alberta provincial government and the Chinese National Energy Administration signed a framework agreement on energy development.[14]

Human Rights

Increasingly, China-focused trade and industrial policy also has implications for human rights — whether stemming from the presence of Chinese forced labor in international supply chains or concerns over data privacy and surveillance. Here, too, the CCP's industrial influence campaign risks stymieing international efforts to respond to Beijing's human rights abuses, both at home and abroad.

When the Trump administration launched an inquiry into potential security, surveillance, and data privacy concerns associated with TikTok — and its Chinese parent company Bytedance — Sequoia Capital, a well-known and influential venture capital firm, was reported to have actively

[9] John Fitzgerald Weaver, "The world's largest solar panel manufacturer is coming to Ohio," *PV Magazine*, March 14, 2023. (https://pv-magazine-usa.com/2023/03/14/the-worlds-largest-solar-panel-manufacturer-is-coming-to-ohio)
[10] "CNOOC Limited Enters into Definitive Agreement to Acquire Nexen Inc.," *Nexen Inc.*, July 23, 2012. (https://www.prnewswire.com/news-releases/cnooc-limited-enters-into-definitive-agreement-to-acquire-nexen-inc-163386306.html)
[11] Donna Kennedy-Glans, "Opinion: CNOOC-Nexen deal seems like it's about to unravel," *Financial Post* (Canada), April 20, 2022. (https://financialpost.com/opinion/opinion-cnooc-nexen-deal-seems-like-its-about-to-unravel)
[12] Li Shi and Dacheng Zhang, "中海油收购尼克森公司获批　中加共赢迈重要一步 [CNOOC's acquisition of Nexen was approved, an important step towards win-win cooperation between China and Canada]," *Xinhua* (China), December 8, 2012. (http://www.gov.cn/jrzg/2012-12/08/content_2285975.htm)
[13] Euan Rocha, "CNOOC closes $15.1 billion acquisition of Canada's Nexen," *Reuters*, February 25, 2013. (https://www.reuters.com/article/us-nexen-cnooc/cnooc-closes-15-1-billion-acquisition-of-canadas-nexen-idUSBRE91O1A420130225)
[14] Framework Agreement on Sustainable Energy Development Between Her Majesty the Queen in Right of Alberta (Alberta) and the China National Energy Administration (NEA), October 18, 2013. (https://open.alberta.ca/dataset/59b2c004-7f32-4f11-bc26-056210203867/resource/b566b851-8fcb-4be4-b6b0-c1dab86e242f/download/energy-travel-2013-alberta-china-framework-agreement.pdf)

lobbied the administration in TikTok's favor.[15] Press coverage on the subject pointed to Sequoia's ties to ByteDance: Sequoia, along with KKR & Co, led ByteDance's $2 billion funding round in 2020.[16] More broadly, Sequoia has extensive ties to the Chinese market and to Chinese investors that risk making it vulnerable to China's industrial influence campaign.[17]

The Uyghur Forced Labor Prevention Act (UFLPA) offers another example. Nike, Apple, and other major companies with ties to Xinjiang-based supply chains reportedly lobbied the U.S. government to weaken what would become the UFLPA, a ban on imported goods made with forced labor in China's Xinjiang region.[18] This came after Beijing had retaliated against fashion companies that sought to take a stance on the Xinjiang forced labor question, showing that it would not let the issue go easily — and that their positioning on the subject would affect their bottom lines. For example, after posting corporate statements voicing concern about reports of forced labor in Xinjiang, both Nike and H&M faced a storm of criticism in China, contract terminations, and boycotts that threatened their business models.[19]

Diplomatic Relations

Because of the close ties between industrial champions and governments, Beijing's industrial influence campaign can also shape diplomatic relations at the highest, national level. Germany and Volkswagen offer a prime example. China is Volkswagen's largest market. It accounted for about 50 percent of the company's global sales in 2021.[20] Volkswagen also operates at least 33 plants to manufacture vehicles and components in China, including one in Xinjiang.[21] And the company has major political clout. Volkswagen is a crown jewel in Germany's industrial landscape, employing some 200,000 people in the country.[22]

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[15] Rolfe Winkler, Miriam Gottfried, and Cara Lombardo, "General Atlantic, Sequoia Capital Are Key Drivers in Oracle Bid for TikTok," *The Wall Street Journal*, August 24, 2020. (https://www.wsj.com/articles/general-atlantic-sequoia-capital-are-key-drivers-in-oracle-bid-for-tiktok-11598310734)

