2024
REPORT TO CONGRESS

of the

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

NOVEMBER 2024

Printed for the use of the
U.S.-China Economic and Security Review Commission
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The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 106–398 (codified at 22 U.S.C. § 7002), as amended by: The Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107–67 (Nov. 12, 2001) (regarding employment status of staff and changing annual report due date from March to June); The Consolidated Appropriations Resolution, 2003, Pub. L. No. 108–7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of the Commission); The Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109–108 (Nov. 22, 2005) (regarding responsibilities of the Commission and applicability of FACA); The Consolidated Appropriations Act, 2008, Pub. L. No. 110–161 (Dec. 26, 2007) (regarding submission of accounting reports; printing and binding; compensation for the executive director; changing annual report due date from June to December; and travel by members of the Commission and its staff); The Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113–291 (Dec. 19, 2014) (regarding responsibilities of the Commission); Pub. L. No. 117-286 (Dec. 27, 2022) (technical amendment).

The Commission's full charter and statutory mandate are available online at: *www.USCC.gov/charter*.

U.S.-China Economic and Security Review Commission

November 19, 2024

The Honorable Patty Murray
President Pro Tempore of the U.S. Senate, Washington, DC 20510
The Honorable Mike Johnson
Speaker of the U.S. House of Representatives, Washington, DC 20510

Dear Senator Murray and Speaker Johnson:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the Commission's 2024 Annual Report to Congress. This Report responds to our mandate "to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China." The Commission reached a broad and bipartisan consensus on the contents of this Report, with all 12 members voting unanimously to approve and submit it to Congress.

In accordance with our mandate, this Report, which is current as of October 11, 2024, includes the results and recommendations of our hearings, research, and review of the areas identified by Congress in our mandate, as defined in Public Law No. 106–398 (October 30, 2000) and amended by Public Laws No. 107–67 (November 12, 2001), No. 108–7 (February 20, 2003), 109–108 (November 22, 2005), No. 110–161 (December 26, 2007), No. 113–291 (December 19, 2014), and No. 117-286 (December 27, 2022). The Commission's charter, which includes the 11 directed research areas of our mandate, is included as Appendix I of the Report.

The Commission conducted six public hearings, taking testimony from 59 expert witnesses from government, the private sector, academia, think tanks, research institutions, and other backgrounds. For each of these hearings, the Commission produced a transcript (posted on our website at *www.USCC.gov*). This year's hearings included:

- Current and Emerging Technologies in U.S.-China Economic and National Security Competition;
- Consumer Products from China: Safety, Regulations, and Supply Chains;
- China's Evolving Counter Intervention Capabilities and Implications for the United States and Indo-Pacific Allies and Partners;
- China and the Middle East;
- Key Economic Strategies for Leveling the U.S.-China Playing Field: Trade, Investment, and Technology; and
- China's Stockpiling and Mobilization Measures for Competition and Conflict.

The Commission received a number of briefings, both unclassified and classified, by executive branch agencies, the intelligence community, foreign government officials, and U.S. and foreign nongov-

ernmental experts on topics such as Europe's views on China, the impact of Article 23 on Hong Kong, Taiwan's priorities under the new Lai Administration, the climate for U.S. businesses in Hong Kong, China's overhead surveillance capabilities, and U.S.-China relations. The Commission includes key insights gained through these briefings either in its unclassified Annual Report or, as appropriate, in a classified annex to that Report.

The Commission conducted official fact-finding travel this year to Taiwan and Japan to hear and discuss regional perspectives on the United States' relations with China as well as trans-Pacific cooperation. In these visits, the Commission delegation met with U.S. diplomats, foreign government officials, business representatives, academics, journalists, and other experts. In Taiwan, Commissioners were received by President Lai Ching-te and discussed the importance of strong U.S.-Taiwan relations in the face of China's increasing coercive activities. The Commission also conducted official fact-finding travel to U.S. Indo-Pacific Command, U.S. Central Command, and U.S. Special Operations Command to hear their insights on the efforts our military is undertaking to counter challenges presented by China. The Commission also relied substantially on the work of our excellent professional staff (see Appendix IV) in accordance with our mandate (see Appendix I).

The Report includes 32 recommendations for congressional consideration. The Commissioners agreed that ten of these recommendations, which appear on page 27, are the most important for congressional action. The complete list of recommendations appears on page 733 at the conclusion of the Report.

We offer this Report to Congress in the hope that it will be useful in helping guide policies for the U.S.-China relationship that advance American interests and values. Thank you for the opportunity to serve. We look forward to continuing to work with Members of Congress in the upcoming year to address issues of concern in the U.S.-China relationship.

Sincerely,

Robin Cleveland
Chairman

Reva Price
Vice Chair

Commissioners Approving the 2024 Report

Robin Cleveland, Chairman

Reva Price, Vice Chair

Aaron Friedberg, Commissioner

Kimberly T. Glas, Commissioner

Carte P. Goodwin, Commissioner

Jacob Helberg, Commissioner

Michael Kuiken, Commissioner

Leland R. Miller, Commissioner

Randall Schriver, Commissioner

Cliff Sims, Commissioner

Jonathan N. Stivers, Commissioner

Michael R. Wessel, Commission

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INTRODUCTION

In 2024, under the leadership of General Secretary Xi Jinping, the Chinese Communist Party (CCP) continued to pursue a technology-focused strategy to drive rapid military modernization, expand internal political surveillance and suppression of dissent, and assert China's political and economic agenda in the international arena. At the same time, amid a domestic property market collapse, weak consumer demand, and rising debt and employment challenges, the Party leadership has aggressively continued to advance its economic, political, and security goals through non-market practices. Xi clearly has calculated that these approaches are not only paramount in defining his leadership and claiming China's global role, but are also essential to addressing its endemic economic weaknesses and further tightening the Party's grip on the economy and society. The centralized top-down approach is reminiscent of Mao-era authoritarianism. With few remaining avenues for dissent and a political system that demands absolute loyalty to the individual leader, it has become unlikely that anyone could dissuade Xi should he decide to take actions that risk igniting a catastrophic conflict.

The CCP's efforts to consolidate economic control are evident in numerous ways: its systematic restriction of access to national financial and economic data as well as basic corporate data necessary for due diligence and safety controls, security threats to foreigners engaged in business in China, persistent pressure on foreign government partners to conduct trade in renminbi, and the concentration of resources and support for state-owned enterprises (SOEs). Although Xi has consistently emphasized the importance of small and medium-sized enterprises in providing jobs and accelerating innovation, the data show that the CCP's post-COVID policies have strengthened the position of SOEs. From June 2021 to June 2024, of the top 100 firms listed on Chinese exchanges, SOEs' share of aggregate market capitalization grew to 54 percent, rising from $2.7 trillion to $3.2 trillion. Over the same period, non-public enterprises' share of market capitalization dropped to 33 percent and aggregate revenue stagnated. While the increased flow of resources into SOEs may serve the Party's short-term interests, other challenges remain. In the past two years, Chinese universities have graduated record levels of students who are finding the market offers jobs they do not want or needs skills they do not have.

Ignoring the advice of many of his own economists and financial leaders, Xi has taken limited steps to open markets and boost consumer spending and confidence. Instead, China is reinforcing its longstanding, market-distorting approach of massive subsidies to targeted industries, this time focusing on high-tech manufacturing in order to unleash "new quality productive forces" and generate more earnings through its exports and traditional dumping ap-

proaches. Designed to strengthen self-sufficiency and achieve global dominance in key sectors—including but not limited to advanced and legacy semiconductor chips, aviation, advanced batteries, robotics, and artificial intelligence—China's strategy is also intended to integrate it more deeply into global supply chains and continue to increase every other country's dependence on it for a wide array of goods and materials. As the United States and its partners move to further curb access to military and dual-use technologies and address China's blatant disregard for global norms and international agreements, China is shifting production overseas to circumvent restrictions while expanding its own access to critical minerals, markets, key enabling technologies and tools, and labor. Because its subsidized goods undercut foreign competitors, China's approach comes at the expense of both advanced and emerging economies.

In 2024, the United States, Canada, and the EU have increased efforts to review both incoming and outgoing investment flows, strengthen trade investigation and enforcement actions, and apply export controls and sanctions. The intensification of recent efforts reflects rising concern with Chinese predatory and debt-trap practices and control of resources essential to our defense capabilities, along with expansion of China's dominance in multiple market sectors. Countries in Asia, Africa, and Latin America have also launched trade remedy investigations and imposed new tariffs on Chinese imports. Nevertheless, these responses have been largely uncoordinated as individual countries and international institutions struggle to address the scale of China's economy, its integration into global supply chains, and its defiance of WTO and other international agreements and norms.

