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A FIELD GRADE REVIEW OF THE STRATEGIC IMPLICATIONS OF CHINA'S ACCUMULATION OF AMERICAN BUSINESS

December 2018

By: Timothy T. Hall

Advisor: Ryan S. Sullivan
Second Reader: Mie-Sophia E. Augier

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CHINA'S ACCUMULATION OF AMERICAN BUSINESS**

Timothy T. Hall, Major, United States Army

Submitted in partial fulfillment of the
requirements for the degree of

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Approved by: Ryan S. Sullivan
Advisor

Mie-Sophia E. Augier
Second Reader

Rene G. Rendon
Academic Associate, Graduate School of Business and Public Policy

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ABSTRACT

This thesis investigates the investments by the Chinese Communist Party (CCP) and whether they may be construed as a national security threat to the United States. China has lauded its Made in China (MIC) 2025 plan with an emphasis on becoming the world's superpower. By its entry into the World Trade Organization (WTO), and subsequent Most Favored Nation (MFN) status granted by the United States, China has amassed a great deal of wealth, power, and influence around the globe. Through our research we reviewed articles, books, and papers that underscore China's hegemonic plans through acquisitions to support our argument. In the face of China's incursions into economic areas once dominated by the United States, we conclude that China has been successful thus far by its pursuit of strategic economic and infrastructure assets. As America continues to acquiesce, China will supersede the U.S. not only economically but militarily. We provide recommendations that will have immediate impacts and may help to retain America's sovereignty as an autonomous nation.

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LIST OF ACRONYMS AND ABBREVIATIONS

CCP	Chinese Communist Party
CFIUS	Committee on Foreign Investment in the United States
DoD	Department of Defense
DOTR	Department of the Treasury
FDI	Foreign Direct Investment
ICT	Information Communications and Technology
MIC 2025	Made in China 2025
MFN	Most Favored Nation
NSS	National Security Strategy
PNTR	Permanent Normal Trade Relations
SOE	State Owned Enterprise
UFWD	United Front Work Department
USCC	U.S.-China Economic Review Commission
WTO	World Trade Organization

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EXECUTIVE SUMMARY

This report provides a review and analysis of China's investment strategy to utilize every aspect of capital inflows as a weapon to remove and replace the United States as the world's leading superpower. This research contends the Chinese Communist Party (CCP) is succeeding in 10 economic sectors, including artificial intelligence that could possibly render the U.S. obsolete. By its entry into the World Trade Organization (WTO) and subsequent Most Favored Nation (MFN) status granted by the United States, China has amassed a great deal of wealth, power, and influence around the globe. The CIA World Factbook (2018) lists China as the largest economy in the world and the United Nations (UN) (2014) maintains that China is still a developing nation. Moreover, this has emboldened China to not only influence the world but to conduct espionage activities within the United States. From Foreign Direct Investment (FDI) to lobbyists, further investigation reveals American decisions assisted with China's ascension.

China executes consistent antipathetic behaviors with regard to the national security of the United States. The Chinese Made in China (MIC) 2025 plan is its global plan for economic dominance. This report evaluates the actions, both domestic and foreign, that have allowed China to challenge the United States on the world stage and subvert U.S. economic prowess. According to the 2017 National Security Strategy these actions threaten U.S. interests and the American way of life (Trump, 2017, p. 7).

This report recommends that we should look inward and change laws and regulations to ensure national secrets remain with the U.S. We should pay attention to where and to whom Chinese FDI flows as an effort to thwart the influence of foreign agents in shaping domestic politics. We should also ask Congress to provide legislation that correctly labels the origin of all imports, including prescription drugs.

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I. INTRODUCTION

A. AREA OF RESEARCH

This thesis will investigate the strategic implications associated with the Chinese Communist Party's (CCP) engagement in domestic and global acquisitions that directly threaten to undermine American national interests. China's accumulation of key infrastructure and American technologies along with continued investment into U.S.-dominated markets in order to thwart American economic growth is profound. This thesis will explore Chinese exploits through strategic purchasing and milestones achieved that have allowed it to supplant the U.S. economy. The CCP continuously promotes its State-Owned Enterprises (SOE) and often execute violations of agreements to the World Trade Organization (WTO). It is estimated that since its entrance into the WTO, the U.S. has lost over 1 million jobs and has sold over \$1 trillion in debt to China. The hypothesis used throughout this thesis is that the CCP is executing a grand stratagem to remove the U.S. as the world's leader by purchasing U.S. national security assets only to replace the world's leading hegemony with China. The Rhodium Group's China Investment Monitor (2018) estimates that China has invested \$140.5 billion in 1,571 deals throughout the U.S. from 2000 to 2018. We will display the CCP stratagem of warfare through acquisitions that undermine U.S. national interests and the relentless pursuit of U.S. corporate business interests and how it has provided the Chinese with knowledge and leverage to surpass the U.S. as the world's leading hegemony. This will be completed by articulating historical facts, figures, and real data to provide evidence of the indirect acquisition warfare the CCP is waging on the U.S. in pursuit of its hegemonic goals. This report will also address the undeniable facts of how we as Americans allowed and pressed for a new China resolve to lead the world. By investing over \$250 billion into China since 1990 (Rhodium Group, n.d.) it cannot go unnoticed that the U.S. is why China is what it is today (see Figure 2).

B. BACKGROUND

On October 18, 2018, the public affairs office of the Department of the Treasury (DOTR) released a statement to the press regarding strengthening provisions and

jurisdiction of CFIUS. This indicated that the United States welcomes foreign investment but not at the risk of national security. While not naming China specifically, China is a guilty party and has threatened our national security by investing in key American infrastructure and technology through Mergers and Acquisitions (M&A) (DOTR Office of Public Affairs, 2018). In his book, *The Hundred Year Marathon* Michael Pillsbury purports that, while some Sino-American acquisitions seem benign, the Chinese Communist Party (CCP) stratagem is a passive aggressive approach to overtake the United States as the world's leader. He adds, its vision of world hegemony includes all facets of national power. The Chinese are slowly accumulating wealth and businesses of the west to obtain a lariat of influence on the world (Pillsbury, 2016). In a University of Chicago article Ding (2000) holds, through a consortium of investments China is making heads way in its efforts to lead the world in both tangible and intangible assets (Ding, 2000). As the CCP accumulates western business so too does its ability to dictate global influence and force U.S. allies to re-think their commitments to the U.S. (Pillsbury, 2016).

The Committee on Foreign Investments in the United States (CFIUS) provides it is the first line of defense in Foreign Direct Investment (FDI). While facing overwhelming challenges, they attempt to navigate this landscape and balance national security and foreign investment in the United States (CFIUS 110 Congress, 2007). According to Rhodium Group the Chinese FDI in the U.S. spiked in 2016 comparatively (see Figure 1 and Figure 2) and most investments from China into the U.S. being SOE at \$34.93 billion with U.S. to China SOE at around \$50 million (Rhodium Group, n.d.).



Figure 1. Chinese FDI in all U.S. industries from 1990–2017: \$139.81bn. Source: Rhodium Group (n.d.).

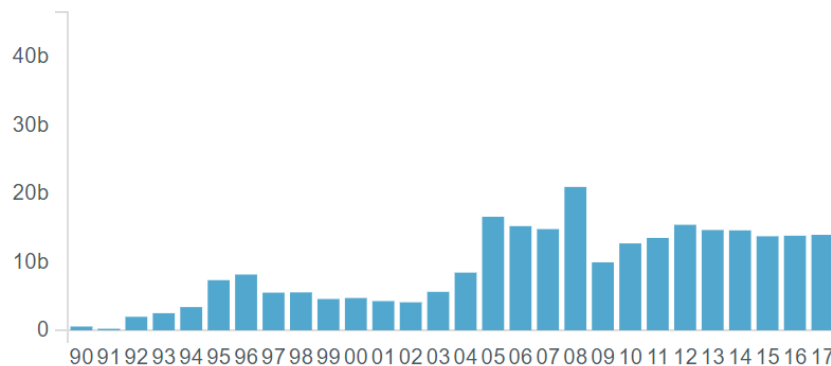


Figure 2. U.S. FDI in all Chinese industries from 1990–2017: 256.49bn. Source: Rhodium Group (n.d.)

The Rhodium Group provides independent research data analytics and policy advice to assist with forecasts on a global scale and asserts that Chinese investment into the U.S. has exploded within the past two decades with 1571 total deals worth \$140.5 billion (Rhodium Group, 2018). First, The United States Economic Review Commission on China (USCC) maintains that a majority of these investments have been in critical technology and infrastructure of the United States with several transactions receiving direct influence and guidance from the United Front Work Department (UFW), a CCP organization responsible for coordinating China influence around the globe. Next,

this type of FDI poses a direct and serious threat to our national security and to the defense of the nation. Then, the commission goes on to suggest China has attempted to circumvent CFIUS through the guise of greenfield investments¹ and by utilizing the sovereign immunity defense. Finally, Chinese firms have become more sophisticated with disguising nefarious U.S. transactions and purchases utilizing false based U.S. companies or through cyber espionage. It does this by promoting false narratives that impact a company's market share (USCC, 2017). The 2017 National Security Strategy (NSS) indicated that the United States has taken steps and that those actions prescribed above will no longer be tolerated "we have also continued to make clear that the United States will no longer tolerate economic aggression or unfair trading practices" (Trump, 2017, p. 1).

John Crabb argues in *The International Law Review*, increased regulations and laws intended on curbing Foreign Direct Investment (FDI) may have a profound impact on whether foreign investors believe the U.S. is a wise investment choice, he states "critics have suggested the U.S. reputation as an attractive destination for foreign investment, will be negatively affected," he also maintains that FDI provides jobs and economic growth therefore, the U.S. cannot afford to lose its competitiveness and thereby its economy. (Crabb, 2017).

C. SCOPE OF THESIS

The scope of this research is limited to certain actions of China in the stratagem they have imposed that impacts the U.S. The limited aspects discussed are a consolidation of events that viewed as a whole provide credence to this report considering the U.S. has only recently become aware of the Chinese stratagem and awoken to the idea that China's actions and intentions are not in the best interest of our national security. This report is not meant to be exhaustive as the scope could immediately expand, therefore we will discuss a limited aspect of known acquisitions and their impacts. Our hypothesis is supported by

¹ A Greenfield investment is "a type of venture where finances are employed to create a new physical facility for a business in a location where no existing facilities are currently present. A greenfield investment originally referred to locating new company buildings on a pasture that was literally a green field, but the term is often used generally in modern business communication" (Business Dictionary.com, n.d.).

publicly available books, literature, information, data, and facts with the intent to provide options and recommendations for further change. A microcosm of China's actions will be discussed since the U.S. is still finding evidence of CCP nefarious actors and transactions. This includes CCP acquisition practices that undermine U.S. national interests and its absorption and accumulation of American business to project CCP influence around the globe. Pillsbury (2016) asserts that the promotion and assistance dating back beyond the Nixon administration set the new Sino-world hegemonic plan on its path and that we had long surmised that China had no intention of overtaking the U.S. as the world's superpower but, yet they have a planned to do so all along (Pillsbury, 2016). As Liu Mingfu, a colonel in the People's Liberation Army, has said and written in his book, "it has been China's dream for a century to become the world's leading nation" (Mingfu, 2015). As General Secretary of the Chinese Communist Party, he has repeatedly called for China to "develop a strong military" (Mingfu, 2015). He also echoed Western strategists' proposals that China's ascension seems to be a common idea as Yale University Professor Paul Kennedy had predicted in his book, *"The Rise and Fall of the Great Powers,"* Mingfu said, "his analysis of China's strategy was very accurate. China's rise was, before all else, the rise of its strategy" (Mingfu, 2015).

A financial newsletter writer for Forbes magazine, Peter Pham, discusses how by simply providing a cheaper alternative for domestic options, China impelled its ascent. He argues that the Chinese practice of copying famous brands attracted the original owners and therefore shifted entire industries into China (Pham, 2018). This includes everything from launching satellites cheaply in the 90s (Gerth & Sanger, 1998) to today with the purchase of American companies. Pillsbury (2016) suggests these types of acquisition practices and purchases of American business by the CCP should send an alarm and foretell the CCP world strategy. He also notes, the Chinese Communist Party have and will use these companies to further propel themselves past the U.S. as the world's largest technology exporter while garnering other assets to tear down American resolve (Pillsbury, 2016). Highlighting the use of FDI as a strategic tool by the Chinese and the severity of the challenges posed is the purpose of this research along with a discussion as to how it relates

to U.S. national security. We also submit possible strategic implications and propose recommendations.