[16] "Sequoia and KKR lead ByteDance funding round that values it at $180 billion: sources," *Reuters*, December 11, 2020. (https://www.reuters.com/article/china-bytedance-fundraising/sequoia-and-kkr-lead-bytedance-funding-round-that-values-it-at-180-billion-sources-idUSKBN28L1AL)

[17] Nathan Picarsic and Emily de La Bruyere, "The Weaponization of Capital," *Foundation for Defense of Democracies*, September 15, 2022. (https://www.fdd.org/analysis/2022/09/15/the-weaponization-of-capital-chinas-private-equity-venture-capital)

[18] Ana Swanson, "Nike and Coca-Cola Lobby Against Xinjiang Forced Labor Bill," *The New York Times*, November 29, 2020. (https://www.nytimes.com/2020/11/29/business/economy/nike-coca-cola-xinjiang-forced-labor-bill.html)

[19] "Nike faces social media storm in China over Xinjiang statement," *Reuters*, March 25, 2021. (https://www.reuters.com/world/china/nike-sees-social-media-storm-china-over-xinjiang-statement-2021-03-25)

[20] "2021 (Full Year) Global: Volkswagen Brand Worldwide Car Sales by Model and Country," *Best-Selling Cars*, January 12, 2022. (https://www.best-selling-cars.com/brands/2021-full-year-global-volkswagen-brand-worldwide-car-sales-by-model-and-country/#:~:text=China%20remained%20by%20far%20the,all%20Volkswagens%20sold%20in%202021)

[21] "Volkswagen Group China," *Volkswagen Newsroom*, accessed March 20, 2023. (https://www.volkswagen-newsroom.com/en/volkswagen-group-china-5897)

[22] "VW's deep political ties in Germany seen as a key asset," *Automotive News Europe*, October 3, 2015. (https://europe.autonews.com/article/20151003/ANE/151009949/vw-s-deep-political-ties-in-germany-seen-as-a-key-asset)

These realities have translated into Volkswagen working, with apparent success, to influence Berlin's China policy. When German Chancellor Olaf Scholz visited Beijing in November 2022, he did so at the head of a business delegation that included the Volkswagen CEO — as well as executives from other leading German companies — *de facto* ensuring that Volkswagen's interests, including maintaining ties to China, be included in the state-level conversations.[23] Volkswagen's leadership explicitly underscored this intention. In a LinkedIn message celebrating Scholz's visit, the company's China chief called on Germany to reinforce relations with Beijing: "I think it's very important that we stay in touch at all levels. This is especially true in politically and economically challenging times like these. Part of our prosperity in Europe depends on China."[24] And as *Wall Street Journal* reporting put it after the visit, "German Chancellor Olaf Scholz let a focus on business ties take precedence over calls to keep a distance from China, make human rights concerns a priority and squeeze Beijing on its unwillingness to condemn Russia's war in Ukraine."[25]

Volkswagen's is not an isolated or unique case. Scholz's visit to China saw the chancellor sign a framework agreement in which China committed to buy some 140 Airbus jets.[26] That built on a long-standing precedent: China signed agreements to buy 50 and 130 Airbus planes during Chancellor Angela Merkel's 2012 and 2015 visits, respectively;[27] in 2019, during Xi Jinping's state visit to France, Airbus won a Chinese order for 300 jets.[28]

Direct consequences of cases like these for national-level policy are difficult to tease out. But again, that is a reality of China's industrial influence campaign. And in every instance, the promise of Chinese market access to a key industrial player appears to be used as bait to ensure a positive diplomatic outcome for Beijing.