China has sought to strengthen its international position through bilateral coercion to secure economic, trade, and security agreements with select countries and by manipulating international and regional institutions to win collective support of China's policy positions. Of importance is China's aggressive and coercive effort to convince other countries to adopt statements endorsing its positions on Taiwan, Tibet, Xinjiang, and more. At the recent triennial Forum on China-Africa Cooperation, representatives of 53 of the 55 African members adopted a declaration pledging to support "all efforts" by China to "reunify" with Taiwan. According to the Chinese Loans to Africa database released by the Boston University Global Development Policy Center, at least 49 of the 53 signatories have received loan commitments from China or Chinese lenders.

China's quest for "multipolarization" aims to create a world in which the United States and its democratic allies are weakened and constrained, while states such as China, Russia, Iran, and North Korea have free rein to threaten their neighbors and defy any notion of universally agreed-upon norms or a rules-based international order. In 2024, NATO issued its strongest criticism of China to date, labeling it a "decisive enabler" of Russia's war in Ukraine. China continues to provide substantial support for Russia's war of aggression against Ukraine by exporting vital dual-use goods that power Russia's military while shielding Russia's economy from international sanctions. Similarly, with respect to Iran, China's oil purchases

equate to about 90 percent of that country's government budget, enabling Tehran to finance terrorist groups and other regional proxies.

In the Indo-Pacific, China's aggressive actions have expanded. In addition to launching its first intercontinental ballistic missile test into the South Pacific in more than 40 years, China has engaged in large-scale military exercises around Taiwan that for the first time involved the China Coast Guard. It has pursued violent actions in contravention of international law against Philippine vessels in an attempt to block the resupply to Second Thomas Shoal in the Philippines' exclusive economic zone. It has also increased the tempo of incursions, the weapons onboard, and the number of ships entering waters around the Japanese-administered Senkaku Islands in the East China Sea. These actions are part of a troubling and persistent trend of escalation of pressure with the goal of asserting China's claim of authority and control across the region. China's approach has strengthened U.S. efforts to enhance security cooperation and base access arrangements with allies and partners in the region.

As China continues to pursue its goal of displacing the United States as the leading global power, Xi's consolidation of personal authority has increased the risk of miscalculation and conflict. Xi has attempted to compensate for China's poor economic performance by further strengthening his grip over the Party and the Party's grip over government, the military, and society. Xi continued to purge high-level officials from the national security establishment and imposed stricter disciplinary measures on rank-and-file Party members. In Hong Kong, through the imposition of a new national security ordinance, China has further quashed the city's once vibrant civil society and increased the Mainland's control.

Looking forward to 2025, even as China's economy falters, the CCP will continue to pursue its geopolitical ambitions, strengthen the Party-state, attempt to "sanctions proof" its financial position, and reduce Western leverage in the event of a conflict. A clearly coordinated, U.S.-led effort to build a coalition of like-minded countries and more closely align trade and investment policies is an essential step in responding to China's ambitions. The United States will need to strengthen work with allies and partners to build consensus domestically and internationally on the full range of policies needed to defend our shared interests and values from the threat posed by China and its partners as they seek to increase their power, extend their reach, and reshape global norms to reflect the interests of their authoritarian regimes.

EXECUTIVE SUMMARY

Part I: The Year in Review

Chapter 1: U.S.-China Economic and Trade Relations (Year in Review)

China's economy grew in 2024, albeit at a much slower pace than it did pre-pandemic. Chinese officials have introduced stimulus measures throughout the year, including a series of announcements in September and October that will likely provide a short-term boost to economic growth. While the latest stimulus round has the potential to be among the largest China has passed to deal with the current crisis, the measures are insufficient in scale compared to the scope of China's economic challenges, and their long-term impact is questionable. The fallout from the property sector collapse continues to be China's largest domestic economic headwind and a source of weakness for local government finances and consumer spending. Officials remain focused on mitigating systemic economic risks and achieving a controlled deflation of the property bubble rather than reversing the sector's decline. Although Chinese policymakers have repeatedly stated their intention to increase the contributions of services and consumption to economic growth, in reality, China has doubled down on a variant of its traditional manufacturing and export model. China has increased government subsidies and targeted supply-side stimulus toward favored industries, especially those involving advanced technology. The Chinese Communist Party's (CCP's) prioritization of supply-side policies aims to further strengthen China's manufacturing base and increase its self-sufficiency while simultaneously increasing Party-state control over domestic capital allocation and global supply chains and increasing dependency by other nations. While this strategy has led to China's emergence as a leader in the manufacture and export of goods such as solar panels and electric vehicles (EVs), China's export of excess capacity is leading to increasingly aggressive pushback from China's major trading partners and the imposition of tariffs by the United States, the EU, and others. Meanwhile, uncertainty over China's economy and heightened geopolitical tensions have weighed on investment in China. A shift in U.S. imports toward Mexico, Vietnam, and other economies suggests that a broader diversification of trade away from China may be emerging. Due to the deliberate restructuring of supply chains to avoid U.S. tariffs, many imports from third countries still contain parts and materials that originate in China.

China intensified its economic statecraft with the rest of the world as it seeks to promote its alternative frameworks for economic development and cooperation. In defiance of the U.S.-led sanctions regime, China continues to offer material support to Russia, acting

opportunistically to win energy concessions and promote alternative payment systems. Meanwhile, China has retooled its flagship Belt and Road Initiative to limit its exposure to default risks. It is again increasing lending throughout the developing world, though this time mainly in the form of emergency rescue loans to bail out indebted countries rather than fund new infrastructure projects. As advanced economies implement tariffs, China is shifting exports of manufactured goods to emerging economies, enlarging its bilateral trade surpluses across the developing world. Concerned about the impact of rising Chinese imports on their own prospects for development, some emerging economies have launched trade investigations or imposed tariffs to protect domestic industries.

Key Findings

- Chinese authorities have reasserted and expanded control over the economy centrally, regionally, and locally. General Secretary of the CCP Xi Jinping's vision for future economic growth in China is politically driven and differs from Western economic orthodoxy.
- The continuing slowdown in economic expansion has led to greater reliance on specific growth drivers, allocating capital to those targeted sectors and exporting excess capacity to sustain growth.
- China continues to rely on manufacturing and exports to drive growth while also trying to move up the value chain to produce and export high-technology goods. This growth strategy assumes the rest of the world will continue to absorb China's excess capacity at the expense of their own domestic manufacturing and technology sectors.
- China has pivoted from an emphasis on aggregate gross domestic product growth to a strategy that targets "higher quality" production in emerging technologies. China hopes that becoming a dominant producer of high-tech goods will allow it to sidestep systemic economic problems and enhance its overall global economic position and national power.
- Substantial risks remain in the property sector, which have already had serious ramifications for the Chinese economy. The CCP introduced new support measures for the property sector in 2024 and helped local government financing vehicles refinance maturing debt. However, the scale of unfinished housing and the large amount of local and regional government debt far exceeds the amount of capital allocated for financial support. These issues may weigh down economic performance in the near future as households await delivery of apartments for which they have made substantial down payments and developer bond defaults reverberate through the financial sector.
- While Chinese data measuring youth unemployment have shown recent improvement, China's college-educated youth are growing more pessimistic about their personal financial situation as they continue to enter a workforce that prioritizes manufacturing jobs they do not want and focuses on skills they

do not have. A combination of slowing growth post-pandemic and targeted policy crackdowns have weakened some consumer technologies and other service sectors that previously employed a large majority of youths. To the extent that the CCP's societal legitimacy is based on delivering economic growth and opportunity, the increase in youth unemployment has called that into question.

- The CCP has directed state-owned banks and asset managers to intervene to prop up the stock market and issue credit to state-owned enterprises (SOEs) and regional and local governments on favorable terms. As long as these measures remain a common practice, Chinese households will remain skeptical of passive long-term domestic investment opportunities as a way to generate wealth, forcing them to save a larger share of their income. Uncertainty regarding Chinese investment opportunities dampens China's attempts to bolster consumption.

Chapter 2: U.S.-China Security and Foreign Affairs (Year in Review)

In 2024, China sought to mitigate internal and external risks by exercising a combination of coercive and persuasive strategies abroad and continuing to tighten political control at home. Internationally, China attempted to promote itself as the world leader best positioned to solve and prevent conflicts, represent low- and middle-income countries, and promote economic growth while also making it clear that it opposed U.S. policies and alliance relationships. In its diplomacy with the United States, China sought to use the promise of bilateral dialogues on narrow areas of common interest to derail what it perceives as the United States' policy of strategic competition. It also aimed to tighten ties with Europe and encourage divisions within the transatlantic alliance but continued to undermine its own credibility through its intensifying economic, military, diplomatic, and political support for Russia. At the same time, China is increasingly providing support and resources to countries involved in military operations against Western allies. China has turned a blind eye as Iran and North Korea act in ways that undermine global stability, and it has demonstrated willingness to exploit tensions in the Middle East for geopolitical gain. Overall, China reacted to other countries' efforts to protect their economic and physical security by portraying them as hostile, exclusionary, and destabilizing. In the case of the South China Sea, China resorted to more dangerous, violent actions. China also expanded its campaign to persuade Pacific Island states to adopt Beijing's preferred policies on a range of issues and intensified its longstanding diplomatic efforts in Africa, Latin America, and the Caribbean. Despite the willingness of some governments to deepen cooperation with Beijing in various domains, many other countries remained deeply skeptical of China's intentions and proposals.