D. RESEARCH QUESTIONS

Within this topic there exists one primary research question to be addressed with 5 secondary questions. The primary research question is:

- Is China's acquisition of American business a threat to our national security?

The secondary research questions are:

- What acquisitions has the CCP achieved to support its goals?
- Have Americans contributed to its behavior?
- Has the CCP weaponized business capitalization on a global scale?
- What are the security implications to the U.S. by the CCP's actions?
- What processes are in place to stop the Chinese Communist Party strategic acquisitions?

This thesis will involve four chapters with very specific topics for support with Chapter I being the introduction. Chapter II we review strategic purchases of parts of the economy with subsectors including information and technology (also addressed is the CCP's industrial turn towards technology and how it has led it to convince the tech companies of America that Chinese markets provide unlimited potential without consequence), food and agriculture, land, prescription drugs, and infrastructure. We discuss how domestic and geopolitics play a role and we discuss the indirect efforts of China to meet the challenge of the U.S. military. Also, we observe how China is expanding its military footprint in order to promote a new global force. This chapter will also address the questions posed and provide real evidence to support this report. Chapter III will discuss the impacts of the Committee on Foreign Investment in the United States (CFIUS), this includes the findings of CFIUS and the US-China Economic Review Commission (USCC). Finally, Chapter IV will provide recommendations and conclusion while looking at the resource inflows either into political investments or human investments we see how vulnerable we are to China's global boom. Also, discussed is the United Front Work Department (UFW) reach back idea to promote CCP influence in the U.S.

E. CONCLUSION

We as a nation must understand the goals and objectives that underscore China's ascent to hegemony. The Government Accountability Office (GAO) insists the reality of the CCP's strategy is emerging as the single most immediate and frightening threat to the U.S. national security strategy with China as a master of exploiting a competitive advantage to which only they have benefited. The GAO goes on to show that historically we had a deficit in trade with China, in 2001 exports to China totaled \$18 billion however, imports from China were \$102 billion in the same year (GAO, 2002). The USCC supports this by explaining the CCP by utilizing the market of China, is strategically targeting sectors of the U.S. economy through direct or indirect investment (USCC, 2017). While Michael Pillsbury warns this is the grand strategy of China and we must go beyond five and ten-year plans and discuss and implement enduring policies if America is to remain the leader of the free world (Pillsbury, 2016).

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II. NATIONAL SECURITY CHALLENGES

A. INTRODUCTION

According to the CIA World Factbook (2018) in 2017 China listed as the largest economy in the world all while the United Nations (UN) (2014) maintained that China is still a developing nation. Tellis and Mirski (2013) argue the U.S. fell far behind understanding and recognizing China's strategy to overwhelm the U.S. economy and thrust itself as the world's hegemony (Tellis, & Mirski, 2013). Scott Kennedy agrees China's aggressive pursuit of its Made in China (MIC) 2025 plan has come at great cost to the U.S. including our interests in the geo-political landscape and military dominance (Kennedy, 2018). While Milhaupt suggests China is now shaping attitudes of the world through predatory acquisitions, FDI, lending and WTO violations (Milhaupt, 2008). As Tweed and Leung (2018) have provided, China now has the ability to close nations out of markets as they regulate imports and exports of host countries. Clingendael suggests these practices leave some foreign nation's without recourse, leaving everyone from Africa to Europe bowing to China's global pursuit (Clingendael, 2018).

CNN argues U.S. acquiescence allows China to purchase American companies with impunity (CNN, 2018). As stated by Peter Navarro (2017) in a USA today web article, General Keith Alexander, former director of the National Security Agency, has called this 'the greatest transfer of wealth in history.' "Allowing such behavior to continue unchecked will imperil America's current position as a leader in technology and the world's most innovative economy" (Peter Navarro, 2017). William Zarit (2018) agrees that while China requires U.S. companies to divulge trade secrets and technologies in order to enter its domestic markets, no reciprocity exists (Zarit, 2018). Dittmer (2018) notes that globally, China floods markets with products at extremely low prices and thereby cuts foreign producers out, "importing raw materials from less developed countries and intermediate components from Japan and the NICs, China flooded markets with inexpensive finished products" (Dittmer, 2018, p. 4). The 2017 Report to Congress on China's WTO compliance by the United States Trade Representative agrees this perpetuation is a direct violation of its WTO agreement with unfair trade practices (United States Trade Representative, 2018).

The markets targeted specifically are the exact markets that are listed in China's MIC 2025 plan.

The following is a list of the 10 sectors identified by China's MIC 2025 plan and originally provided by the state council and repeated on the United States Chamber of Commerce website (United States Chamber of Commerce (USCOC), we should note that an attempt to utilize the direct link as cited and provided in the Chamber of Commerce Report, the MIC 2025 plan, this information is not available):

- Next-generation information technology;
- High-end numerical control machinery and robotics;
- Aerospace and aviation equipment;
- Maritime engineering equipment and high-tech vessel manufacturing;
- Advanced rail equipment;
- Energy-saving and new energy vehicles;
- Electrical equipment;
- New materials;
- Biomedicine and high-performance medical devices; and
- Agricultural machinery and equipment (USCOC), 2017, p. 10)

The Harvard Business Review (HBR) contends China is rapidly achieving success and holds the largest share of some markets and in most cases is the sole global supplier of others (HBR, 2010). The USCC maintains, not only are these actions a direct violation of WTO agreements, but they are a threat to U.S. National Security, the pursuit of targeted acquisitions poses a real security risk to the United States (USCC, 2017).

This report will discuss China only however, we must note that the 2017 NSS lists two main countries that harbor strategic challenges for the U.S., "China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence" (Trump, 2017, p. 2). Cheng asserts the CCP has sought direct and indirect hostility towards the U.S. and her national interests through employing less confrontational techniques (Cheng, 2012a). Zakaria insists, China has deluged markets with products having cut rate prices forcing competitors to dissolve (Zakaria, 2018). Brotherton-Bunch concedes that this allows China to purchase American wealth either through direct purchases or in a less abrupt manner through espionage which reduces American

manufacturing market share (Brotherton-Bunch, 2018). Nash-Hoff (2018) points out that the U.S. has exacerbated the problem by perpetuating policies that allows 100 percent ownership of American firms by foreign investors, “many foreign countries don’t allow 100% foreign ownership of their businesses, but sadly, the United States does not exercise the same prudence” (Nash-Hoff, 2018). Either way, as Harris (2018) points out, most politicians ignored the preliminary warning signs; but some began taking action in 2018. However, he proposed there is little appetite to sustain punitive involvement (Harris, 2018). Ramaswamy (2017) contends that Corporations driven by profit and closely related politicians revel in the idea of a Sino-American partnership in emerging markets (Ramaswamy, 2017), Feldstein (2018) concurs and says, “significantly, U.S. and other multinational corporations willingly enter into these legally-negotiated arrangements for commercially sound reasons—not only to establish a toehold in China’s rapidly growing domestic markets, but also as a means to improve operating efficiency with a low-cost offshore Chinese platform” (Feldstein, 2018). Campbell and Ratner (2018) agree, since Nixon it was this way however, until recently the threat would not go unchecked (Campbell & Ratner, 2018).

As proposed by McGregor (2017), the CCP does not see America as a partner but a means to an end (McGregor, 2017). The 2017 NSS implies that China is continuously promoting a stratagem developed by the CCP and has consistently pursued patience and deception to strategically inject itself into American markets and therefore encircle the U.S. in a way where it may control our economy (Trump, 2017). Levy asserts under the guise of a helpless nation, the Chinese entry into the WTO received full U.S. support during its review with that support seeming benign at the time (Levy, 2018). Weightman supports this idea, he explains the CCP has consistently pursued provisions in many areas of the global market unfavorable to the U.S. and favorable to that of only China (Weightman, 2018). Amadeo (2018a) agrees. She asserts this by discussing ways China is being successful: China is pulling nations away from the U.S. through intense trade competition at the detriment of the U.S; China is converting the world’s currency reserves from the U.S. dollar to the Yuan. And the costs of producing goods for the world market in China is lower than in the U.S. which has a profound impact on the dollar (Amadeo, 2018b).

Writer adds, the CCP does this all while connoting a perceived American evil (Writer, 2018). Hindsight provides pause as Mahnken (2018) continues, since its entry into the WTO the CCP has consistently attempted to subvert U.S. interests (Mahnken, 2018).

The indicators for an erosion strategy of U.S. markets is not limited to FDI and theft alone. What is also occurring is outright assault on American manufacturing innovation as Williams mentions in his article (Williams, 2018). In a 2016 CFIUS report, America continuously pursues actions to thwart these threats however, they are not withstanding challenges. The report describes the convoluted techniques and organizations used by some Chinese firms and how they overwhelm the CFIUS process. This includes Chinese SOE pursuing greenfield investments and attempts to utilize the Foreign Sovereignty Immunities Act, where a company may be granted immunity from belligerent acts based on its registration as a foreign entity. China has not only developed a web of strategy to circumvent U.S. policies and regulations but also, it has an agency directly in charge of these odious acts, the UFWD (USCC, 2017). Bowe discusses the UFWD.

Bowe (2018) claims the UFWD is a tool of President Xi Jinping that holds its beginnings in the 1920s when it attempted to subvert the Kuomintang. He continues with, the goals of the UFWD are based on the Leninist theory of uniting all lesser forces in order to subvert the greater ones, it does this with the mindset of uniting factions to combat enemies abroad. He explains the UFWD continuously acts in disregard to U.S. policy and targets individuals and institutions it deems unfavorable to that of the CCP, “simplistically framing the debate over China’s overseas United Front work as ‘Chinese’ influence conflates the positive influence that Chinese culture and people have with the targeted subversive influence of a foreign power to shape U.S. policy in ways that may be against the United States own interests” (Bowe, 2018, p. 19).

B. ECONOMY

The 2017 NSS states that, “Economic challenges at home demand that we understand economic prosperity as a pillar of national security” (Trump, 2017, p.18). As a member of the Congressional-Executive commission on China Sherrod Brown a Democratic Senator from Ohio said, “I am calling on China to fully comply with WTO

commitments and fully and faithfully implement all of the WTO rulings against it” (Sherrod Brown, Congressional-Executive Commission on China (CECC), 2014). The USCC (2017) provides that the U.S. can no longer afford to neglect disparaging trade practices and unfulfilled commitments and this is where the WTO plays an immense role (USCC, 2017). As explained on the WTO website, the WTO was founded on 1 January 1995, located in Geneva, Switzerland, and utilizes negotiations between countries to keep trading practices fair and is a direct result of the General Agreement on Tariffs and Trade (GATT) of 1948. Also, “at its heart are the WTO agreements made by the bulk of the world’s trading nations. While these documents provide the legal ground rules for international commerce, the system’s overriding purpose is to help trade flow as freely as possible—so long as there are no undesirable side effects” (WTO, 2017). Located in the Geneva Convention, the contractual agreement of the GATT as stated to which the U.S. and China are a signatory is outlined with legal ramifications, ... “being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce” (GATT, 1947, p. 2).

Located on the WTO website is the history and the primary information about the WTO, it goes on to explain that China joined the WTO in 2001 and also notes, that the WTO, to which 159 countries are currently members of including the U.S. and China, contracts the global rules of trade between nations and included in these rules are restrictive business practices and international investments. Also, as a part of the agreements, individual countries agree not to conduct protectionist type activities, which includes relative bias to their own products, and not to exercise unfair trading and business practices. The website continues and discusses such unfair trading practices such as increasing tariffs on imports and providing subsidies on exports increases an individual country’s market share and are highly discouraged; however, if these practices do happen, the WTO provides an avenue for discourse if the issues arise (WTO, 2017).

Salem argues that granting China MFN status was a disaster (Salem, 2018) for the U.S. and insists we see more and more evidence of China exploiting this agreement with

predatory business tactics, theft of intellectual property, and lack of reciprocity. A statement from Robert Atkinson maintains this argument, “in 2001, the pundits were nearly unanimous in saying that joining the WTO would change China as it bought into the same rules of the game for market-based trade that everyone else plays by. Now we know that what China really bought from Geneva was a get out of jail free card” (Bednar, 2016).