The Role of Industry Organizations

[23] Sha Hua, "Germany's Olaf Scholz Puts Business First in China Visit," *The Wall Street Journal,* November 4, 2022. (https://www.wsj.com/articles/germanys-scholz-meets-xi-in-test-of-europes-posture-toward-china-11667552196)
[24] Ralf Brandstatter, *LinkedIn*, November 4, 2022. (https://www.linkedin.com/feed/update/urn:li:activity:6994197470415122432)
[25] Sha Hua, "Germany's Olaf Scholz Puts Business First in China Visit," *The Wall Street Journal,* November 4, 2022. (https://www.wsj.com/articles/germanys-scholz-meets-xi-in-test-of-europes-posture-toward-china-11667552196)
[26] Albee Zhang, Tim Hepher, and Eduardo Baptista, "China 'reheats' $17 bln Airbus deals during Scholz visit," Reuters, November 4, 2022. (https://www.reuters.com/business/aerospace-defense/china-aviation-supplies-buy-140-airbus-jets-worth-about-17-bln-2022-11-04)
[27] Michael Martina and Andreas Rinke, "China buys 50 Airbus jets during Merkel visit," *Reuters*, August 30, 2012. https://www.reuters.com/article/us-china-germany/china-buys-50-airbus-jets-during-merkel-visit-idUKBRE87T0LR20120830; "China signs deal to buy 130 Airbus aircraft during Merkel visit," *BBC* (UK), October 29, 2015. (https://www.bbc.com/news/world-europe-34665546)
[28] Marine Pennetier, "Airbus wins China order for 300 jets as Xi visits France," *Reuters*, March 25, 2019. (https://www.reuters.com/article/us-france-china-airbus/airbus-wins-china-order-for-300-jets-as-xi-visits-france-idUSKCN1R61Y0)

In the examples cited thus far, Beijing engages relatively directly and bilaterally with companies in pursuing its industrial influence campaign. But China also operationalizes the effort more indirectly, through industry organizations. The U.S. agricultural industry offers an obvious case.

China is the world's largest soybean importer, accounting for approximately half of U.S. soybean export value — and approximately half of U.S. agricultural exports to China in 2022.[29] The American Soybean Association's (ASA's) key policy issues include, most prominently, "continued efforts to stabilize the U.S.-China trade relationship."[30] The ASA works with the U.S. Soybean Export Council (USSEC), whose 15-member board includes four ASA board members.[31] USSEC's corporate membership includes Syngenta, owned by Chem China, and Hong Kong-based Hang Tung Resources.[32] In September 2022, USSEC hosted the Chinese Ambassador to the United States, the U.S. Department of Agriculture acting deputy under secretary, a Chinese delegation from the Ministry of Agriculture and Rural Development, the Chinese Academy of Agricultural Sciences, and leaders from the U.S. and Chinese food and agricultural industries in a round table focused on bilateral agricultural cooperation.[33]

The U.S. Heartland China Association (USHCA) offers another case in the agricultural sector — and one more explicitly defined by China's industrial influence campaign. That organization, originally established as the Midwest U.S.-China Foundation, takes as its mandate "trust-building efforts to connect educational and community interests, business leaders, and local governmental officials with like-minded institutions between the American Heartland Region and China."[34]

In 2021, the USHCA convened a China-U.S. Agriculture Roundtable in partnership with the Chinese People's Association for Friendship with Foreign Countries (CPAFFC). The event brought together representatives from major agricultural firms (e.g., Wanxiang America Corp, Deere & Co), relevant academic institutions (e.g., Texas A&M), and Chinese and U.S. local governments. Governor Kim Reynolds of Iowa delivered remarks, as did Illinois Congressman Darin LaHood.[35] The USHCA's sponsors for the event included not only CPAFFC and the

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[29] U.S. Department of Agriculture, "Record U.S. FY 2022 Agricultural Exports to China," January 6, 2023. (https://www.fas.usda.gov/data/record-us-fy-2022-agricultural-exports-china#:~:text=Soybeans%20accounted%20for%20nearly%20one,of%20U.S.%20soybean%20export%20value)

[30] "Key Issues," *American Soybean Association*, accessed March 20, 2023. https://soygrowers.com/key-issues-initiatives/key-issues/trade

[31] "About Us," *U.S. Soybean Export Council*, accessed March 20, 2023. (https://ussec.org/about-ussec)

[32] "Member Directory," *U.S. Soybean Export Council*, accessed March 21, 2023. (https://ussec.org/directory/member-directory)

[33] "China Ambassador and U.S. food and ag industry reaffirm shared responsibility and importance of innovation and collaboration at Climate Smart Agriculture Roundtable and U.S. Soy Farm Visit," *U.S. Soybean Export Council*, September 19, 2022. (https://ussec.org/china-ambassador-and-u-s-food-and-ag-industry-reaffirm-shared-responsibility-and-importance-of-innovation-and-collaboration-at-climate-smart-agriculture-roundtable-and-u-s-soy-farm-visit)

[34] "United States Heartland China Association," *United States Heartland China Association*, accessed March 20, 2023. (https://usheartlandchina.org)