Domestically, the year saw a further consolidation of the CCP's control over the state bureaucracy and a continued concentration of power within the Party into the hands of General Secretary Xi. To combat persistent problems of corruption and fears of political disloyalty, Xi and a small circle of top leaders tightened their grip

on the Party rank and file while continuing to unseat and in some cases disappear high-ranking figures across the government and military. Meanwhile, the CCP increased emphasis on "political discipline" across Party ranks and introduced new Party loyalty tests, including potential removal from internal Party positions for simple acts like "privately reading, browsing, and listening to newspapers, books, audio-visual products, electronic reading materials, and online materials with serious political problems." In 2024, the People's Liberation Army (PLA) also announced a major reorganization that elevated the importance of space, cyber, and information capabilities and created three new forces under the more direct control of the top military leadership, led by Xi.

Key Findings

- As part of its efforts to solidify its control across the Party, state, and military, in 2024 the CCP leadership introduced new measures on political discipline and anticorruption, targeting everyone from low-ranking Party members to senior military officers. From the top of the system, Xi delivered dire messages to Party and military audiences on the severity of remaining problems, revived some Maoist concepts and slogans, and emphasized the importance of political loyalty and enduring hardship. China's leaders viewed enhanced domestic control as a key factor in China's ability to accomplish its domestic and international objectives.
- China continues to assert that the United States poses intensifying strategic risk. Despite a bilateral agreement reached in late 2023 to pursue limited cooperation on military communication, climate change, countering fentanyl and other drugs, artificial intelligence (AI), and people-to-people ties, China has continued its efforts to counter or weaken U.S. policies without changing its own behavior. Fundamental divergences on issues such as Taiwan and access to markets, capital, and technology remain.
- In 2024, China accelerated efforts to build international support from as many countries as possible—with a focus on the developing nations of what it calls the "Global South"—for China's claims to global leadership, its continuing efforts to isolate and subjugate Taiwan, and its desired forms of economic cooperation. At the same time, Beijing sought to portray actions taken by the United States and many of its allies and partners to protect their own interests and established global norms as undermining the prospects for peace, stability, and prosperity and the future of collective international progress led by China. (For information on China's activities in the Middle East in 2024, see Chapter 5, "China and the Middle East.")
- China and Russia committed to further deepening their joint efforts against the United States. China has sustained its economic, diplomatic, political, and material support for Russia's war effort in Ukraine. China also provided satellite imagery and dual-use materials that Russia is using for the reconstitution of its defense industry—such as weapons components, machine

tools, and microelectronics—all while claiming to play a leading role in advancing a political solution to the conflict. In exchange for such support, Moscow has reportedly provided submarine, aeronautic, and missile technologies to Beijing as defense cooperation between the two countries continues to strengthen.

- China sought to counteract a deteriorating strategic relationship in Europe, using mainly positive rhetoric and promises of deepened cooperation to persuade the EU and individual European countries to distance themselves from the United States and abandon their efforts to de-risk relations with China. Xi tried to reframe Europe's economic dependencies on China as the byproducts of a beneficial symbiosis, to downplay political differences, and to emphasize supposed shared interests in the creation of a more equal international system.
- China's destabilizing behavior in the Indo-Pacific region continued. China's naval and coast guard presence around the Japanese-administered Senkaku Islands and flights near Japanese airspace in the East China Sea represented a significant escalation from previous activity. In the South China Sea, China's aggressive behavior escalated to new levels in 2024 as the China Coast Guard (CCG) took increasingly aggressive, unsafe, and even violent measures to attempt to block the Philippines, a U.S. treaty ally, from exercising its lawful rights in its exclusive economic zone (EEZ). China's officials continued to leverage lawfare tactics to attempt to normalize their efforts to impose their will upon other countries in the region through coercive and illegal actions, superior force, and numbers.

Part II: Technology and Consumer Product Opportunities and Risks

Chapter 3: U.S.-China Competition in Emerging Technologies

The United States is locked in a long-term strategic competition with China to shape the rapidly evolving global technological landscape. Innovation in emerging technologies could transform society, create new industries, foster new dependencies, and alter the character of warfare. Whichever country secures a lead in key technologies—particularly those with first mover advantages—will tip the balance of power in its favor and reap economic benefits far into the 21st century. China under General Secretary Xi has recognized the potential advantages of seizing the innovation "high ground" in this competition and has aggressively designed, implemented, and funded programs to dominate technologies of the future. In doing so, Beijing hopes its efforts will underpin national rejuvenation, making the country powerful, self-sufficient, and impervious to perceived technological "containment" from the United States and its allies and partners.

China has focused on developing emerging technologies such as AI, quantum information science (QIS), biotechnology, and battery energy storage systems. The race for superior AI across industries relies on successfully bringing together enabling technologies and building blocks, including advanced chips, computing power, well-designed al-

gorithmic models, and rich datasets for model training. While the United States has a lead in most of these AI-related categories, China is making rapid advancements and has demonstrated some ability to innovate around U.S. and allied export controls. QIS is still in its infancy, yet it may eventually spawn paradigm-shifting breakthroughs enabling computation and remote sensing at a speed and scale heretofore impossible. Quantum breakthroughs could provide technology capable of easily breaking existing encryption, ensuring secure communications, solving complex computations rapidly and at scale, and accelerated processing of military data to provide a decisive edge on the battlefield. China is regarded by some experts as leading in the subfield of quantum communications, while the United States maintains a lead in quantum computing and quantum sensing. In the field of biotechnology, China is quickly closing the innovation gap with the United States in novel biopharmaceutical, genomic, and new material applications. Moreover, Chinese biopharma companies have expanded their footprint internationally and become integral in U.S. drug development and bio-manufacturing supply chains. Finally, due in large part to substantial and sustained subsidies, Chinese companies have established a global lead in battery energy storage systems. China has consolidated control over much of the battery supply chain, from upstream mining and processing of critical minerals to mid- and downstream production of battery components and end products such as batteries for EVs.

China's rapid progress in establishing itself as a leader in these emerging and foundational technology fields raises a host of economic and national security concerns for the United States, from questions of dependence and economic leverage to potential threats to U.S. military superiority. The United States has realized the importance of technology competition with China and has significantly altered the policy environment around key technologies, particularly semiconductors, advanced computing, and clean energy. China faces many challenges, including these U.S. policies, a faltering domestic economy, and inefficiencies inherent in its state-directed innovation system. However, despite these challenges, China's rapid technological progress threatens U.S. economic and military leadership and may erode deterrence and stability in the Pacific as well as tip the global balance of power.

Key Findings

- The CCP is prioritizing research in key emerging technology areas such as AI, quantum technology, biotechnology, and batteries with the goal of becoming a world leader in science and technology. Xi is placing a bet that China's investments in high-tech industries will unleash "new quality productive forces," transcend an old growth model reliant on infrastructure and lower-technology exports, and help China achieve its goal of becoming a superpower in the 21st century. China's focus on emerging technologies is also motivated by its desire to attain self-sufficiency in what its leaders describe as "chokepoint" technologies amid an international environment they perceive as increasingly hostile and to better prepare for a potential conflict with the United States over Taiwan or in other contingencies.