As provided by Amedeo, one aspect of China’s competitive advantage in the production of goods lies with the ability to control its workforce with impunity and the low wages paid to Chinese workers is directly correlated to the low standard of living in the country (Amadeo, 2018a). Bacon contends however, China’s productivity through advancing technologies is beginning to match the low wages and therefore they are losing this advantage for China’s economy. He maintains this still remains a driver in Chinese overall production market share (Bacon, 2015). This point is demonstrated by Bulloch, first, some believe China has reached the “Lewis Turning Point” and will need to advance further into markets not previously occupied and this is where its long-term strategies for technological theft and influence will become more profound. Then, as China’s wages increase the trend of low-wage and higher profits peaked. Finally, because of this, productivity has begun to decline therefore China will continue to seek more intellectual property theft and extreme policy change while looking to spearhead more advanced technologies, technologies that the U.S. remains the prime (Bulloch, 2017). The NSS (Trump, 2017) explains that American lead investment is key and we see an increasing amount of non-reciprocal investment in U.S. domestic products and services such as in new technologies, foods, infrastructure, medicines, research and military automation and applied sciences (Trump, 2017). The USCC finds this occurs more as China’s commitments to the WTO become extremely attenuated and even with Most Favored Nation (MFN) treatment, China continues to deny access to domestic markets, promote predatory Mergers and Acquisitions (M&A) practices, and participate in acts of espionage, (USCC, 2017).

A 2002 GAO report foreshadowed the sentiment of the USCC and the outcome if China did not adhere to its commitments of non-discriminatory operations. This included the implementation of high tariffs on foreign imports and the estimated increase of tariffs

on imports. They noted the possible high tariffs on imports from the U.S. alone would be a direct violation of WTO agreements. Also, as an example, after accession into the WTO China failed to reduce tariff barriers and maintained a discriminatory practice of exceptionally high tariffs on U.S. products. With regard to Tariffs, it was estimated that China would continuously leverage a steady high rate in a plethora of traded products from 2001–2010 (see Figure 3) (GAO, 2002). They were right.

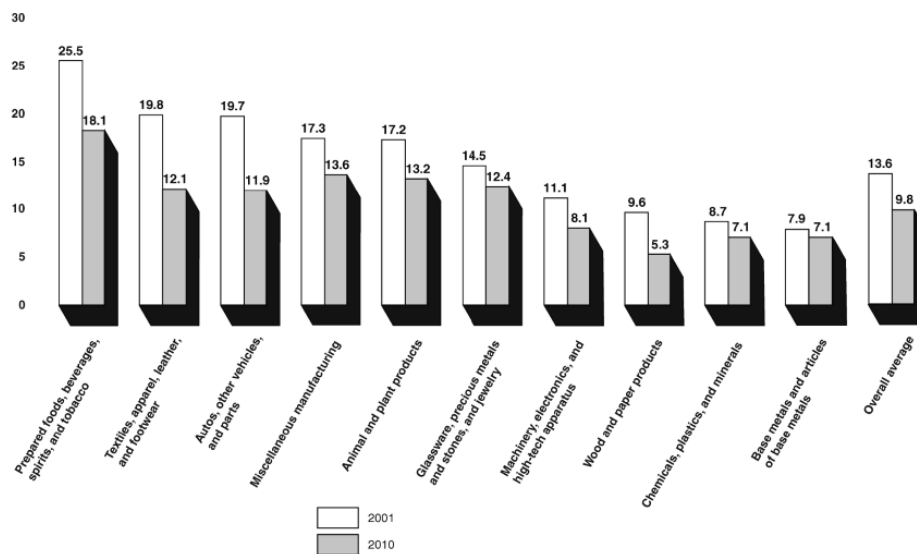


Figure 3. Average Chinese tariff rates by industry category 2001 and 2010. Source: GAO (2002).

Caitlin Dewey writes about food policy for the *Washington Post*; however, in one article, she discusses the escalating tariff exchange between the U.S. and China. With the ever-expanding trade deficit and to level the playing field, the Trump administration has levied new tariffs on China. China has in turn retaliated with tariffs of its own on several products, such as pork. Now that China owns Smithfield foods, (PBS, 2014) China has imposed a tariff on pork products (Dewey, 2018). In a congressional hearing on the foreign purchases of U.S. agriculture, Stabenow concludes that one can see how Chinese strategic purchases of American business may hurt America: there is no recourse when China decides to impose hostile trade policies against U.S. imports. She implies not only does the price of pork rise, but also it limits America’s ability to negotiate a better outcome allowing

the Chinese to do as they please, whereas if the Chinese did not own Smithfield Foods, they would have no leverage here (Stabenow, 2013).



Figure 4. U.S.-China trade 2017. Source: Council on Foreign Relations (2017).

This share of high tariffs only adds fuel to the U.S. argument concerning the trade deficit between the U.S. and China and overtime “the deficit with China expanded dramatically beginning in the early 2000s from an average of \$34 billion in the 1990s” (McBride, 2017) (see Figure 4). The Census Bureau provided the following, as of September 2018, the U.S. has a deficit of \$301,368.2 million in trade with China (Census Bureau, 2018) (see Figure 5). Solman adds the trade deficit as it contributes to the national debt continues and is considered to be a drag on U.S. prosperity (Solman 2009), and is a national security concern as stated in the 2017 National Security Strategy, “The national debt, now over \$20 trillion, presents a grave threat to America’s long-term prosperity and, by extension, our national security... making our businesses globally competitive, our economy will grow and make the existing debt more serviceable” (Trump, 2017, p. 19).

Month	Exports	Imports	Balance
January 2018	9,835.3	45,788.0	-35,952.8
February 2018	9,806.1	39,067.6	-29,261.5
March 2018	12,382.1	38,256.7	-25,874.6
April 2018	10,268.0	38,230.0	-27,962.0
May 2018	10,610.8	43,797.4	-33,186.6
June 2018	11,115.6	44,599.5	-33,483.8
July 2018	10,261.7	47,096.0	-36,834.3
August 2018	9,294.3	47,863.9	-38,569.6
September 2018	9,789.1	50,032.1	-40,243.0
TOTAL 2018	93,363.0	394,731.3	-301,368.2

Figure 5. China trade deficit to date. Source: U.S. Census Bureau (2018)

Controlling the trade deficit may help diminish the national debt as said by Mike Collins in his *Forbes* web article:

normally trade deficits are self-correcting because as the deficit grows the country's currency usually begins to decline in price in the world market. This makes exported goods less expensive and foreign goods more expensive and trade is supposed to balance itself. In the case of America this balance is not happening because many of our trading partners have figured out how to manipulate their currencies (using a fixed rate as compared to a floating rate) to keep the dollar value high so that they can continue to increase our imports. (Collins, 2015)

From 2001–2016 an increase in the parts of the U.S. national debt arguably may be relative to the trade deficit (see Figures 4 and 7).

Locke (2010) agrees (see Figure 6), and says:

China's deliberate policy of pegging the Yuan to the dollar makes American imports of Chinese goods artificially cheap and gives American companies opening factories in China an artificial subsidy. That's good for China but bad for America, and helps explain our soaring trade imbalance with China. An extraordinary 83 percent of America's non-oil trade deficit is with China. During the downturn, our trade deficit with other countries has been shrinking—but not with China.

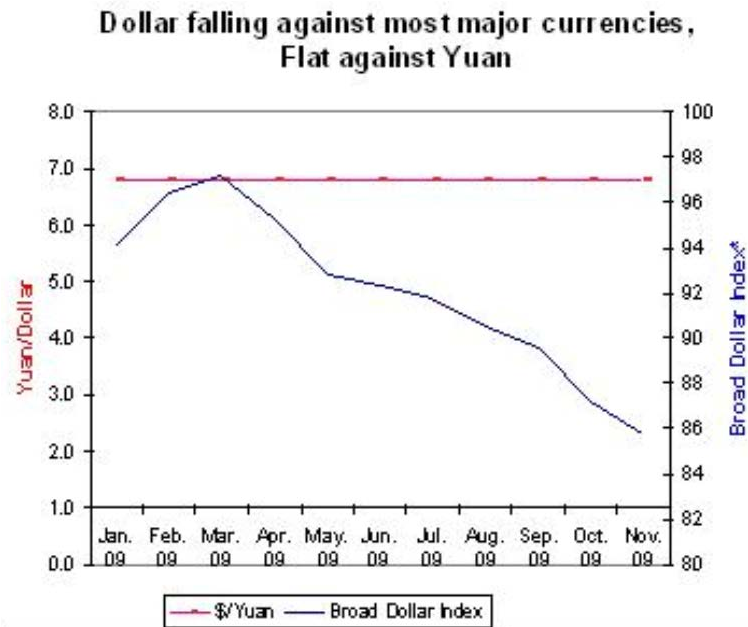


Figure 6. Dollar falling against most major currencies, flat against Yuan. Source: Lotke (2017)

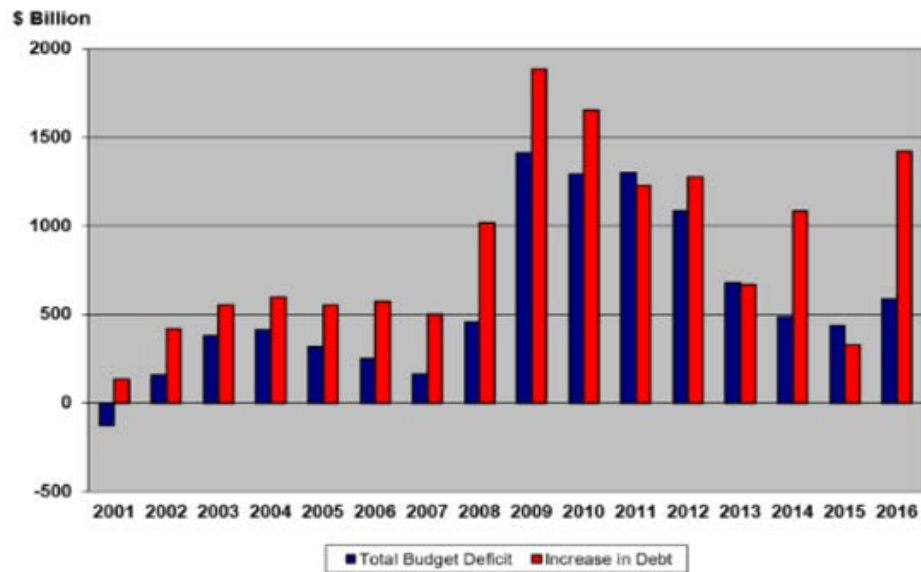


Figure 7. U.S. total budget deficit vs. national debt increases. Source: CBO (2017)

The Congressional Budget Office (CBO) highlights that the as a percentage of GDP the average debt is equal to the annual deficits and surpluses (CBO, 2017). Not only is the U.S. debt mentioned as a concern by the 2017 NSS but the same sentiment is echoed by Lieberthal and O'Hanlon in their article *The Real National Security Threat: America's Debt*, the U.S. national debt continues to climb and is the nation's largest security concern (Lieberthal & O'Hanlon, 2016). However, Angres and Salazar assert that the majority of that debt is largely publicly owned and is driven by government spending, mostly non-discretionary spending with mandatory spending at 13.1 percent of GDP and the average debt is held at 76 percent. They also note that defense spending otherwise known as discretionary spending is 3.1 percent of GDP or \$590 billion (Angres & Salazar, 2017). Treasury International Capital (TIC) system is a U.S. raw data report provided by the U.S. Treasury Department. A system that compiles data reports that track monthly holdings of treasury bonds and notes. This data is compiled and displays foreign debt ownership. They report that the largest foreign share is owned by China through treasury securities and as of August 2018 stands at \$1.16 trillion (Department of the Treasury Federal Reserve Board, 2018) or roughly 7.5 percent. In 2017 Daniel Bauer (2018) explained it another way (in 2017 the national debt was around \$19 trillion), of the \$19 trillion in national debt, the data reveals: five trillion is non-discretionary like Social Security, public purchases through individuals and corporations own about eight trillion, leaving foreign debt holdings at around six trillion. He also argues that the national debt is not as ominous as some would believe (Bauer, 2018). He also disagrees with the idea that the U.S. debt to China is a bad thing. He notes, purchased debt has terms, simply put a five-year treasury bond will expire after five years, not before, and in order for China to continue as the leading exporter it needs a strong dollar and weak yuan, if the yuan gained strength the exports of China would decrease because they cost more around the globe, therefore it is not in China's interest to call its debt because it would only weaken the dollar affecting Chinese exports directly. Also, the debt is not one way, as explained by Craig Hill in an article in the *China Daily Mail*, China owes Americans \$billions in war debt sold to finance its modernization and the war against Japan in the early 1900s (Hill, 2013).