[35] "China, US explore agricultural trade at online roundtable," *Global Times* (China), March 25, 2021. (https://www.globaltimes.cn/page/202103/1219478.shtml); "Inaugural U.S.-China Agriculture Roundtable Advances Critical Global Issues," *U.S. Heartland China Association*, April 28, 2021. (https://www.prnewswire.com/news-releases/inaugural-us-china-agriculture-roundtable-advances-critical-global-issues-301279125.html)

Chinese Academy of Social Sciences but also the China General Chamber of Commerce-Chicago, the Carter Center, JobsOhio, and the Ford Foundation. At the event, Chicago Consul General Zhao Jian, remarked: "In the past two years, I had the opportunity of visiting some farmers' associations and farms in the Midwest where I got to know firsthand how the U.S. farmers had been affected by the trade war. I could feel their desire to see a return of normalcy in U.S.-China trade relations."[36]

Broader Influence Campaign Alignment

As that USHCA event makes clear, China's industrial influence campaign overlaps with its broader subnational influence campaign, including in the United States — and including as operated by the United Front Work Department (UFWD). Much of Beijing's United Front work at the subnational level internationally takes place through the CPAFFC, China's lead organization for relations with foreign local governments.[37] Its role is to advance China's international ambitions through non-state channels, focusing on subnational foreign governments, political figures, and non-governmental organizations (NGOs).[38] The CPAFFC is overseen and managed by China's Ministry of Foreign Affairs and staffed by foreign-affairs cadres.[39] In a 2019 Hoover Institution book, Larry Diamond of the Hoover Institution and Orville Schell of the Asia Society called the CPAFFC the "public face of the UFWD."[40] As Australian academic Clive Hamilton testified before the Australian Parliament in 2018, the CPAFFC is "an official organization masquerading as an NGO. The CPAFFC forms an integral part of the CCP's United Front network of covert overseas influence agencies. Its task is to win friends under the banner of people-to-people diplomacy, as the CCP calls it."[41]

And the CPAFFC engages with industrial players in the United States, underscoring the overlap between the various layers and channels of China's international influence campaign. Programming with industry organizations like the USHCA offers one example. The CPAFFC also organizes trade delegations — between U.S. and global players and their Chinese counterparts — that serve further to develop channels of influence.

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[36] Zhao Jian, *Speech by Consul General Zhao Jian at the China-U.S. Agriculture Roundtable*, March 21, 2021. (http://chicago.china-consulate.gov.cn/eng/lgxx/zlsjh/202104/t20210410_9021013.htm)
[37] Emily de La Bruyere and Nathan Picarsic, "All over the Map: The Chinese Communist Party's Subnational Interests in the United States, November 15, 2021. (https://www.fdd.org/wp-content/uploads/2021/11/fdd-monograph-all-over-the-map-the-chinese-communist-partys-subnational-interests-in-the-united-states.pdf)
[38] Jichang Lulu, "Repurposing Democracy: The European Parliament China Friendship Cluster," *Sinopsis*, November 26, 2019. (https://sinopsis.cz/en/ep)
[39] Ibid.
[40] *China's Influence & American Interests*, Eds. Larry Diamond and Orville Schell (Stanford, CA: Hoover Institution Press, 2019. (https://asiasociety.org/sites/default/files/2020-01/00_diamond-schell-chinas-influence-and-american-interests_REVISED.pdf)
[41] Clive Hamilton, *Testimony before Parliament of Australia Foreign Affairs, Defence and Trade Legislation Committee*, Parliament of Australia, October 12, 2022. (https://www.aph.gov.au/Parliamentary_Business/Hansard/Hansard_Display?bid=committees/commsen/8d638ff5-2861-4257-bf92-469caf9a203c/&sid=0002)

Strategic Implications and a Path Forward

China's economic coercion vis-à-vis Lithuania in 2022 became a front-page story, and prompted the European Union to take new, confrontational action. China's industrial influence campaign, less so. Its subordinate lines of effort are not transparent, causal effect can be difficult to tease out, and in many cases the consequence is simply that something *does not* happen. At the same time, China's industrial influence campaign has serious implications for free markets, political integrity, human rights, and the ability of the United States and the international system to defend against China's security and economic threat — as well as to present a proactive alternative to Beijing's industrial offensive. The CCP's influence campaign risks neutering competitive responses to Beijing. It also risks driving a wedge between the public and private sector in a competition that hinges on the private sector.