- China's state-centric approach and heavy investments in domestic innovation reflect similar techno-nationalist initiatives dating back to the Mao Zedong era. Under Xi, these efforts have intensified as the Party has sought to impose tighter top-down control in the innovation ecosystem to make breaking dependencies on foreign technologies a focal point.
- The United States and China are neck-and-neck, with one being ahead or behind depending on the specific critical and emerging technology. On certain manufacturing-intensive technologies, like advanced batteries and EVs, China's various efforts have enabled its companies to obtain a clear advantage.
- ***Artificial intelligence:*** China is making rapid advancements and noteworthy investments in its AI capabilities. It is developing AI not only to advance China's economic growth more broadly but also for military applications, such as autonomous unmanned systems, data processing, decision-making, and cognitive warfare. Across key aspects of AI competition, however, China is having mixed success.
  - ***Advanced semiconductors:*** The United States and like-minded countries currently have an advantage in the advanced semiconductors needed to power AI technologies. China is aggressively working to address this deficit.
  - ***Compute and cloud:*** The United States leads in total compute and cloud, but several Chinese companies have notable cloud capabilities. Further, the nature of cloud computing creates a heightened threat of "leakage" into China of advanced compute capabilities located outside of China.
  - ***AI models:*** The United States currently leads the world in developing robust AI models, but China is pursuing numerous government-led and ostensibly private efforts to develop advanced AI models.
  - ***Data:*** Data are critical to AI capabilities. Each country has certain advantages in terms of collection, use, and availability of data for AI systems. China understands the value of data to AI and has taken active measures to increase the availability of quality data within its AI ecosystem.
- ***Quantum technologies:*** Both the United States and China are heavily funding research in quantum computing, sensing, and communications, the three subdomains that together make up QIS. While QIS is still in an early stage of development, it will have significant competitive and military impacts if it becomes commercially viable. China's Party-state drives quantum research through support to a major state laboratory in Anhui Province as well as a growing roster of state-backed startup companies. China appears to be an early leader in quantum communications, launching the world's first quantum communications satellite and connecting two ground stations with quantum key distribution. In other areas, China appears to be lagging behind the United States, though its scientists have claimed breakthroughs in cracking encrypted communications

systems and developing advanced radar technology, claims that are difficult to confirm.

- ***Biotechnology:*** Biotechnology is another key emerging technology with the potential for transforming many industries. China aims to use biotechnologies to make itself less dependent on U.S. agriculture while embedding Chinese firms in U.S. food production and supply chains in genomic, pharmaceutical, and other biotechnologies. The major research and market presence of Chinese genomic and biotech services companies in the United States gives these companies access to key technologies and data.
- ***Advanced batteries:*** China has attained a sizable advantage at each stage of the battery supply chain, ushering in rapid global market share increases for Chinese EV and battery makers. China's near monopoly on battery manufacturing creates dependencies for U.S. auto manufacturers reliant on upstream suppliers as well as potential latent threats to U.S. critical infrastructure from the ongoing installation of Chinese-made battery energy storage systems throughout U.S. electrical grids and backup systems for industrial users.

Chapter 4: Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws

The rapid escalation of e-commerce sales impedes U.S. efforts to ensure the safety and regulatory compliance of consumer products flooding the market from China. These new channels, combined with China's reinvigorated focus on export manufacturing as a pillar of economic growth, mean that Chinese factories will remain major suppliers across the consumer products space. Though the quality of goods sourced from China has improved somewhat over the past two decades as a result of increased due diligence and monitoring on the factory floor, significant exceptions remain, and overall product quality and safety still fall short of U.S. standards. Many Chinese companies that disregard manufacturing best practices utilize cross-border e-commerce channels to send products directly to consumers under a de minimis exemption that provides duty-free entry for small parcel shipments. A continually rising flood of small parcels at U.S. ports of entry compounds the difficulty of detecting potentially risky products before they reach households and children. Holding Chinese manufacturers and exporters accountable remains challenging—if not virtually impossible—under the Xi regime. Efforts by oversight agencies, including the U.S. Consumer Product Safety Commission, to protect U.S. consumers have been hampered by falsification of safety documents, the rise of small parcel shipments, and lack of responsiveness from many Chinese exporters. In the event that a Chinese made product causes injury or hazard, U.S. regulatory agencies have no authority to unilaterally order an immediate recall of the item, and often have limited other options to protect consumers.

Accurate data on consumer product imports are crucial to enforcement, but an increased number of Chinese exporters are seeking to exploit loopholes in U.S. law and disguise the nature and/or origins

of their imports to dodge higher tariffs on products from China. Duty-free entry under de minimis provides a means for some Chinese manufacturers to avoid China-specific tariffs. Unscrupulous Chinese entities also take advantage of the import channel to funnel fentanyl-related materials into the North American market, fueling the illicit supply of synthetic opioids in the United States. Other firms employ a wide range of illegal and deceptive tactics to lower or evade U.S. import duties. Trade misinvoicing and other U.S. customs violations have grown more widespread since 2018. Trade data indicate that some countries have emerged as hubs for the transshipment of goods and duty evasion through circumvention and related strategies. It remains challenging, however, to quantify the full extent of duty evasion, and it is likely that additional illicit activity has gone undetected. These tactics create risks for the United States by obscuring an import's source country and factory, creating additional challenges to stopping unsafe Chinese products from entering the U.S. market. Moreover, China is home to the world's largest counterfeiting industry, harming not only U.S. businesses but also consumers who face increased safety risks from shoddily made imitations.

Key Findings

- China aims to continue growing its manufacturing sector, leading to further industrial overcapacity and a surge in exports. Chinese manufacturers have, in general, improved in quality and reliability over the past decade, owing in part to increased enforcement by Chinese authorities domestically and increased due diligence by foreign firms. However, the scale and dynamism of China's manufacturing sector means regulators in the United States struggle to respond to emergent product safety issues. New online platforms and the multitude of third-party e-commerce sellers and resellers compound these issues.
- U.S. regulators are overwhelmed by the volume of imports arriving from China, and they are only able to inspect a small fraction of imports, potentially leaving large numbers of unsafe or illegal goods to enter the U.S. market daily.
- Unscrupulous China-based sellers lack the diligence, capacity, and skill required to produce high-quality goods that meet U.S. safety regulations, thus increasing U.S. consumers' exposure to risks stemming from unsafe, counterfeit, and poor-quality goods from China. These deceptive tactics by Chinese producers are particularly concerning in industries such as batteries and medical products, where defective products pose potentially debilitating or deadly consequences.
- U.S. import regulators face significant challenges in monitoring the growing volume of Chinese e-commerce shipments specifically, which typically enter under a de minimis exemption that provides duty-free treatment for parcels valued under $800. The growth of smaller, China-based sellers on U.S. e-commerce sites and the rising popularity of Chinese e-commerce platforms present a novel and growing risk to U.S. consumers and the ability to enforce safety regulations and other laws. Insufficient

data, personnel, and overwhelming volume mean these shipments receive less scrutiny.

- Some Chinese companies have tried to circumvent normal U.S. customs channels in response to tariffs and other U.S. laws. Though the true scale of customs fraud is unknowable, some actors are using illegal tactics such as transshipment, circumvention, and import undervaluation to evade paying customs duties. These tactics worsen the information available to U.S. agencies, increasing the challenge of identifying hazardous imports.

Part III: Competition and Conflict

Chapter 5: China and the Middle East

The Middle East is a region of strategic importance to China due to its energy resources, location astride key trade routes, and possible receptivity to Chinese efforts to construct an alternative, illiberal world order. As China has deepened its trade and investment interests in the Middle East over the past decade, it has also built a variety of diplomatic partnerships and sought to present itself as a neutral arbiter of regional disputes while expanding its military activity in the region. In the short run, China benefits from its relationships in the Middle East focused on energy trade and securing infrastructure contracts for its SOEs. In the long term, Beijing aims to expand market share for renewable energy and high-value exports, gain supporters in its bid for global leadership, and potentially establish new outposts capable of supporting its military for increased power projection. China's involvement in the Middle East thus presents U.S. policymakers with an array of economic, normative, and geopolitical challenges.

Chinese engagement with the Middle East is selective and transactional, focused on advancing its own interests; Beijing appears to have little desire to play a significant role in advancing regional security or to meaningfully contribute to a resolution of ongoing disputes, including the recent Israel-Hamas war. Instead, China appears content for the moment to free-ride on the U.S. and allied regional security infrastructure—including most recently the defense of maritime shipping from Houthi attacks—while blaming the United States for promoting instability. China also works to undermine U.S. ties with key Middle Eastern partners while supporting adversarial countries like Iran. China takes advantage of Iran's international isolation by purchasing nearly 90 percent of its exported oil at a steep discount, generating revenue equivalent to about 90 percent of Iran's total government budget. Chinese companies are critical to the development of Iran's drone and ballistic missile programs, supplying dual-use components that are utilized in unmanned aerial vehicles used by Russia and the Houthis. Chinese strategists likely also assess that the turmoil in the Middle East deflects a portion of U.S. attention and resources away from the Indo-Pacific.

As the technology competition between the United States and China has intensified, the Middle East is emerging as a key stakeholder and potential conduit for Chinese end users to gain access to leading-edge technology. Chinese technology companies have had

market presence in the region for decades and are working to deploy telecommunications equipment and other underlying technology infrastructure across the region in both wealthy and underdeveloped countries. Emerging technologies like AI and advanced computing play a central role in the ambitious national strategies of Gulf Cooperation Council countries as they seek to diversify their economies away from reliance on fossil fuel. Countries like Saudi Arabia, the United Arab Emirates, and Qatar have dedicated massive investment to build up domestic technology industry and innovation hubs. The Middle East will be an important region for U.S.-China technology competition, both in terms of partnerships and market access and the effectiveness of technology controls by the United States, its allies, and partners.