However, Jeffrey Frieden (2015) supports a more odious but likely argument, he argues the type of debt owned by foreign nations is quite different than what we have seen before. He argues the recent Global Financial Crisis (GFC) was unique because, “the GFC was the first debt crisis in a rich country in decades, ... it was the first debt crisis in history to hit a whole host of rich countries at once” (Frieden, 2015, p. 5). He adds that recovery from a debt crisis also includes political overtures of conflict and is not just limited to mere economics. And states, “debt crises typically dissolve into political conflicts over how the burden of adjustment will be distributed, conflict erupts, internationally, creditor countries face off against debtor countries over the division of the costs of cleaning up bad debts” (Frieden, 2015, p. 5). Adam Smith (2010) in *The Wealth of Nations* points out that an expanding national debt decreases a country's options to apply resources where they are needed as national debt needs to be maintained (Smith, 2010). McBride and Masters (2018) argue this would limit the U.S. response in a future crisis or even respond to a disaster by reducing our footprint and leaving too many options available to other nations. They add, this is where the U.S. national debt is a security risk and it requires attention (McBride & Masters, 2018).

In testimony to the USCC Hanemann (2017) recognizes the impact of the CCP on Chinese investment efforts. He explains, the CCP owns the Chinese bank who is the capital distributor for investments supporting private Chinese firms and points out key concerns. He suggests that more Chinese investments into the U.S. equals more communist owned U.S. businesses. And as these businesses that are swallowed up by Chinese firms, are subjected to more communist influence, “the notion of a private enterprise is a very different concept in China. ...I do believe that we should assume that any company, whether it's nominally state owned or private, can be influenced and to some extent controlled by the Chinese government and ultimately the Communist Party” (USCC, 2017, p. 80).

The Rhodium Group reports Chinese FDI into the U.S. has decreased since 2017 however, interestingly it has increased in recent years within specific areas. They found Chinese investment in the United States rose from \$4.6 billion to \$46.2 billion between 2010 and 2016 (Rhodium Group, 2017), (see Figure 5 for 2018 numbers). Delaney (2018)

argues several examples exist of predatory economic tactics utilized by China to pinch U.S. manufacturers out of varying markets and degrade the U.S. military and Chinese strategic investments in the U.S. not only increase Chinese efforts in global competition but also it provides the impetus for firms to garner consumption of technology and capital that was not available in its indigenous markets.

The USCC (2017) agrees with several of Rhodium Groups findings and uses their research to provide context to their discussions on China’s strategic investments. The commission utilized the Rhodium Groups data in their China Investment Monitor (2017) that list the strategic investments by the CCP in the U.S. economy which include sectors of logistics, information and communications technology (ICT), real estate, transportation, electronics, entertainment, and finances (USCC, 2017, p.78). And is also supported by the U.S. Bureau of Economic Analysis data that shows China has provided 7.4 percent of U.S. investments in 2016 with many of those deals in several millions of dollars (Department of Commerce (DOC), 2017), the USCC states “with some of which warrant close scrutiny by U.S. regulators because of the CCP’s central role in Chinese firms’ foreign investment decisions and the potential national security risks posed” (USCC, 2017, p. 79).

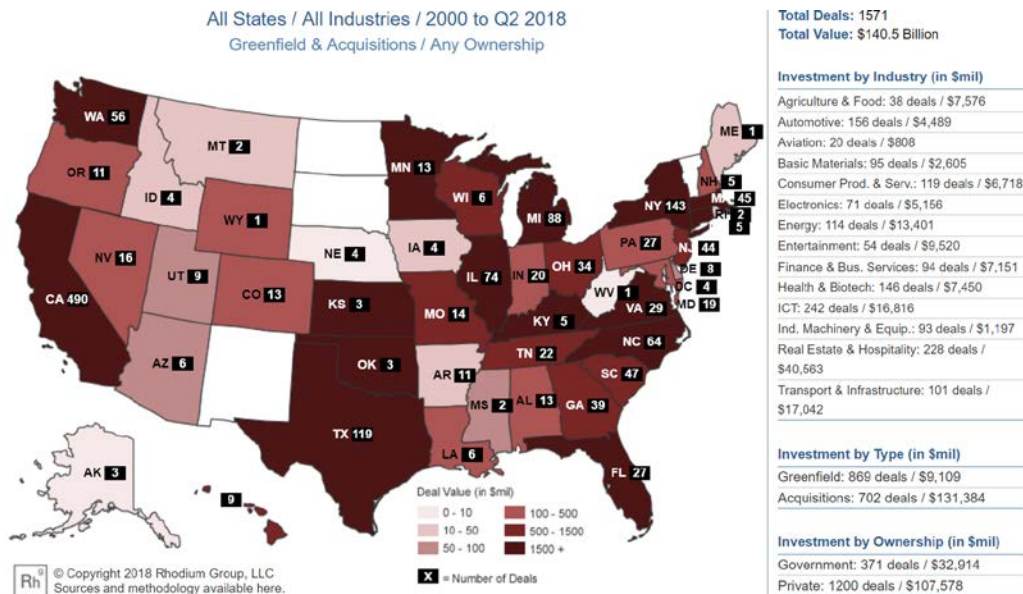


Figure 8. China Investment Monitor. Source: Rhodium Group (2018).

1. Information Communication and Technology

As tracked by the Rhodium Group, China has engaged in over \$15 billion (see figure 8) in ICT investments with some in the Congress troubled by the technology transfers to China, their concern is lack of reciprocation, bias trade practices, and limiting access to Chinese markets and developing Chinese technologies (USCC, 2017). Recognizing China's ICT investments Gandel (2016) acknowledges that China has some notable ICT acquisitions that include IBM, Ingram Micro, and Motorola and as Vincent (2016) reports, the Canadian firm Blackberry. It should be noted that a search in the Federal Procurement Data System (FPDS) disclosed that all of the aforementioned ICT firms were recipients of several large U.S. government contracts. Those contracts can provide valuable information to the CCP as Richard Harroch (2016) explains M&A data transfers this way, data access may be negotiated during Mergers and Acquisitions with the purchasing company receiving full access to the history of all contracts with former firms. This matters as the White House office of trade and manufacturing policy (2018) asserts, the purchasing firm is not just a company, it is now a communist nation. David Wallace (2018) points out that this also includes Amazon's cloud (Amazon Web Services (AWS)) where the CIA and GSA let contracts in order to purchase Amazon's cloud services and possibly now China has access to this data as well. Wallace notes, the DoD is also looking for cloud services and should reconsider contracting with Amazon, he says "Amazon Web Services is already compromised by the Chinese government. That arises from the previous AWS contract with Beijing Sinnet Technology Co. China requires foreign companies doing business in China to transfer its technology to its local Chinese partners. China considers that the price of doing business in China" (Wallace, 2018).

Another is Google's anticipated return to the Chinese information market. This will be discussed later however, the fact that Google is entertaining a return to the Chinese market should provide pause to the public and Department of Defense (DoD) alike since Google has insight on critical defense technology as Keren, Ben-Dov (2018) contends. Gandel (2016) also mentions the purchase of General Electric (GE) appliances by the Chinese manufacturer Haier at \$5.6 billion. While this may seem as an innocent purchase, PCBCart (n.d.) points out that one of the components of all modern appliances is a Printed

Circuit Board (PCB) to which the Chinese now own the manufacturing technology, from smartphones, medical devices, automotive, aerospace, marine, and lighting PCBs are paramount in the manufacturing of all electronics. And many countries are shifting their PCB production to China (PCBCart, n.d.). Most of these acquisitions may seem benign but when reviewed in the whole they should send a shock to U.S. security analysts with the large American ICT firms holding greater risk.

Spooner (2004) contends that Lenovo's acquisition of IBM, a \$1.75 billion deal moved mountains for the Chinese globalization of portable computers with Gertz (2018) reporting we have seen the CCP manipulate this platform as a vehicle for espionage activities. Khandelwal (2015) maintains Lenovo has been caught several times selling re-installed malware and adware on its PCs that were sold to the public. Rosenblatt (2015) provides context and uses Timo Hirvonen, a senior researcher at security software maker F-Secure, to explain why this matters, these types of hijacking programs such as Superfish record purchases and sales of individuals to which it then compiles the data and offers Chinese alternatives in pop-up ads as the consumer shops, along with providing back door access to hackers looking to steal information. Metz (2017) adds IBM also sold a large portion of its server division to Lenovo as well. At \$2.3 billion the purchase of x86 processors provided China with the competition inroads allowing the market to center on Asia. These type of x86 processors are what underlies the world wide web and now IBM has provided China with what it needs to corner a market where large companies like Facebook and Amazon look to procure their servers (Metz, 2017).

With respect to Lenovo these are not isolated cases, through a Bloomberg article Gershgorn (2018) continues, along with the PCs produced by Lenovo we are now seeing servers produced in Asia containing malware as well:

a targeted attack on American technology companies, whereby the Chinese military pressured manufacturers to install malicious chips into hardware destined for data centers run by Amazon and Apple ...U.S. intelligence officials told Bloomberg that after monitoring the servers known to contain the malicious chips, which were disguised to look like a typical chip component and were about the size of a sharpened pencil tip, their installation was traced back to China's military, the People's Liberation Army (PLA). (Robertson & Riley, 2018)

Robertson and Riley (2018) contend there exists massive DoD and other government agency compromises as well. Through strategic acquisitions, corporate purchases, and component suppliers China has infiltrated the highest levels of American defense. A new company with extensive government contracts with the name *Elemental* utilized a third-party firm for assembly of their servers, *Super Micro*. *Super Micro* is one of the world's greatest suppliers of motherboards. These motherboards produced in San Jose, California, and like Amazon contained a small chip that was inserted at the behest of the PLA.

Nested on the servers' motherboards, the testers found a tiny microchip, not much bigger than a grain of rice, that wasn't part of the boards' original design. Amazon reported the discovery to U.S. authorities, sending a shudder through the intelligence community. Elemental's servers could be found in Department of Defense data centers, the CIA's drone operations, and the onboard networks of Navy warships. Elemental was just one of hundreds of Supermicro customers. (Robertson & Riley, 2018)

Dave (2013) that Ingram Micro sold to HNA technology which is a Chinese firm that rates considerably in aeronautics and logistics for \$6.3 billion. Ingram Micro is "the world's largest wholesale distributor of computer hardware and software" (Dave, 2013). Ingram Micro is a distributor of *Super Micro*.

As previously mentioned by Gandel (2016), the mobile telephone industry has seen a wave of Chinese purchases as well. Two well-known mobile phones used by the DoD were Motorola and Blackberry and are now owned by the Chinese. Motorola Mobility was acquired in 2014 for \$3.1 billion by Lenovo, the offspring of Lenovo's and Motorola's phone goes by the brand name "Moto" (Gandel, 2016). Mims (2014) recognizes that Motorola was a Google company. Vincent (2016) discusses that Blackberry was a Canadian firm and why it sold its brand name to the Chinese firm TCL; "TCL will design, manufacture, sell, and provide customer support for BlackBerry-branded mobile devices" (Vincent, 2016). Porges also notes that TCL is the number one television brand sold on internet giant Amazon (2017).

2. Food and Agriculture

Arguably a significant portion of the U.S. economy is American agriculture. Cooke and Melton (2017) suggest historically the United States agriculture industry has seen a trade surplus with U.S. output surpassing domestic consumption from \$56.2 billion in 1995 to \$140.47 billion in 2017 (see Figure 9). Over the past few years there has been a shift in U.S. primary agriculture exports (Cooke & Melton, 2017).