What, then, to do? China's industrial influence campaign is an international problem. But it is also a problem where U.S. leadership is critical. And that leadership must orient around trade, investment, and industrial policies — all areas that fall squarely within Congress' mandate.

U.S. leadership action should begin with shoring up defenses:

- The United States should bolster its foreign investment screening processes to limit the degree to which China can secure influence through investment. The definition of covered transactions for CFIUS reviews should be amended to include limited partnership stakes that provide indirect access to critical and emerging technology.[42]
- The United States should also leverage government procurement regulations to protect against outsized dependencies on China: Government contracting, especially defense contracting, should include requirements for diversification away from Chinese suppliers as well as restrictions on facilities in China and information sharing with Beijing.

The United States must also work with allies and partners to coordinate those defensive measures.

- This includes carrots: The United States should offer capacity building and support for allies and partners working to institute more robust investment screening, export control, and supply chain diversification efforts.
- But this line of effort also should include sticks: The United States should make preferential treatment in its own foreign investment review processes, the ability to benefit from industrial policy incentives, government procurement, and free trade relationships contingent on adopting rigorous trade and investment policies vis-à-vis China to ensure both the integrity of allied and partner industrial bases and that they do not become conduits for access to the United States' industrial base.

[42] Nathan Picarsic and Emily de La Bruyere, "The Weaponization of Capital," *Foundation for Defense of Democracies*, September 15, 2022. (https://www.fdd.org/analysis/2022/09/15/the-weaponization-of-capital-chinas-private-equity-venture-capital)

The deliberate and effective nature of China's industrial influence campaign should make clear that the United States cannot rely solely on reactive, defensive measures. U.S. policy also needs to be proactive. It needs to seize the initiative to disrupt and stay ahead of China's tack. The United States must lead in providing a positive alternative to China's market in order to shore up vulnerabilities. This does not mean tactical, reactive efforts like backfilling imports or exports when China cuts those off from partner countries.[43] It means a more forward-looking effort to define and bolster a model in which market economies can trade, invest, and co-exist freely without fear of distortion or economic coercion from the non-market bully in Beijing.

- The United States should take steps to expand its network of bilateral free trade agreements with allies and partners. But again, such free trade agreements should be contingent on allies and partners adopting robust trade and investment policies vis-à-vis China and the Chinese government's non-market international behaviors.

More strategically: While Beijing subverts existing international trade rules, those same rules — and China's ability to benefit from them — stymie an effective and strategic response from the rest of the international system. Accordingly, the United States needs to lead, and to signal to allies and partners that it is willing to lead, in taking action to shore up that systemic asymmetry, even if doing so incurs immediate costs.

- The United States should revoke China's Permanent Normal Trade Relations (PNTR) status.[44] Doing so would signal real willingness to hold China accountable for its subversion of the international trade system. The U.S.-China Economic and Security Review Commission should be commended for leading on this issue;[45] this area remains a key priority area where congressional authority and incentives align and should spur action.

China's industrial influence campaign threatens U.S. and international economic and political integrity, human rights, and the international market system more broadly. But there is no direct, tit-for-tat or defensive way to respond to China's industrial influence campaign. Rather, the United States — and U.S. Congress — need to lead in advancing a concrete vision for free market interdependence that protects against distortions of non-market players who seek to weaponize interdependence. Doing so will demand incentives to allies and partners. In some cases, it will also require a stick-based approach. Across the board, there will be costs to swallow. But this effort will also create opportunity for trusted players, across U.S. and global industrial, commercial, and financial players. And this effort can, and should, activate U.S. and international publics and consumers. In an influence fight, informed and educated publics may be one of the best defenses — and offenses.

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[43] Milda Seputyte and Philip Glamann, "US, Lithuania agree to address China's 'economic coercion,'" *Bloomberg*, January 6, 2022. (https://www.stripes.com/theaters/europe/2022-01-06/us-lithuania-china-economic-coercion-4201968.html)

[44] "The American Public Thinks It's Time to End China's Permanent Normal Trade Relations Status," *Force Distance Times*, September 29, 2022. (https://forcedistancetimes.com/public-opinion-on-chinas-pntr-status)

[45] Yuka Hayashi, "U.S. Panel Calls for Review of China Trade Relations," *The Wall Street Journal*, November 16, 2022. (https://www.wsj.com/articles/u-s-panel-calls-for-review-of-china-trade-relations-11668523656)