Key Findings

- China's engagement with the Middle East has expanded during General Secretary Xi's tenure and is driven partly by deepening strategic rivalry with the United States. In contrast to the Indo-Pacific, where China clearly seeks to displace the United States and consolidate a position as the dominant power, the Middle East is a region Chinese leaders view as a source of intractable security challenges and value primarily for its resources and economic potential. While China does not have the willingness and ability to replace the United States as a major contributor to regional security, it is nonetheless eager to instrumentalize the region in its efforts to construct a new, illiberal world order at the United States' expense. China offers the region's autocratic governments a vision of a new regional security architecture under the Global Security Initiative and is deepening its diplomatic relations with U.S. partners and adversaries alike to erode Washington's influence.
- Beijing's reaction to the Israel-Hamas war has illustrated both the limits of its diplomatic influence in the Middle East and its willingness to exploit regional tensions for geopolitical gain. China has played no significant role in the U.S.- and Arab-facilitated negotiations between Israel and Hamas, having lost its credibility as a neutral actor by refusing to directly condemn the terrorist group for the October 7th attacks. It has not contributed to coalition efforts to protect maritime shipping from Houthi attacks, and in contravention of international maritime law and norms it has declined to use its naval ships deployed in the region to respond to distress signals from non-Chinese vessels. Rather, Beijing has sought to appeal to Arab states and burnish its image as the self-declared leader of what it calls the "Global South" by portraying itself as an ardent supporter of Palestinian national liberation and condemning Israel and the United States as oppressors.
- China is the largest trading partner for many countries in the region, with growth in total trade and direct investment between China and the Middle East outpacing that of China with the rest of the world over the past five years. While China benefits from infrastructure contracts and expanding market share for its exports to the region, its principle economic objective re-

mains securing steady flows of energy resources, with between 40 and 50 percent of China's total imported energy coming from the region.

- China and Iran have a similar interest in opposing the U.S.-led rules-based international order, but the relationship is to a large degree one of convenience. Just as it is using Russia's diplomatic isolation to extract favorable terms on energy deals, China is opportunistically leveraging its consumption market to purchase discounted oil from Iran while going to great lengths to avoid the appearance of sanctionable transactions through the use of smaller purchases and shell companies.
- China's military activities in the Middle East advance its economic interests while allowing the PLA to gain operational experience and lay the foundation for a more robust future military presence.
- China is emerging as a global competitor in niche sectors of the Middle Eastern arms market. China is crucial to the development of the Iranian drone industry. Although the U.S. Department of the Treasury and the Department of Commerce have placed sanctions on a number of Chinese companies, Chinese actors are crucial to supplying components that enable Iran to build drones, which it sells to Russia and to its Middle Eastern proxies such as the Houthis. China continues to either directly or indirectly provide regional actors with technologies that contravene its voluntary but nonbinding commitment to adhere to the Missile Technology Control Regime (MTCR). This includes a continued occasional and covert role in supplying Iran's ballistic missile program by Chinese SOEs and non-state actors.
- The Gulf is emerging as a new arena in U.S.-China technology competition, with concerns that close ties between sanctioned Chinese entities and technology firms in the region may be facilitating transfer of leading-edge technology subject to U.S. export controls. Countries and companies in the Gulf may be compelled to choose between technology infrastructure and partnerships with China's tech ecosystem or those with the United States and its allies. Increased deployment of Chinese-made surveillance technology is also a point of concern given its potential to enhance suppression tactics commonly used by authoritarian governments.

Chapter 6: Key Economic Strategies for Leveling the U.S.-China Playing Field

Many of China's economic, technological, and military policies are at the expense of and contrary to U.S. and allied interests. U.S. officials have long been aware that China's non-market economic practices advantaged Chinese companies at the expense of U.S. firms and workers and resulted in significant shifts in supply chains. However, for many years, optimism that a complex and interdependent global economy would deter conflict and help liberalize China tempered the U.S. response, keeping the focus on more narrow industry-specific issues or better enforcement of existing trade rules. Similarly, despite periodic concerns that technology transfers might be assist-

ing the PLA's military modernization drive, until very recently this was viewed as an issue for narrow export controls on weapons and dual-use products, not a reason to broadly challenge China's innovation ecosystem or limit flows of U.S. capital and know-how that help build up China's technological capabilities. Today, China continues to flood global markets with exports in an attempt to boost its domestic economic growth while simultaneously pursuing the development of emerging technologies to assert its global geopolitical interests and spur military modernization. In response, the United States' economic approach toward China is evolving to combat China's state-led, non-market practices. The United States' toolkit for addressing these challenges includes trade policy tools, such as tariffs on imports from China, controls on the transfer of technology, and restrictions on inbound and outbound investment that might advance China's development of sensitive technologies.

At the same time, there remains a lack of consensus on the scope and implementation of these measures. Lacking an overarching set of objectives and a comprehensive strategy for achieving them, some policies are implemented at cross-purposes, weakening the United States' approach to economic competition with China. For example, while the United States has tightened controls on key dual-use technologies like semiconductors, it only recently began considering restrictions on U.S. outbound investment into those same sectors in China. Simultaneously, U.S. export controls have pushed Chinese chip makers to focus their additional efforts on legacy chip production. However, legacy chips are also critical to U.S. commercial and military supply chains. Policies that allow China's non-market practices to lead to dominance of the sector are thus incongruent with U.S. strategic goals. Unlike the National Security Strategy, the United States does not yet have a unified strategy organizing its approach to economic security. The effectiveness of the United States' economic security strategy faces further limits at present from a lack of data and analytic capabilities as well as a lack of adequate alignment of policies with key allies and partners.

Key Findings

- U.S. trade policy is a key tool for defending against China's non-market economic practices, diversifying U.S. supply chains, and preserving U.S. economic security.
- Efforts to de-risk supply chains are undermined by a lack of a cohesive trade policy as well as the continued presence of Chinese value-added content in non-Chinese imports.
- As China increasingly asserts itself as a significant military power, export controls have emerged as a central tool in U.S. efforts to deny China direct access to critical dual-use goods and advancements in national security-sensitive technologies. However, a number of operational challenges diminish their effectiveness, including lack of coordination among key allies, compliance challenges, and uneven enforcement.
- While Congress in 2018 strengthened the U.S. inbound investment screening mechanism, it considered but did not implement matching rules on outbound investments. In the last few years,

policymakers have actively explored creating an outbound investment screening mechanism. Such a mechanism would curb important U.S. economic support to China's advanced technology ambitions, such as the transfer of management expertise, know-how, and capital that is unaddressed by the United States' existing toolkit, including a yet-to-be-implemented executive order.

- A lack of adequate detailed data on U.S. trade and investment flows poses an acute challenge to effective policy scoping and implementation.
- Economic partners in the G7 and other developed markets have implemented trade measures to address trade distortions caused by China's state-led economy; these measures continue to evolve. They are also exploring parallel export controls and outbound investment screening policies to limit the flow of key technologies. At times, the United States has had difficulty obtaining alignment with allies, which can undercut the effectiveness of U.S. policy and put U.S. companies at a disadvantage.

Chapter 7: China's New Measures for Control, Mobilization, and Resilience

After a long period of "peace and development" during which CCP leaders felt the international environment was conducive to China's economic development, growing power, and international influence, the views of China's leadership have changed. General Secretary Xi now believes China has entered a period of increased challenges both domestically and internationally and has taken a number of steps to better prepare the Party and country for this period of threat and uncertainty. On the political front, Chinese leaders have broadened conceptions of national security to enhance the Party-state's power, build out the national security state, and expand tools of societal control at the grassroots level. An empowered security apparatus is warning Chinese citizens to be hypervigilant about interactions with foreigners. Many of these efforts have echoes of Maoist-era methods of mass mobilization. On the military front, China's armed forces have improved their mechanisms for mobilizing available manpower, leveraging resources in the civilian economy, and priming the Chinese public to contribute to national defense. One such program is the establishment of "new type" militias within enterprises made up of civilians with skills in high-tech sectors such as robotics, AI, and unmanned systems. On the economic front, China has implemented measures to strengthen food and energy security by building stockpiles of key grains and oil and redirecting supply chains toward trusted partners. In addition to pursuing the internationalization of its currency, the renminbi (RMB), China is also working to promote an alternative payments infrastructure as a possible mechanism to bypass future U.S. financial sanctions.