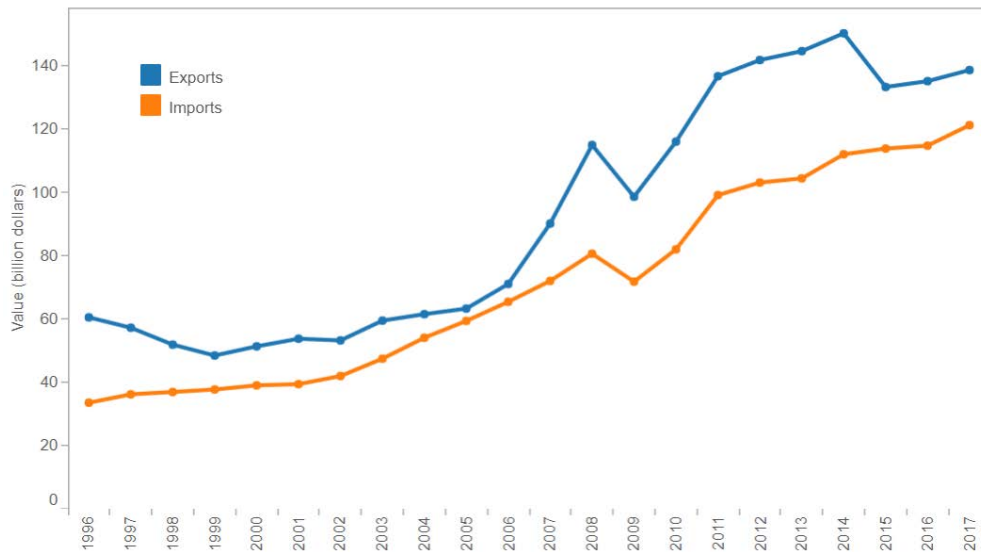


Figure 9. U.S. agricultural trade imports and exports.
Source: USDA (2018).

The USDA determines agriculture as one percent of the U.S. economy however, agriculture contributes to the U.S. economy on a scale larger than expressed above, overall contributions are as high as 5.5 percent and this is due to other aspects of the U.S. economy and how they are directly related and supported by U.S. agriculture (USDA ERS, 2018) (see Figure 10). Also, Maxwell (2017) describes American agriculture as the world's leading food source (Maxwell, 2017) and how we now can see why U.S. agriculture is a strategic target of China that requires an effort by the CCP to undermine U.S. agribusiness with a “whole supply chain control” in order to increase competition as espoused by Gooch and Gale (n.d.).

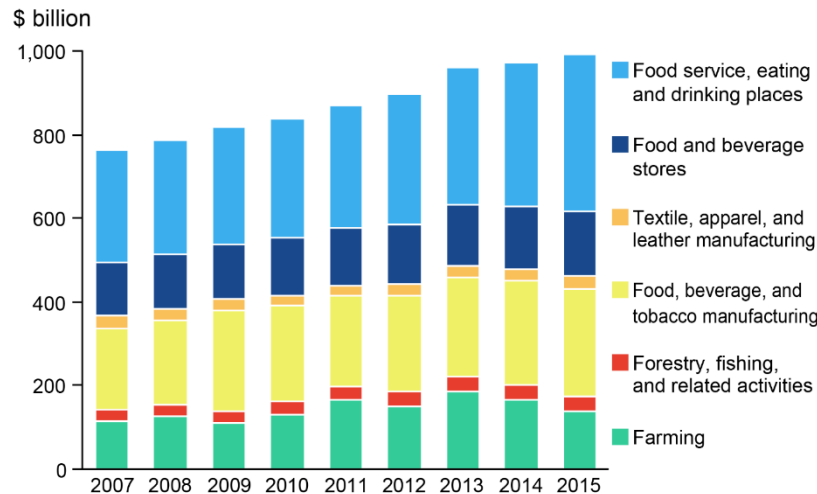


Figure 10. Value added to GDP by agriculture, food, and related industries 2007–15. Source: USDA-ERS (n.d.).

Johnson (2016) points out that with 19 percent of the world’s population, China only has eight percent of the world’s arable land and to exacerbate the issue China’s arable land is shrinking with the expanding infrastructure and exponential population growth (Johnson, 2016). Danovich (2016) adds this means that one of the world’s largest population has a food sourcing problem and the current Chinese political party understands what that may mean, a revolt could be looming (Danovich, 2016). Charles (2017) agrees that foreign food supplies are a strategic target for China. China is making inroads into U.S. agriculture markets and not merely for reasons such as for feeding its population. China’s expanding influence in the global food supply will provide them with the ability to manipulate prices whereas mass production in the U.S. due to automation has kept prices relatively low, “bigger harvests in the U.S. tend to make food more affordable around the world,” and “lower food prices are a good thing for poor people” (Charles, 2013).

The University of Pennsylvania Penn Public Policy Initiative (PPI) (2015) reports China’s acquisition of Smithfield Foods provides the world with a unique challenge for the pork market. Not only is China the largest consumer of pork it is also the world’s largest producer (Penn Wharton Public Policy Initiative, 2015). However, Bloomberg (2017) notes this purchase under minds America’s lead in market value considering food safety standards. They suggest, America is considered to have the most stringent regulation and

therefore the safest meat in the world. And now China's acquisition of the name brand Smithfield, China is implementing American safety standards through mimicking American protocol. Also, this will allow China to supply a domestic meat product with American safety standards thereby again cutting U.S. exporters out of the market (Bloomberg, 2017). Freese (2018) adds now that China owns Smithfield Foods the pork, they produce in America at these farms are under the 25 percent tariff hike due to the recent trade dispute with the U.S. (Freese, 2018). Li (2018) suggests with these increased prices passed to the consumer, Smithfield has looked to new markets and implies this provides pause as new markets mean less distribution in the U.S. and will only drive prices higher still (Li, 2018). Bloomberg also mentions how China may keep American meat of their markets, states, "Smithfield can't export sausage, ham and bacon from its U.S. factories because China prohibits imports of processed meat" (Bloomberg, 2017). Pork is not the only agricultural commodity targeted. Corn is as well.

The USDA holds that U.S. corn exports had been as high as 12 percent of the overall exports rate of U.S. agriculture in 2008; however, recently with other markets emerging, corn has fallen as low as six percent. The U.S. is the largest producer of corn worldwide, and with the U.S. being the highest exporter of corn, it provides a large contribution to the U.S. economy. Chinese corn production has varied. The production of corn from China is high some years and low others, with sometimes rising as high as the second largest exporter of corn. These inconsistencies in providing exports of corn lead to extreme volatility in the corn market (Capehart, 2018). Guilford (2013) adds and is arguably why China is looking elsewhere for corn support (Guilford, 2013), and Kiernan (2018) suggests, hence its acquisition of DowDuPont's Brazilian center (Kiernan, 2018).

DowDuPont is an American company that specializes in agriculture sciences and chemical research and holds the greatest chemical sales in the world (DowDuPont, n.d.). As reported by Wiley-VCH Verlag GmbH & Co, (2017) DowDuPont has recently sold its Brazilian seed development program. The Chinese firm CITIC Agri fund now owns DowDuPont's American corn seed processing research and development programs in Brazil (Wiley-VCH Verlag GmbH & Co, 2017). Cosgrove (2017) argues this sale will lead to consequences in the future, "not only will China be able to secure its domestic food

production through these acquisitions, but it is also in a position to play a global role in the pricing and supply of agricultural products and inputs” (Cosgrove, 2017).

3. Land

CNBC reports China has increased its investments in to U.S. land as well. Over \$300 billion was spent by China on U.S. real estate from 2010 to 2015 with 35 percent spent in California, 8 percent in Washington, and 7 percent in New York with a large portion of land purchases by China including U.S. farmland (CNBC, 2016). Wilson (2017) highlights the problems here, as Chinese FDI moves in and relieves U.S. farmers of their land many are beholden to the company as compared to the farmer receiving the most benefit. He uses the example of U.S. poultry farmers. He explains the impacts of how they sold their land and businesses to foreign firms and that they are now indebted to the companies through foreign contracts, he also suggests that if this practice continues it will pinch American farmers out of the agriculture market (Wilson 2017).

4. Prescription Drugs

The Association of Mature American Citizens (AMAC) (2018) reports China is flooding a hefty supply of medications into U.S. markets, a fact of which most Americans are unaware. AMAC emphasizes that this influx from China manipulates U.S. manufacturing markets, lowers prices, and forces U.S. manufacturing businesses to close. Also, they write that the drugs entering the U.S. from China do not receive the safety scrutiny that drugs produced in the U.S. do, and that this has dire consequences for the U.S. consumer as several cases of injuries and deaths have been reported due to the effects of false ingredients and lack of inspections. As if the reported injuries and deaths were not enough, AMAC also notes that this is a much larger issue as the Food and Drug Administration (FDA) is only inspecting a small number of imported drugs from China and this puts American citizens at serious risk due to lack of imported pharmaceuticals adherence to safe U.S. standards. In their book, *China Rx*, Gibson and Singh (2018) identify several examples of the ill-fated consequences of the Chinese in regard to its recent acquisitions in the medicinal markets (Gibson & Singh, 2018).

Sun, Santoro, Meng Liu and Eggleston (2008) contend that as far back as the 80s China has eyed American pharmaceuticals and has continuously manipulated prices to acquire American markets (Sun et al., 2008). Gibson and Singh (2018) add that the impact to the U.S. pharmaceutical industry is astounding. First, Chinese firms eventually forced Pfizer to close its Groton, Connecticut plant by pouring ridiculously low-priced penicillin into America and the fall-out from the Pfizer plant closing hit Bristol-Meyers Squibb as well, they state this had a secondary effect and forced Bristol Meyers Squibb to close its penicillin ingredient producing facility (the last in the U.S.), in Syracuse, New York. Second, they assert that since America divested itself totally from Aspirin production in the U.S., China was able to corner the market by exploiting prices and this forced the last U.S. aspirin factory to close in St. Louis, MO. Third, one the most profound examples that the global health relies on China is that it is now the sole supplier of critical pharmaceutical ingredients for antibiotics. “China is now the only producer of 7-ACA which is a major component of antibiotics known as cephalosporins, these antibiotics are a means of treatments for pneumonia, staphylococcal infection, streptococcal infections or strep throat, bronchitis, and other bacterial infections” (Gibson & Singh, 2018, p. 38). Finally, after dumping primary components on the market and driving competition completely out, China is the sole supplier of most important medicinal ingredients. (Gibson & Singh, 2018). As the only supplier China may produce these ingredients however it chooses explains Gibson & Singh (2018) and as reported by the *South China Morning Post*, China has used random unsanitary oils in its production of medicinal ingredients, “recycled cooking oil was fetched from restaurants’ frying pans, grease traps, and sewage drains” (Gibson & Singh, 2018, p. 38).

5. Infrastructure

By expanding American growth and influence throughout the west, the U.S. railway industry remains a classic example of American economic success and logistical prowess. However, this may all change as Chinese influence and predatory acquisitions tactics are emerging in this sector. In an article in the *Epoch Times* Joshua Philipp (2018) proposes the rebuilding of America has also peaked China’s interest and is a point on the road map to displace the U.S. as the world’s hegemony. He explains that China is bidding

on several major city development projects and winning control over American rail jobs. He goes on to suggest that job elimination could come three-fold; the rail jobs for Americans disappear due to backfill by Chinese workers, the flood of Chinese products on the market may make U.S. rail manufacturing obsolete, and jobs that support the rail industry could diminish (Philipp 2018). Cheng (2017) supports this idea in the possible impact in overall job reductions and argues, rail employment maintains 221,000 additional jobs in various other economic sectors (Cheng, 2017) and as reported by Philip (2018) “according to Erik Olson, vice president of the Rail Security Alliance, the main company behind this push is China Railway Rolling Stock Corporation (CRRC), a state-owned Chinese company. Philipp (2018) goes on to point out that a report from Oxford Economics, backed by the Rail Security Alliance, found that “CRRC’s actions could eliminate 65,000 jobs from the United States if China takes over U.S. freight rail production.” He also emphasizes that “if allowed to proceed, it could also reduce the U.S. GDP by close to \$6.5 billion” even with his warnings CRRC has made inroads into the American market by winning contracts in the U.S. with all supplies purchased and sent from China. The cities where China has won bids are Boston, Philadelphia, Los Angeles, and Chicago which are also major logistics hubs in the U.S., China, once again is manipulating the market as CRRC provided a price at half what the U.S. firm, (Bombardier) offered in Boston and as Philipp (2018) implies, it pinches another American company out of a domestic business (Philipp, 2018).