China's numerous and varied actions are driven by multiple goals, including the desire to suppress domestic challenges, prepare for a more volatile and less open international economic environment, and position itself effectively for long-term strategic competition with the United States. At the same time, many of these actions serve to increase China's capacity for rapid military mobilization

and resilience in the case of hostilities. Recent changes have made China significantly more prepared for war compared to five years ago while potentially obscuring the signals that would normally precede an imminent or near-term mobilization. These changes have already altered the strategic and operational environment in China's favor by challenging outside observers' ability to monitor traditional warnings and indicators and reducing timelines for the United States to make decisions in response to China's actions. Chinese officials likely also believe they have moderated the economic costs the United States and its allies could impose on them through sanctions, blockades, and trade restrictions in the event there is an outbreak of hostilities, potentially reducing the deterrent effect of non-military policy options and external constraints.

Key Findings

- China's leaders believe they have entered a new historical phase characterized by greater internal and external threats. This heightened threat perception has fueled numerous policy efforts to better prepare the Party, China's society, and the military for what the Party believes will be a more hostile and uncertain period.
- China's leaders have intensified their rhetoric about risk over the last few years, increasingly invoking a concept called "extreme scenario thinking" that suggests Chinese policymakers are increasingly thinking through the potential ramifications of a wide range of scenarios, including the repercussions of actions they might initiate on the international stage. At the same time, CCP rhetoric toward Taiwan and the United States has not escalated to the degree that preceded China's conflicts in past decades or to what some experts expect to see if China were imminently preparing for war.
- China is continuing longstanding efforts to address concerns over food insecurity. China is largely self-sufficient in four of five key staples, though it is becoming increasingly dependent on corn and wheat imports. China relies on imports for the fifth (soybeans) and is overall a significant net food importer. China is believed to have the world's largest stockpiles of its key staples and has taken measures to diversify its soybean supplies away from the United States and reduce overall soybean consumption.
- China is taking measures to enhance its energy security and to ensure it can address its oil energy needs for long periods of time without imports. China is largely self-sufficient in coal, its primary energy source for power generation, and it has developed a coal surge capacity to deal with temporary disruptions. Perhaps because natural gas is not a major part of China's energy mix, China seems less concerned about its significant reliance on imports and only has a short-term stockpile of natural gas. China is heavily dependent on oil imports for transportation and appears to be building very large stockpiles—with estimates of one to two years' supply.

- China is taking measures to enhance its financial security, challenge global dollar dominance, and protect itself from U.S. financial sanctions by creating alternatives to dollar-based trade and the U.S.-controlled financial payments system. These efforts have accelerated since the imposition of sanctions in the wake of Russia's war of aggression against Ukraine. While the RMB is not on pace to supplant the U.S. dollar as a medium of global exchange, China is developing these tools with the intention to insulate itself from many types of U.S. financial sanctions.
- Party leaders have developed an exceedingly broad conception of national security and expanded their tools for domestic control. These include an increasingly robust internal security apparatus, the revival of some Maoist-era methods of mass mobilization, and efforts to leverage the public for surveillance and control, including by outsourcing public security tasks to government-sanctioned "vigilante groups." This heightened focus on security has been formalized through an expansion of relevant legal infrastructure, with new laws defining national security as touching upon virtually every aspect of society.
- There is currently no evidence that China is preparing for an imminent war, but the various reforms China has made to its defense mobilization system over time undeniably make it more confident and prepared for hostilities than it was five years ago. Many of these measures reduce the time needed for China to mobilize and transition from peacetime or gray zone activities to active hostilities and could be read as efforts to prepare the operational environment for a conflict over Taiwan. Given the decreasing amount of open source data available about China, the United States and international observers will have less visibility of warnings and indicators that may presage Chinese military action, a shorter timeline to react once indicators are discovered, and fewer non-military tools to respond.

Chapter 8: China's Evolving Counter-Intervention Capabilities and the Role of Indo-Pacific Allies

Over the past two decades, China has invested heavily in capabilities to counter military action by the United States and its allies in the event of a conflict in the Indo-Pacific. As a result, U.S. forces and bases in the region would face a significant threat from the PLA in any regional contingency involving treaty allies and/or security partners, and the outcome of any such conflict is far from certain. China's leadership views the U.S. military's presence, activities, and alliance commitments in the Indo-Pacific region as hostile, leading the PLA to focus significant efforts on planning and training for the possibility of U.S. military involvement in a regional conflict.

China's plan to counter U.S. military intervention requires the capacity to find U.S. forces, thwart their operations, hamper their ability to rely on satellites and other networked systems, and destroy forward-based assets as well as assets at long distances. Among the most important capabilities for these missions are the PLA's Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) networks, electronic warfare (EW) assets, and offensive missile forces. China has significantly

improved each of these capabilities over the past two decades, with an increased capability to disrupt or paralyze an adversary's C4ISR system and a large arsenal of missiles with ranges capable of posing a threat to U.S. forces. At the same time, however, the PLA continues to contend with issues sustaining and maintaining its warfighters in combat. China's government, military, and academic sources also note trends in U.S. military development with the potential to undermine China's counter-intervention capabilities, such as evolution in U.S. strike and missile defense capabilities, new operational concepts, and increased cooperation between the United States and its Indo-Pacific allies.

U.S. alliances represent a critical part of the United States' approach to pursuing security and advancing stability in the Indo-Pacific region. Geographic access from these alliances is an important element of U.S. military posture in the Indo-Pacific region, as the majority of U.S. defense sites west of the International Date Line are located in host countries. U.S. allies Japan, the Philippines, and Australia perceive China's military buildup and aggressive actions as a growing threat to their national security and are deepening defense collaboration with the United States. Nevertheless, differences remain in the specific activities each allied country might be willing to participate in or to support, driven by differences in political will and the capabilities of their militaries. As the United States continues to enhance its capacity to respond to Chinese aggression, it must navigate these potential differences in the parameters of cooperation during a conflict as well as questions about how to best adapt its force posture, capabilities, and defense industrial base.

Key Findings

- The PLA plans to counter military action by the United States and potentially U.S. allies in the event of a regional conflict. Since at least the early 2000s, China's leadership has viewed the U.S. military's presence and alliance activities in the Indo-Pacific as threatening, and it continues to express concern about new developments that combine deepening allied cooperation with an expanded U.S. military footprint in the region.
- China's assertion that it will militarily defend its disputed territorial and maritime claims threatens U.S. allies and security partners in the Indo-Pacific. Should China's leadership decide to use force to enforce its claims in the South or East China Seas or with regard to Taiwan, this aggression could trigger U.S. defense commitments.
- The PLA continues to improve the quality and quantity of military capabilities needed to counter U.S. military action in the event of a conflict, including a large arsenal of ballistic and cruise missiles, air defense systems, advanced fighter jets, maritime forces, and EW capabilities.
- The PLA has also developed a redundant and resilient architecture for C4ISR to protect its own systems from attack, and it increasingly has the capability to disrupt or paralyze an adversary's C4ISR system. China's advancements in counter-C4ISR capabilities such as directed energy weapons and anti-satellite

technologies may threaten the United States' ability to access its own C4ISR networks for reconnaissance, targeting, and other functions in peacetime or wartime.

- Despite improvements to a broad suite of capabilities, the PLA still faces challenges in logistics and sustainment. The PLA's maintenance system may struggle to quickly repair and resupply its advanced platforms and weapons systems under harsh battlefield conditions, impacting the PLA's ability to project and sustain combat power.
- Chinese military experts perceive that U.S. and allied militaries are adapting to the PLA's improved capabilities and force posture. They observe that the United States and its allies are strengthening their missile defense capabilities while also working to improve their ability to strike China's forces. They also note that new operational concepts emphasizing geographic dispersion and joint integration across warfighting domains could also contribute to U.S. and allied forces' survivability.
- U.S. allies in the Indo-Pacific are adjusting their defense policies in response to Beijing's aggressive military posture and activities. Japanese leaders are concerned about a possible regional conflict and therefore seek to enhance Japan's military capabilities and interoperability with the United States. The current government of the Philippines views cooperation with the United States and other partners as core elements of its response to China's military and gray zone threats in the South China Sea and its own military modernization efforts. Australia seeks to deepen security cooperation with the United States, its chief defense partner, while reposturing its own military for the possibility of great power conflict. Nevertheless, allies' interest in working with the United States to address threats from the PLA does not necessarily imply a commitment to allow U.S. military access to their bases during a conflict or guarantee the participation of allied military forces.

Part IV: Taiwan and Hong Kong

Chapter 9: Taiwan

China's actions toward Taiwan in 2024 have been intended to signal strong discontent with the new administration of Lai Ching-te, a president whom the CCP regards as a "separatist" challenging Beijing's stated aspiration to "reunify" Taiwan with the Mainland. China has sustained a high level of military, diplomatic, and economic pressure toward the ruling Democratic Progressive Party (DPP) of Taiwan, timing actions around events both to undermine DPP leadership and to extend olive branches to opposition figures who signal support for closer cross-Strait relations. China sought to dissuade Taiwan's voters from electing Lai by harshly denouncing him while waging robust influence and disinformation campaigns asserting that a vote for Lai would lead to war. The CCP has expanded its toolkit of tactics for intimidating Taiwan, including greater usage of the China Coast Guard (CCG) around the outlying islands, new guidelines for punishing "separatists," and heightened harassment

of Taiwan travelers to the Mainland. Soon after Lai's inauguration, China launched large military exercises around the island, similar to exercises in each of the past two years and designed to suggest that Beijing's planning for hostilities includes blockade scenarios. China continues near-daily incursions into Taiwan's air defense identification zone (ADIZ) and waters. Taiwan has enhanced its defensive capacity through U.S. assistance and its own internal reforms, with an increased focus on military and societal resiliency. Taiwan's military continues to take notable steps to develop, manufacture, and adopt asymmetric systems and improve training for conscripts and reservists, but domestic factors and China's near-daily coercion remain challenges to this progress. The United States continues to work through the backlog of arms shipments promised to Taiwan, but a number of big-ticket systems such as F-16 fighter aircraft remain plagued by delays.

Despite China's aggressive posture, Taiwan's vibrant and advanced economy has performed strongly this year, thanks to substantial global demand for its high-value exports integral to AI and technology supply chains. China remains Taiwan's top trading partner, though trade and investment continued to shift away from the Mainland toward other partner countries, with Taiwan's exports to the United States in the first half of 2024 exceeding its exports to China for the first time in more than two decades. Internationally, Taiwan has sought to deepen its engagement with like-minded democracies. Countries in Europe and the Indo-Pacific have expressed interest in peace and stability in the Taiwan Strait, even while China continues its efforts to isolate the island diplomatically. China is also pressing countries across the world to voice support for its preferred framing that cross-Strait relations are an internal matter for China and in support of "reunification." U.S.-Taiwan relations remain constructive and robust, with the United States continuing to signal and provide steadfast support for Taiwan in a variety of ways, even as China's disinformation efforts attempt to paint the United States as an unreliable partner.

Key Findings

- Lai's election to the presidency signals broad support for his policies among Taiwan's populace; however, the DPP's losses in Taiwan's legislature may restrain the Lai Administration's agenda. Beijing reacted to Taiwan exercising its right to self-governance with immediate, extreme rhetoric as well as policy adjustments aimed at intimidating Taiwan. China escalated its indirect threats against not only Taiwan's leadership but also its international supporters by defining "separatism" in law as a crime punishable by death in certain circumstances.
- China has refused to communicate directly with the new DPP president and has chosen to intensify its political coercion efforts against Taiwan, suggesting that the frigid relationship between the DPP Administration and the Mainland will persist. Rather, the CCP has shown that it would prefer to go around the Lai Administration by interacting with opposition parties and interfering in Taiwan's political system.

- China has intensified its military coercion around Taiwan, aiming to gain operational experience, degrade the Taiwan military's readiness, and intimidate the island's population while routinizing its increased presence. The PLA launched its second named military exercise around Taiwan immediately after Lai's inauguration in May, as well as a follow-on exercise in October, and continued to violate the island's ADIZ on a near-daily basis with conventional aircraft, drones, and balloons.
- Beijing has also expanded its use of so-called "gray zone" tactics—blurring the line between military and non-military actions—against Taiwan in the maritime and air domains under the guise of law enforcement and administrative activity in an attempt to propagate its claim that Taiwan and the Taiwan Strait are its territory. The CCG's robust role in the May PLA exercise was novel and suggested that the CCG could augment future PLA operations against Taiwan. The reported presence of CCG ships around Taiwan's outlying islands outside the context of a PLA exercise is similarly concerning, laying the groundwork for a more persistent presence and representing an attempt to extend "lawfare" to its gray zone activities. China's unilateral modifications of civilian flight paths in the Taiwan Strait also abrogated a prior commitment made in 2015 to allay Taiwan's security concerns, increasing the risk of an air accident and furthering its efforts to nullify the median line.
- Taiwan continues to shore up its remaining diplomatic partners in the face of Chinese pressure to break ties while deepening its unofficial relationships with major countries in North America, Europe, and Asia. Using various points of leverage and influence, Beijing has engaged in an effort to get other countries to endorse its false claim that the 1971 UN General Assembly Resolution 2758 recognizes China's sovereignty over Taiwan as a matter of international law and to make statements supportive of China's unification goals for Taiwan.
- Taiwan's economy performed strongly in 2024, with AI-fueled demand for leading-edge chips and other high-tech manufactured products bringing about a surge in exports and a runup in the domestic stock index. This growth came as cross-Strait trade tensions heightened in the form of China's Ministry of Finance revoking preferential tariff exemptions on 134 products Taiwan exports to the Mainland in a move announced less than two weeks after Lai's inauguration.
- Approved outbound foreign direct investment (FDI) from Taiwan into the Mainland fell 39.8 percent year-over-year in 2023 to its lowest level in over 20 years. Meanwhile, approved FDI from Taiwan into the United States surged 791 percent in the same time period to $9.7 billion, a record high. In April 2024, Taiwan Semiconductor Manufacturing Company announced it would expand its planned investment in the United States over 60 percent to $65 billion after receiving a $6.6 billion federal grant as part of the CHIPS and Science Act.

Chapter 10: Hong Kong

Under the influence of China's central government, Hong Kong has installed General Secretary Xi's view of "holistic" national security, weakening the city's once vibrant institutions, civil society, and business environment. Hong Kong has experienced a serious erosion in its autonomy from the Mainland, although the manifestation of this erosion to date has been far more prominent in civil rights compared with the business environment. Hong Kong's new national security legislation, often called the Article 23 Ordinance, introduces new and ambiguous offenses that target all remnants of resistance to Beijing's control over the city's political, religious, and civil society organizations. The continued implementation of the mainland National Security Law (NSL) and the imposition of the Article 23 Ordinance, which has already been invoked to make new arrests, have diminished the former distinctiveness of Hong Kong. The vaguely defined offenses in both national security laws create an atmosphere of fear and uncertainty, intended to coerce Hong Kongers to self-censor or face legal repercussions. Political participation and expression in Hong Kong have withered as convictions rise for activities considered by the CCP to be seditious, including for singing *Les Misérables*' "Do You Hear the People Sing" and for wearing a t-shirt with the slogan "Liberate Hong Kong; revolution of our times." Hong Kong police and CCP operatives are attempting to repress international discourse on the topic by harassing overseas activists who have fled and intimidating their families who remain in Hong Kong. Local and international press organizations are self-censoring or leaving. The seven million residents of Hong Kong continue to enjoy greater freedoms than those living on the Mainland—including a freely convertible currency and comparatively uncensored internet and media—but only so far as they refrain from violating the CCP's broad and opaque conceptions of political dissent.

Hong Kong's status as an international business hub has deteriorated, and its economy has lost significant ground since the passage of the NSL in 2020. Normal business activities, including research and due diligence, collaboration with international colleagues, and fact-based analysis, face restrictions as Hong Kong's definition of national security expands. The changes raise questions about Hong Kong's ability to maintain its position as the financial connecter between mainland China and the world. Hong Kong's stock markets hit symbolic lows in 2024, while global trade increasingly bypasses Hong Kong for mainland Chinese ports. Despite the relaxation of COVID controls in 2023, international firms and expats continue their exodus from Hong Kong. The impacts have been pronounced within the legal sector, where notable international law firms have downsized their physical presence or left entirely. Meanwhile, mainland firms and people have moved into Hong Kong for its perceived comparative opportunities as mainland China's economic slowdown worsens. Hong Kong's pro-Beijing leadership, desperate for new sources of economic growth, welcomes these trends. Beijing uses Hong Kong to further its military aims through Hong Kong's place in the Greater Bay Area economic zone, funneling capital into Chinese technology startups. Hong Kong's looser business restrictions,

which historically have supported Hong Kong's status as a global legal and business hub, now are used by bad actors to circumvent sanctions and export controls. Although notable pockets of society, including the business community, remain sanguine about Hong Kong's status as a regional financial and trade hub, that status was based on a set of freedoms and the rule of law, which Beijing is actively eroding.