David Sanger (1997) reported for the *New York Times* (1997) that China Ocean Shipping Company (COSCO), a major Chinese shipping and SOE firm was pursuing one of the largest sea ports in America located in Long Beach, CA (Mogulescu (2011) states, China already owns other ports in Los Angeles). And this port was a U.S. Naval Base until it closed in 1997. He also reported that an inquiry into the lease of the port was requested after thousands of weapons headed to gangs in the U.S. were discovered by customs officials. China not only uses these American ports to ship contra-band into the U.S. but also China violates export quotas and thereby uses these ports to flood the U.S. with Chinese exports thereby inundating American markets with the intent to force out competition (Sanger 1997). The *Cox Report* (1999) concurs and offers, this is a key to

success for the MIC 2025 plan, “COSCO, the PRC’s state-owned shipping company operates under the direction of the Ministry of Foreign Trade and Economic Cooperation and answers to the PRC State Council” (Cox, 1999, p 80). It does not end there. China has attacked every aspect of our infrastructure to also include bridges and raw materials.

Bredenburg (2012) reveals how China continues to pursue American infrastructure. He reported that California contracted a Chinese company to build its bridges. First, he noted a Chinese firm won the bid and provided those jobs to Chinese workers through labor and supplies, and “a report from ABC News highlights three projects: a \$400 million bridge renovation in New York; a new \$7.2 billion Bay Bridge between San Francisco and Oakland in California; and a proposed \$190 million project in Alaska. Second, he pointed out that to make this happen California officials turned down federal funding for a major part of their project so they could avoid federal restrictions and hire a Chinese state-owned firm at lower cost. Finally, he found this decision cost 3,000 U.S. jobs and a billion dollars for the California economy” (Bredenburg, 2012)

Murray (2018) believes that China has such a head-start on securing the raw material needed for manufacturing that it would nearly impossible for the U.S. to catch up, he concedes China’s control over world raw materials will have a profound effect on U.S. manufacturing (Murray, 2018). Ferry (2017) explains, China has bought out the market and now controls vital materials in production for nearly every component in technology, auto making, appliances, and others. He explains that, China has already begun limiting the sale of rare earth metals and says, “China already accounts for some 90 percent of world production of rare earth minerals and has demonstrated its ability to prioritize its own Chinese customers with export restraints on rare earths imposed in 2009, causing anger and consternation worldwide.” He states further, China forced California based company Molycorp out of business by flooding the market with rare earth metals, “in 2009, China imposed quotas on rare earth exports and cut off supplies to Japan, claiming it needed to reorganize its domestic industry...At the end of 2014, China abandoned its quotas, exports rose once again, and rare earth prices plummeted. An unfortunate by-product of that series of events was the bankruptcy of Molycorp, which could not compete at the lower price levels” (Ferry, 2017). Kennedy (2016) asserts that this has left the U.S. industrial base

without a meaningful supply of raw materials for government contracts and has in-turn led to U.S. government contractors relying on a sole source for defense production, he states “...the Pentagon has built its entire advanced weapons (strategy) on Chinese quicksand” (Kennedy, 2016).

C. POLITICS

1. Domestic

Kenneth Rapoza (2017) writes there is a reason as to why the Trump administration is making Chinese lobbyists nervous. He believes their reason to be nervous is partly based on a 2015 report from the Federal Reserve and Yale University Economist, Justin Pierce and Peter Schott (2014) who said “...we find a link between this sharp decline and the U.S. granting of Permanent Normal Trade Relations (PNTR) (PNTR was known as MFN and from now on we will use PNTR in this report) to China, which was passed by Congress in October 2000 and became effective upon China’s accession to the WTO at the end of 2001” (Pierce & Schott, 2014, p.1). This sentiment was echoed when MIT researchers expressed that between 2000 and 2007 Americans lost 982,000 jobs, “rising imports cause higher unemployment, lower labor force participation, and reduced wages in local labor markets that house import competing manufacturing industries” (Autor, Dorn, & Hanson, 2012) (see Figure 11). A related report in Bloomberg also expressed this job loss was directly linked to China entering the WTO (Gosselin & Dorning, 2015). Creating jobs and bringing them back from overseas is part of the National Security Strategy related to American prosperity (Trump, 2017).

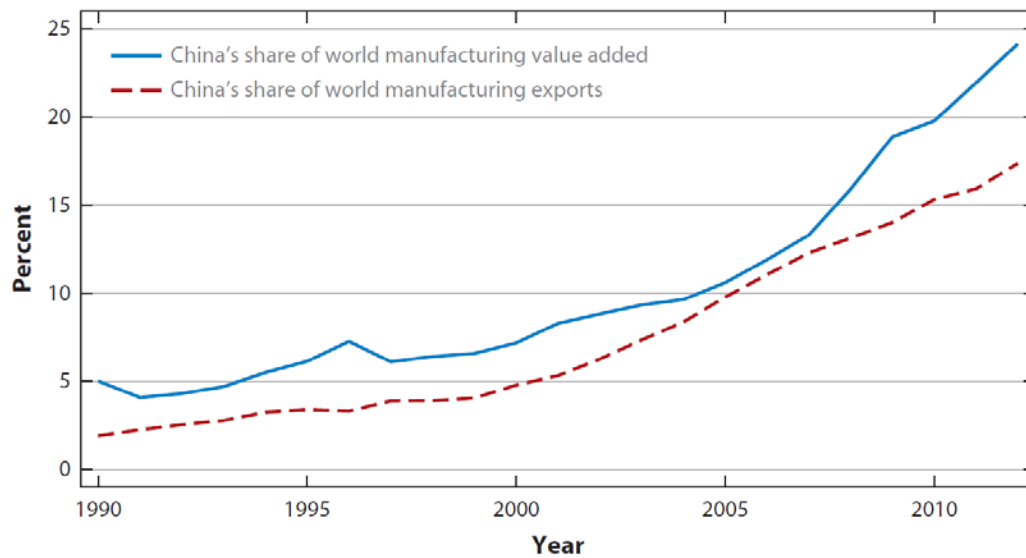


Figure 11. China's share of world manufacturing activity (1990–2012). Source: World Development Indicators (n.d.).

Alexander Bowe (2018) a political analyst for security and foreign affairs for the USCC reports that many Americans do not realize that China has lobbyists in the U.S. legislature and they are targets for China, “United Front organizations such as the National Association for China’s Peaceful Unification actively cultivates ties to campaign donors and politicians in the United States in order to lobby for Beijing’s policy priorities, encourage overseas Chinese to get involved in politics to advocate for Beijing’s interests” (Bowe, 2018, p. 19) and, according to Peter Mattis a former CIA analyst, aim to “turn Americans against their own government’s interest and their society’s interests” (Allen-Ebrahimian, 2018b).

As indicated by Schatz and Oreskes (2016) many individuals file under the Foreign Agents Registration Act (FARA) and they report that “of the 1,009 officials who have left Capitol Hill since 1990, 114 of them — just over 11 percent — lobbied for or otherwise represented a foreign government, foreign-owned company or think tank” (Schatz & Oreskes, 2016). Allen-Ebrahimian (2018a) lists several examples from granting PNTR status to China to representing foundations sponsored by the CCP.

Bunting (1997) explains that in 1997 California officials were warned by the FBI that China was targeting specific campaigns to funnel Chinese contributions through foreign corporations. And some individuals have several business dealings and a fund tied to China. Weingarten (2018) concurs and reports “the fund invested in several state-owned and Chinese government-linked businesses” (The Federalist, 2018). Greenberg (2012) reported a one-time campaign for \$450 million in stimulus funding to a Chinese firm, (A-Power Energy Generation Systems) for a windmill farm in Texas (Greenberg, 2012). NBC news also reported on this and said “this Chinese company would operate the farm with its turbines built in China,” missing a great opportunity to provide local jobs and assist the domestic economy (Choma, 2010). One of the pillars of the new National Security Strategy proclaims jobs as a requirement for U.S. prosperity, “We must rebuild our economic strength and restore confidence in the American economic model” (Trump, 2017, p. 7).

2. Geo-Political

Cheng (2015b) notes, Greece was in dire straits with defaulting on its \$1.73 billion obligation to the International Monetary Fund (IMF), he wrote ... “Greece now enters the history books as being the first developed country to default on an IMF loan, with the single largest missed payment in that institution’s history” (Cheng 2015b). Matthews (2017) explains China was swift in its movements and by flashing \$316 million to the Greeks for a 51 percent stake and later will invest \$99 million for an additional 16 percent (Matthews 2017) was able to acquire full sovereignty of the Port of Piraeus. O’Dea (2018) agrees and states “Athens surrendered its sovereign powers, allowing the company under the control of the Chinese Communist Party, to act as owner, regulator, operator, and developer of the entire port” (O’Dea, 2018). According to the Navy.mil website the Port of Piraeus is located in the middle of the 6th fleet area of operations (U.S. Navy, 2018) and Ellis (2018) points out, now with a new launch site China is executing naval and military drills in the Mediterranean while generating anxiety in the E.U. Boldly stated, China now has powers of supervision over a major European nation (Ellis, 2018).

Buying other nations debt is another way China is influencing the global political landscape, Cheng (2015b) observes that while providing funding that increases the debt of foreign nations which in turn forces those nations to rely on China for commerce and national sustainability, we have seen nations indebted to China voting favorably in various committees on issues that they would not have otherwise supported. “Whether the West, and especially the United States, likes it or not, China has the ability to financially influence and even determine developments globally” (Cheng 2015b).

Horowitz (2017) proposes these foreign investments are providing a net positive for China, as recipient nations, while not specifically asked are providing permissive votes in support of China with regards to human rights issues and the South China Sea. He provides a quote to substantiate his argument by Costas Douzinas in his report “If you’re down and someone slaps you and someone else gives you an alm,” Mr. Douzinas said, “when you can do something in return, who will you help, the one who helped you or the one who slapped you?” And not only has the Greek support vote for China’s human rights issues become a concern but also Spain, Portugal, and Hungary have received China cash and in turn have voted in China’s favor in the E.U. (Horowitz, 2017).

D. MILITARY

Shepard (2017) provides, China has full control over many sea ports around the globe with dire consequences. He notes worldly infrastructure purchases provide China with key nodes for information, intelligence and global strangulation. He also implies what this may mean for our military, China may now track U.S. military movements and supply chain support through rail and sea ports by owning the ports around the globe. China can stay abreast of U.S. military movements, support, aid, and military equipment sales due to shipping requirements by stock and numbers (Shepard, 2017).

Chan (2011) also implies how these newly acquired ports may have implications for Chinese military lines of communications as well, China’s newly acquired global infrastructure provides a platform to execute military drills and training under the guise of diplomacy including citizen and supply movements. We see examples in 2011 and 2015 with Libya and Yemen, respectively. He reported, a Chinese frigate evacuated over 12,000

Chinese workers from Libya (Chan 2011) and Wang (2015) reported again in Yemen when the PRC evacuated over 800 nationals and foreigners from the port of Aden (Wang 2015) (“the Port of Aden had been a refueling stop for U.S. Naval vessels for almost two years prior to the attack on the USS Cole”) (Joint Knowledge Online (JKO), n.d.).

In a *New York Times* article, Myers (2018) explores China’s Djibouti port. He reported China recently purchased parts of a Djibouti port in Africa with this port being mere feet from a major U.S. Marine base, Camp Lemonnier (see Figure 12) and he notes China has once again used this as a platform to exert military influence and mentions the base located there has attacked American pilots with lasers (Myers, 2018).



Figure 12. The Horn of Africa. Source: Google Maps (2018).

Freedberg (2018) points out that considering all things equal (Purchasing Parity (PP) and personnel costs) China is actually spending more or is even to what the U.S. does on national defense (see Figure 13), it has heavily invested in its military and with support bases popping up all over the world the CCP now pose a significant military threat.