Key Findings

- Imposition of the Article 23 Ordinance further equips Hong Kong's government with legal tools to oppress any vestiges of dissent. Hong Kong's robust civil society, which once set it apart from the Mainland, is being eroded and replaced with a society where individuals, religious organizations, and the press must censor themselves or face possible criminal prosecution for activities that were previously protected by law.
- The rule of law in Hong Kong is under threat. Hong Kong's courts no longer maintain clear independence from the government and are being weaponized as the Article 23 Ordinance is enforced. The court's verdict in more than a dozen of the Hong Kong 47 cases to convict pro-democracy advocates for offenses that allegedly threatened national security, and subsequent resignations by international jurists in protest, illustrate the degradation of the city's judicial integrity.
- Imposition of the Article 23 Ordinance introduces uncertainty for businesses in Hong Kong. Firms and business professionals could potentially face criminal conviction for conducting normal business activity, including research, international collaboration, and due diligence.
- Hong Kong's repressive new security regime not only threatens Hong Kong residents but also can endanger foreign business professionals in Hong Kong and be wielded as a cudgel to repress the overseas activist community, including in the United States, through its extraterritorial application.
- Chinese nationals and businesses have flooded Hong Kong's labor force and economy, advancing Beijing's ambitions to integrate Hong Kong along with Macau and nine nearby mainland Chinese cities into the broader Greater Bay Area economic hub.
- Hong Kong has become a key transshipment node in a global network that assists Russia and other adversaries in evading sanctions and circumventing export controls. This diminishes the efficacy of U.S. and allied government efforts to advance important national security interests, and it exposes Western investors, financial institutions, and firms to financial and reputational risks when they do business in Hong Kong.

THE COMMISSION'S 2024 KEY RECOMMENDATIONS

The Commission considers 10 of its 32 recommendations to Congress to be of particular significance. The complete list of recommendations appears at the Report's conclusion on page 733.

The Commission recommends:

I. Congress establish and fund a Manhattan Project-like program dedicated to racing to and acquiring an Artificial General Intelligence (AGI) capability. AGI is generally defined as systems that are as good as or better than human capabilities across all cognitive domains and would usurp the sharpest human minds at every task. Among the specific actions the Commission recommends for Congress:

- Provide broad multiyear contracting authority to the executive branch and associated funding for leading artificial intelligence, cloud, and data center companies and others to advance the stated policy at a pace and scale consistent with the goal of U.S. AGI leadership; and
- Direct the U.S. secretary of defense to provide a Defense Priorities and Allocations System "DX Rating" to items in the artificial intelligence ecosystem to ensure this project receives national priority.

II. With respect to imports sold through an online marketplace, Congress eliminate Section 321 of the Tariff Act of 1930 (also known as the "de minimis" exemption), which allows goods valued under $800 to enter the United States duty free and, for all practical purposes, with less rigorous regulatory inspection. Congress should provide U.S. Customs and Border Protection adequate resources, including staff and technology, for implementation, monitoring, and enforcement.

III. Congress consider legislation to eliminate federal tax expenditures for investments in Chinese companies on the Entity List maintained by the U.S. Department of Commerce, or identified as a Chinese military company on either the "Non-Specially Designated National (SDN) Chinese Military-Industrial Complex Companies List" maintained by the U.S. Department of the Treasury or the "Chinese military companies" list maintained by the U.S. Department of Defense. Among the tax expenditures that would be eliminated prospectively are the preferential capital gains tax rate, the capital loss carry-forward provisions, and the treatment of carried interest.

IV. To enhance the effectiveness of export controls, Congress should:

- Improve the analytic and enforcement capabilities of the U.S. Department of Commerce's Bureau of Industry and Security (BIS) by providing resources necessary to hire more in-house experts; establish a Secretary's Fellows Program to more effectively attract interagency talent; expand partnerships with the national labs; increase access to data and data analysis tools, including the acquisition of proprietary

datasets and modern data analytic systems; and hire additional agents and analysts for the Office of Export Enforcement.

- Amend the Export Control Reform Act to require that within 30 days of granting a license for export to entities on the Entity List, including under the Foreign Direct Product Rule, BIS shall provide all relevant information about the license approval to the relevant congressional committees, subject to restrictions on further disclosure under 50 U.S.C. § 4820(h)(2)(B)(ii).
- Direct the president to:
  - Designate a senior official to coordinate efforts across the Administration to prioritize bilateral and multilateral support for U.S. export control initiatives; and
  - Establish a Joint Interagency Task Force, reporting to and overseen by the national security advisor and with its own budget and staff, to assess ways to achieve the goal of limiting China's access to and development of advanced technologies that pose a national security risk to the United States. The task force should include designees from the U.S. Departments of Commerce, Defense, State, Treasury, and Energy; the intelligence community; and other relevant agencies. It should assess the effectiveness of existing export controls; provide advice on designing new controls and/or using other tools to maximize their effect while minimizing their negative impact on U.S. and allied economies; and recommend new authorities, institutions, or international arrangements in light of the long-term importance of U.S.-China technology competition.
  - Codify the "Securing the Information and Communications Technology and Services Supply Chain" Executive Order to ensure that as the authority is used more robustly, challenges to its status as an executive order will not constrain BIS's implementation decisions or delay implementation.

V. Congress consider legislation to:

- Require prior approval and ongoing oversight of Chinese involvement in biotechnology companies engaged in operations in the United States, including research or other related transactions. Such approval and oversight operations shall be conducted by the U.S. Department of Health and Human Services in consultation with other appropriate governmental entities. In identifying the involvement of Chinese entities or interests in the U.S. biotechnology sector, Congress should include firms and persons:
  - Engaged in genomic research;
  - Evaluating and/or reporting on genetic data, including for medical or therapeutic purposes or ancestral documentation;

- Participating in pharmaceutical development;
- Involved with U.S. colleges and universities; and
- Involved with federal, state, or local governments or agencies and departments.

- Support significant Federal Government investments in biotechnology in the United States and with U.S. entities at every level of the technology development cycle and supply chain, from basic research through product development and market deployment, including investments in intermediate services capacity and equipment manufacturing capacity.

VI. To protect U.S. economic and national security interests, Congress consider legislation to restrict or ban the importation of certain technologies and services controlled by Chinese entities, including:

- Autonomous humanoid robots with advanced capabilities of (i) dexterity, (ii) locomotion, and (iii) intelligence; and
- Energy infrastructure products that involve remote servicing, maintenance, or monitoring capabilities, such as load balancing and other batteries supporting the electrical grid, batteries used as backup systems for industrial facilities and/or critical infrastructure, and transformers and associated equipment.

VII. Congress direct the Administration to create an Outbound Investment Office within the executive branch to oversee investments into countries of concern, including China. The office should have a dedicated staff and appropriated resources and be tasked with:

- Prohibiting outbound U.S. investment through a sector-based approach in technologies the United States has identified as a threat to its national or economic security;
- Expanding the list of covered sectors with the goal of aligning outbound investment restrictions with export controls. The office should identify and refine the list of covered technologies in coordination with appropriate agencies as new innovations emerge; and
- Developing a broader mandatory notification program for sectors where investment is not prohibited to allow policymakers to accumulate visibility needed to identify potential high-risk investments and other sectors that pose a threat to U.S. national or economic security. In addition to direct investments, the notification regime should capture passive investment flows to help inform debates around the expansion of prohibitions to cover portfolio investment.

VIII. Congress amend the Consumer Product Safety Act to (1) grant the U.S. Consumer Product Safety Commission (CPSC) unilateral mandatory recall authority over products where the Chinese seller is unresponsive to requests from the CPSC for further information or to initiate a voluntary recall and the

CPSC has evidence of a substantial product hazard, defined as either failing to comply with any CPSC rule, regulation, standard, or ban or posing a substantial risk of injury to the public; and (2) classify Chinese e-commerce platforms as distributors to allow for enforcement of recalls and other safety standards for products sold on these platforms.

IX. Congress repeal Permanent Normal Trade Relations (PNTR) for China. The PNTR status allows China to benefit from the same trade terms as U.S. allies, despite engaging in practices such as intellectual property theft and market manipulation. Repealing PNTR could reintroduce annual reviews of China's trade practices, giving the United States more leverage to address unfair trade behaviors. This move would signal a shift toward a more assertive trade policy aimed at protecting U.S. industries and workers from economic coercion.

X. Congress direct the Office of the Director of National Intelligence, within 180 days, to conduct a classified assessment, and brief its findings to Congress, of the intelligence community's (IC) ability to accurately monitor strategic, nonmilitary indicators that would signal that China is preparing for imminent conflict and the extent to which China's increasing lack of transparency affects the IC's ability to monitor this information. The assessment should include, but not be limited to, the following:

- The IC's ability to monitor:
  - China's energy storage locations and stockpiling rates, particularly for crude oil, coal, and natural gas;
  - Production shifts from civilian to military industries;
  - China's national defense mobilization system; and
  - China's strategic reserves and their compositions and locations;
- The IC's ability to coordinate with non-Title 10 and -Title 50 federal agencies that have technical expertise in agriculture and trade to monitor China's food and energy stockpiling and any derived indicators that may signal a potential preparation for conflict;
- Whether the IC's current geospatial intelligence posture is adequate to compensate for the loss of open source information from China; and
- The desirability and feasibility of establishing an Energy Strategic Warning system involving coordination between relevant entities including the National Geospatial-Intelligence Agency and the U.S. Departments of Energy, Commerce, State, and the Treasury.