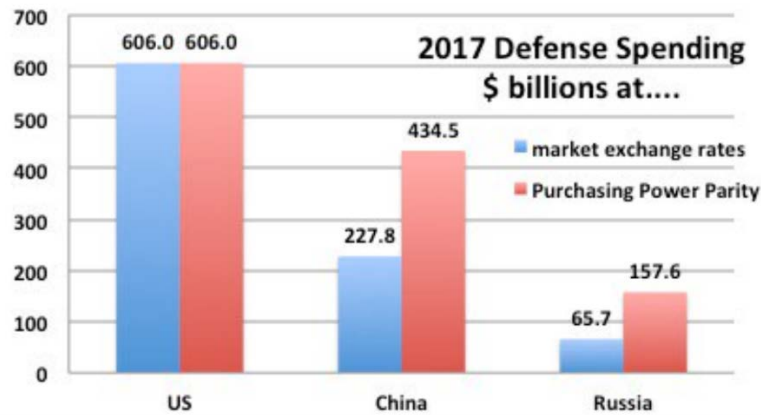


Figure 13. 2017 Defense spending \$billions at... Source: DoD 2019 budget submission, SIPRI database.

In a Bloomberg article Tweed and Leung (2018) provide a display as to how China is developing bases and investing in commercial ports in hopes of transitioning them to naval bases stretching from the South China Sea to Tanzania (Tweed & Leung, 2018) (see Figure 14). Farley (2018) discusses war with China suggesting that it may come down to simple attrition, with Dillinger (2015) providing the numbers, and in a book written by MIT researchers Hudson and Boer (2005) which explains that China has the largest male population in the world (Hudson & Boer, 2005). Also, by simple attrition China could overtake the U.S. in a conventional war, the latest estimates of the Chinese army are roughly 2,183,000 personnel with the U.S. ranked third at 1,347,300 (Dillinger, 2015).



Figure 14. U.S. China-Balance. Source: Bloomberg (2018).

A RAND (2017) study provides just how much the U.S. military relies on rail movements in order to transfer tanks and equipment with training locations scattered throughout the country. It states that, “rail is one of the most efficient means for transporting heavy equipment over long distances, but Army demand for rail is highly variable, consisting primarily of shipments to ports for deployments and to combat training centers for exercises... the Army relies on commercial rail carriers for off-post rail movements...” (RAND 2017 p.1) Also, a Heritage Foundation (2019) study relays, if the Army does not retain some assets or limit the purchases of privatized American rail the Army could bottleneck and this may choke out American military movements.

Liu Zhen (2017) discusses how China already has the ability and training to move logistics including Petroleum Oils and Lubricants (POL), equipment, food and sustainment all over the world which may easily be substituted for military lines of communication and it is quietly training on large troop movement techniques. She also explains, how they have demonstrated this in Tibet (Zhen 2017).

In a U.S. Naval Institute article Werner (2018) discussed an incident that displays how China has ratcheted up its aggressive posture towards U.S. naval assets as they continue to pursue the development and construction of land in the south China sea.

International water treaties proclaim that 12 nautical miles (United Nations (UN), n.d.) of the territorial coasts of a nation is considered sovereign. Egan and Zipp (2018) explain that this means if China constructs land by churning sand from the ocean floor its footprint expands and could very well close passing lanes for U.S. warships and also impact global commerce (Egan & Zipp, 2018).

Gibson and Singh (2018) note that with regards to prescription drugs, the military is subjected to one source and the U.S. DoD is now forced to buy thirty-one prescription drugs from China simply because there is no other place to acquire them. They put this in perspective, this could lead to dire consequences on the battlefield, if war were to break out and Soldiers and Marines require medicine, we are left with China as the sole source. The two contend that injured Americans fighting wars would possibly not receive the medical treatment they require because China could decide not to provide the needed medicines required to treat those Soldiers or Marines. Also, if several nations require the same medicines, China may hold out on providing supplies to either the highest bidder or not provide them at all as they retain the supply for its own domestic use (Gibson, Singh, 2018). This is a national security issue.

Roger Stone (2016) highlights a 1999 report by CNN where they explore the Chinese theft of military secrets. They indicate that well before the 1990s China has stolen a myriad of American military secrets. And in the *Cox Report* (1999) that some theft was so classified that it was determined by the Clinton administration to be a threat to the national security of the United States to reveal exactly what was stolen (Cox, 1999). Stone also reports that Congressman Dana Rohrabacher listed the companies that were guilty of transferring secret technologies to the Chinese, one was Motorola (Stone, 2016).

Levchuk (2018) examines Google's impasse in America. She explains how Google is attempting to live in a free democratic nation but provide censorship tools for a communist government and how this may "...alienate millions of its users in the Western world" (Levchuk, 2018). McFarland (2018) reported for CNN reports Google has decided to cut ties with the U.S. DoD and instead work for China. This is a national security concern as Kharpal (2018) insists Google is the premier researcher on Artificial Intelligence (Kharpal, 2018). McFarland (2018) agrees and maintains Artificial Intelligence is the

future of the Defense Department and without Google's help, the U.S. may be left behind. Caralle (2018) asserts that in the case of China, Google has decided to participate and develop a censored web search engine for China called Dragon Fly and says, "the search engine would remove information that the Chinese government deems sensitive, like content regarding political dissidents, free speech, democracy, human rights, and protests, in something called a censorship blacklist" (Caralle, 2018). Manjoo (2018) implies that it is abhorrent for Google to be naive enough to believe that China will not infiltrate aspects of its business. He also points out that Google should not believe that China will stop at its search engine especially when the impetus of its entrance into the Chinese market was based off of a Chinese hack into its service looking for dissidents and spies, Manjoo (2018).

Keren and Ben-Dov (2018) describe where Google has taken advantage of programs developed by the U.S. Army such as Google glass. They indicate the Army utilized the technology in the Augmented Reality program developed by Battlefield Telecommunications Systems (BTS) for biometric force predictions and was the impetus for Google Glass by saying "...the company's software underpins Google Glass Enterprise and several of the most popular enterprise AR devices on the market," (Keren, Ben-Dov, 2018). Chan (2015) notes China has already released its version and is developing it for military usage (Chan, 2015).

E. CONCLUSION

China is implementing its MIC 2025 plan successfully. Without Congressional attention we could very well be left with an economy that struggles to be competitive. Manufacturing is leaving the U.S. at a resounding rate and must be brought back. From prescriptions to food, America's national security is at stake. There are institutions that are taking a hard look at these issues and have begun to turn the tide on FDI and corporate purchases deemed a national security risk. It is not too late, we must protect our national resource, our economy and we must stay abreast of all FDI and not allow any country to overtake the U.S. as the world's hegemony.

III. THE IMPACT OF THE COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES

A. INTRODUCTION

Klein and others (2018) suggest the review of China's economic policies and practices as a strategic threat is having a global affect and it is a topic that is receiving more traction as the China threat exposes itself either passively through morphing state policy or directly with language espoused by top Chinese officials. They go on to note that it is also not an issue isolated to the U.S., "the movement we are seeing around the world is an expression of calls for wariness about Chinese investments, especially in technology," said Jeremy Zucker, co-head of the international trade practice at the law firm Dechert in Washington. "And it was sharpened and accelerated by the Trump administration." The trigger seemed to be similar to a declaration of war when China announced its MIC 2025 plan, several nations are involved in curbing China's overzealous ambitions with increased purpose as the U.S. leads the way (Klein, et al., 2018).

Congress and the President are taking several steps to ensure that industry in the U.S. is protected for the sake of national security. Representative John Cornyn (2017) says "we see China militarize investment, it has figured out that it can really weaponize investment, so to speak, and use it to exploit our open U.S. economic system. It's been reported that the Chinese government has already made major investments in technologies like robotics, a myriad of sensor technologies, and even artificial intelligence. According to The New York Times, in a span of six years beginning in 2010, Chinese investors poured about \$30 billion into early stage U.S. technologies, and now make up as much as 10 percent of all venture deals" (John Cornyn, 2017).

B. CFIUS

In a Congressional Research Service (CRS) report provided by James Jackson, there is hope however, as the U.S. has amended existing laws to provide a robust deterrence of nefarious foreign investment from the Chinese (Jackson, 2018). Klein and others (2018) also state that the U.S. has lead the way with blocking several attempts by the Chinese to

infiltrate and takeover the U.S. economy, “the hundreds of billions of dollars’ worth of deals shot down this year alone on national security concerns included HNA’s bid for Skybridge Capital, a hedge fund founded by Trump’s one-time communications director Anthony Scaramucci; the \$580 million purchase of U.S. semiconductor company Xcerra by a Chinese investment firm backed by state-owned Sino IC Capital; and the \$117 billion takeover of the semiconductor equipment maker Qualcomm by Broadcom, a Singapore-based company with close ties to Beijing” (Klein, et al., 2018).

The DOTR provides, as a response to the Korean War, the Defense Production Act (DPA) was enacted in 1950 and provided certain powers to the President of the United States (POTUS) allowing him to shape American industry in a way that may assist in national defense. In 1988 the DPA had a significant amendment, the Exon-Florio amendment which installed section 721. It allowed POTUS to preclude or prevent FDI transactions (U.S. Department of the Treasury (DOTR), n.d.) (see Figure 1). And that this is the work of the Committee for Foreign Investment in the United States (CFIUS). It is paramount that research be conducted in order to provide recommendations to POTUS. Department of the Treasury goes on to state “established by Executive Order by President Gerald Ford in 1975 and operating under the authority of the DPA section 721, CFIUS is a committee that reviews FDI in the U.S. and it authorizes or rejects foreign investment inside the U.S. with respect to national security concerns” (DOTR, n.d.). DOTR also notes that “there is a period of time for reviews of proposed foreign investment transactions that decide if they are to proceed,” and states, “during the review period CFIUS members examine the transaction in order to identify and address, as appropriate, any national security concerns that arise as a result of the transaction” (DOTR, n.d.). If national security issues are in question and may not be resolved internally through agreements, conditions imposed, and or mitigation efforts, they may be referred to POTUS for action. Reviews may be voluntarily submitted to CFIUS for approval. However, if national security concerns arise for pending acquisitions and CFIUS is aware, they may mandate an investigation before the transaction is allowed. China has received the majority of reviews (see figure 15) compared to other countries, “between 2009 and 2015, CFIUS reviewed a total of 770 transactions, of which 310 resulted in an investigation” (Committee on Foreign

Investment in the United States, 2015). The Treasury Department also notes this is part and parcel to its increased attempts to invest in critical U.S. technologies and infrastructure with 39 reviews of Chinese FDIs into American manufacturing between 2013–2015 alone. CFIUS has increased the reviews of transactions but this becomes difficult as to the wholistic participation by Chinese parties “are not fully understood” (DOTR, n.d.).

Covered Transactions by Acquirer Home Country or Economy, 2013-2015				
Country/Economy	2013	2014	2015	Total
Australia	0	4	4	8
Belgium	0	0	1	1
Brazil	1	0	0	1
British Virgin Islands	0	1	0	1
Canada	12	15	22	49
Cayman Islands	1	3	8	12
Chile	1	0	0	1
China	21	24	29	74
Denmark	0	0	1	1
Finland	0	1	2	3
France	7	6	8	21
Germany	4	9	1	14
Hong Kong	1	6	2	9
India	1	2	0	3
Indonesia	0	1	2	3
Ireland	1	1	2	4
Israel	1	5	3	9
Italy	0	0	2	2
Japan	18	10	12	40
Liechtenstein	0	1	0	1
Luxembourg	1	0	2	3
Mexico	2	0	0	2
Netherlands	1	8	5	14
New Zealand	0	0	0	0

Figure 15. Covered transactions by acquirer home country or economy
Source: CFIUS (2016).

As implemented by CFIUS the expansion of its authority was broadened by the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018. The jurisdiction of CFIUS now includes

- Purchase or lease or concession by a foreign person of real estate located in proximity to sensitive government facilities
- “other investments” in certain U.S. businesses that afford a foreign person access to material nonpublic technical information in the possession of the U.S. business, membership on the board of directors, or other decision-making rights, other than through voting shares

- any change in a foreign investor’s rights resulting in foreign control of a U.S. business or an “other investment” in certain businesses
- any other transaction, transfer, agreement, or arrangement designed to circumvent CFIUS jurisdiction (DOTR, n.d.)

This also includes an increase in the period allowed for reviews. Reviews are now extended from 30 to 45 days with an extension of 15 additional days if so warranted. Also, with the swelling focus on the reviews of FDI, FIRREA has provided special hiring authority due to the increased workload of the committee (DOTR, n.d.).

Dealreporter (2018) suggests with increased scrutiny of FDI in the U.S., foreign companies have expressed concern over the tightened regulatory reviews and have threatened to look elsewhere for investments. The idea that CFIUS is a deal breaker and will have negative connotations for FDI is not valid as the committee has 57 percent success rate under the Trump administration (Dealreporter, 2018). Renholding (2018) proposes, considering the amount of CFIUS involvement reviews will find balance since one, the more reviews CFIUS conducts, the more investment firms are aware and become familiar with the process and two, the U.S. still receives the largest portion of inflows (Renholding, 2018) (see Figure 16) (UNCTAD Global Investment Trends Monitor, 2018).

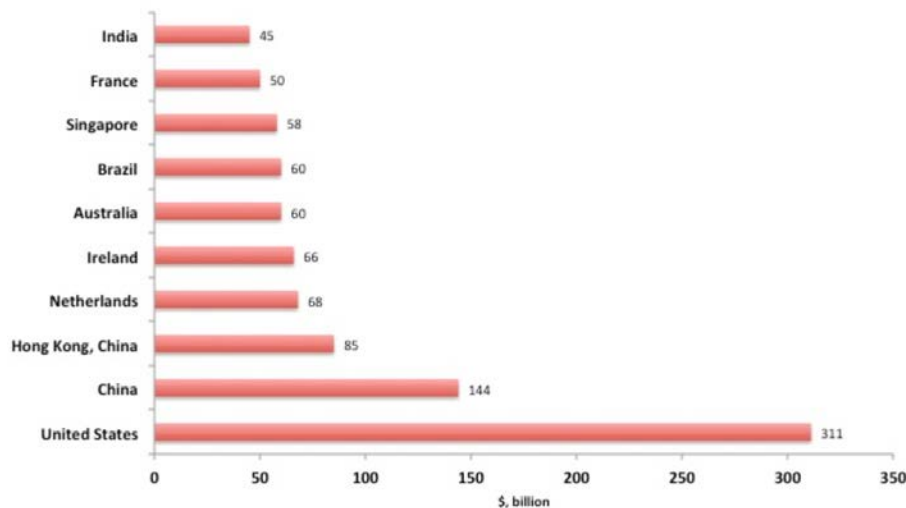


Figure 16. Countries with most FDI inflows. Source: UNCTAD Global Investment Trends Monitor (2017).

The Committee on Armed Services House of Representatives (2015) implies that CFUIUS seems to shoot itself in the foot. It found CFIUS had allowed the acquisition of IBM's microelectronics factory which was the sole source-U.S. based supplier for trusted microelectronics for over 10 years. These types of authorizations lead to capability gaps in the domestic Industrial Base. Increased awareness and heightened security of FDI ties directly into the industry of the U.S. and our ability to maintain a certain level of readiness within our industrial base partners.

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD (AT&L), 2018) website provided the following. In 2011 CFIUS responsibilities transitioned from the Defense Technology Security Administration to the OUSD (AT&L), the purpose of this move was to align policies of the DoD and CFIUS regarding the industrial base. What this provides is direct oversight from the DoD into foreign actions that may have an impact on American defense technologies and components (Committee on Armed Services House of Representatives, 2015). The OUSD AT&L website goes on to explain why, this action includes acquisitions policy that supports industry through the Office of Manufacturing and Industrial Base Policy (MIPB) which "plays a critical role in representing DoD interests on interagency committees regarding business and economic issues relevant to national security" (Department of Defense, Industrial Policy, 2018). Weatherington (2014) observes, generally, the DoD leaves industrial capabilities to innovation and market forces however, lately with China's FDI and underhanded activities there is a renewed need for intervention (Weatherington, 2014).

C. CONCLUSION

As the U.S. moves forward, we should approach these issues with the attitude of "better late than never," because looking at the enforcement of past policies and actions of previous years will be unproductive however, issues considered in the interest of national security must be addressed. We must continue to build the resiliency in America's institutions and provide them with the tools to face predatory Chinese economic practices and WTO violations. CFIUS expanded authority is the catalyst to ensure the DoD

maintains a frontline in sustaining critical technologies in the U.S. and maintains America's armed forces as the greatest and best equipped in the world. It must also protect our food sources, our industry and our technological base in order to protect our economy. The expansion of CFIUS to combat China's aggressive posture is a good thing however, we must do more.

IV. RECOMMENDATIONS AND CONCLUSION

A measured alarm without the tones of protectionism must be taken with care however, that is not to lose sight of the threat. It is real and as so professed by Chinese officials and years of supporting evidence, America can no longer turn away. CFIUS reform has provided an opening for enforcement but there is more debate to come in protecting America's wealth and sovereign might. We may start by making additional changes in current reform efforts and view not only Chinese investment but also American investment as a whole. Bringing all the pieces together helps us to understand where we may be successful.

A. RECOMMENDATIONS

We should request congress to pass laws that prohibit any public official from becoming a lobbyist either registered or non-registered. If an individual has held public office then that individual should not be allowed to become a lobbyist much less a foreign agent registered under FARA. In a *Politico* article Isaac Arnsdorf and others (2016) say, "taken as a whole, more former lawmakers are influencing policy and public opinion now than before... in a six-year period, a watchdog group Public Citizen found 43 percent of former lawmakers became lobbyists." However, not all lobbyists register, why this matters as they point out is that there "is no fear of repercussions because there is no real threat of prosecution" (Arnsdorf, et al., 2016). Also, the retention of security clearances by former officials is not clear and should be addressed by Congress. The idea is not about restricting individuals from classified information (even though individuals that receive secret clearances should have signed documentation prohibiting them from haphazardly discussing any information deemed secret), it is more about not allowing access to current and developing classified information. Currently, filing under FARA and the retention of a security clearance after active service is not apparently clear. We could not find documentation that the two are mutually exclusive. If they are not, they should be. Atieh (2010) discusses leaving doors open to current and relevant secret information on America's intentions and plans for national security to include trade and our economy

cannot remain a tool for the highest bidder or for extortion, and quoted Charles Lawson who said “in this era of global competition, it is not realistic to expect foreign companies doing business with the United States to avoid attempting to influence U.S. policy in their favor” (Atieh, 2010) (Lawson, *supra* note 44, at 1178). Recently, we have seen partisan individuals utilize their clearances in a way that is in their best interests and not the government’s. Abrams, Katz, Muller and Cunningham (2018) agree and said “... your security clearance is not supposed to be useful to you; it’s supposed to be useful to the government” (Abrams, Katz, Muller, & Cunningham, 2018). Congress should pass a bill to immediately remove security clearances from all individuals as they leave any government agency after their service where a security clearance was required.

The USCC (2018) holds that the UFWD continues to target former Chinese nationals in hopes of gathering intelligence and influencing domestic policy, “to carry out its influence activities abroad, the UFWD directs ‘overseas Chinese work,’ which seeks to co-opt ethnic Chinese individuals and communities living outside China, while a number of other key affiliated organizations guided by China’s broader United Front strategy conduct influence operations targeting foreign actors and states” (USCC, 2018). Gurzu et al. (2018) agreed, the ability to change the U.S. policy from within should become a viable concern for law-makers “political espionage happens here, too. China, for example, is certainly out to steal U.S. technology secrets, noted former intelligence officials, but it also is heavily invested in traditional political intelligence gathering, influence and perception-management operations in California” (Gurzu, et al., 2018).

More research should be conducted on the Communist Party of China and its influence in politics in U.S. districts and how they have shaped policies favorable to that of the CCP, Pierson (2017) reported, “since 2000, no state has garnered more Chinese investment than California. The state’s 53 districts combined to receive \$16.8 billion from China over that period, led by more than \$3 billion in investment each” (Pierson, 2017). And the China Digital Times (2018) reports, “the organization maintains numerous branches in the United States, including chapters in New York, San Francisco, and other major cities.” Rosen and Hanemann (2012) support this argument, certain districts mirror Chinese FDI and the demographics targeted by the UFWD in those districts arguably

support the inflows and go on to say, “California, with its long history with China, the most sizable Chinese American population in the country, and more inward investment deals from China than any other state, is in a position to lead the nation in attracting Chinese investment in the decade to come” (Rosen, Hanemann, 2012).

The U.S. should ensure correct labeling of imports (Gibson and Singh discuss this in their book *China Rx*) from the origin country to include the origins of ingredients from sources not bound by American regulation standards. Outside the scope of this thesis is the idea of unregulated globalism and its impact on product quality. Kokemuller (2016) offers while products move from overseas into the American market, U.S. trade policy does not proactively address the quality of products generally, that is left to market forces. The quality of products will determine market value (Kokemuller, 2016). American consumers must be allowed to directly affect the market and determine which products live or die due to their origins. What we currently see is an inability to reach a consensus due to an uninformed consumer. Worstall (2016) talks about how Americans deeply want to keep jobs in the U.S. and grow the domestic economy but they continuously buy imported goods Worstall (2016), and Strauss (2017) writes the U.S. ranks 8th on the global market with China ranking 49th in regards to quality (Strauss, 2017) with Aeppel (2017) conceding, price seems to mostly win-out (Aeppel, 2017). Leamer (1995) proposes that, empirically we see corporate shifts in low labor supply highly skilled labor and material moving from a domestic source towards areas of low-skilled high labor supply (Leamer, 1995). Dusharme (2018) points out China has implemented policies to combat a once negative connotation of “Made in China” and invoke a paradigm shift to where China goods are synonymous with quality. He says “according to the Chinese government website, China wants to improve consumer goods quality by, among other things, adopting a wider range of global standards during the next five years. According to the new guideline, more than 95 percent of consumer goods in major sectors will meet international standards by 2020” (Dusharme, 2018).

The International Organization for Standardization (ISO) series does not address the quality all products exported by China nor does it address the standards to which they are produced. The ISO standard only provides a certificate of proof that existing quality

measures are in place, not that they are executed, but even this can be easily obtained and is without real oversight in China (Pritts, Anjoran, Charlier, &, 2014). We should ask our government to require and mandate the identity and origins of imports rather than simply who these products are distributed by. Americans should challenge the laws of product labeling in order to ensure customers understand exactly where their products are made and to include the origin of ingredients. We have seen examples of the consequences in prescription drugs and how it affects the real consumer.

We should cancel all DoD contracts with Chinese owned companies. We have several American laws that forbid purchases of certain products and services from foreign sources. Congress should expand the law to all Chinese owned firms to include previous American companies. We should update the Buy American Act to reflect no purchase shall be made from a source that is guilty of espionage against America. Other current and relevant laws should be updated as well. What we see is the American government providing funds to companies owned by Chinese firms that are SOE. A search of the Federal Procurement Data System (FPDS) (2018) found several companies now owned by the Chinese have received U.S. government contracts. Since the time they became a Chinese owned firm the following Chinese owned companies received millions of U.S. dollars through government contracts (see Figure 17).

Company	Date Acquired	Contract \$\$	Chinese Corp Owner
Smithfield Foods	29-May-13	\$ 22,500,283.43	Shuanghui International
Starwood Hotels	14-Mar-16	\$ 360,594.16	Anbang Insurance
Ingram Micro	17-Feb-16	\$ 9,420,762.18	Tianjin Tianhai Investment Development Co
Motorola	12-Jan-14	\$ 546,605,892.78	Lenovo
General Electric	15-Jan-16	\$ -	Qingdao Haier Co
Waldorf Astoria		\$ 208,344.50	Anbang Insurance
	<i>Total</i>	\$ 579,095,877.05	

Figure 17. DoD contracts by dollar amounts provided to Chinese firms since acquisition. Source: Federal Procurement Data System (2018).

B. CONCLUSION

We have discussed what seems to be an ominous view of China's ultimate strategy and role in what some have considered America's decline in the global market. We

discussed how China has shaped its investments into a weapon to attack the economy of America. We provided insight to the military buildup around the globe and we provided examples of activities that Americans have participated in and conducted to prop up China's strategy of becoming the world's leading superpower. We examined CFIUS and their role is in the process and we provided recommendations. We believe that we have addressed the primary research question in this report and all subsequent questions and we conclude that this report provides evidence to support the topic of research. The CCP is pursuing strategic actions that are detrimental to the national security of the U.S.

So, what if CFIUS misses its mark and what happens if CFIUS does not get it right? America will be left with an economy that cannot support its military and feed its populace. Certainly, this consortium of economic imbalance and national security risks holds dire consequences for America's sovereign future.

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