The Federal Government Can’t Counter China on Its Own

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As the Biden administration begins to shape its China policy, from supporting Taiwan against Chinese provocations to strengthening export controls on entities aligned with the People’s Liberation Army, it is increasingly clear that it is following in its predecessor’s footsteps. Other key players in this conversation, however, are still formulating their respective approaches. Those actors are U.S. states, and they have a significant role to play in the unfolding great-power competition between China and the United States.

Take Chinese investment in state pension funds. At the federal level, the Trump administration spoke candidly of the risk posed by investing federal employees’ pensions in China through the Thrift Savings Plan (TSP). Such investment “would expose the retirement funds to significant and unnecessary economic risk, and it would channel federal employees’ money to companies that present significant national security and humanitarian concerns,” wrote then-national-security-adviser Robert O’Brien and then-National Economic Council–director Larry Kudlow in May 2020.

Many U.S. states are reckoning with similar concerns posed by their own pension funds’ investments in America’s principal geopolitical rival. The California State Teachers’ Retirement System (CalSTRS) and the New York State Teachers’ Retirement System were long invested in Hikvision, the now-blacklisted company notable for making surveillance devices for China’s network of concentration camps in Xinjiang. The California Public Employees’ Retirement System (CalPERS), too, has been repeatedly questioned about its connections to Chinese-government entities.

But these egregious examples hide the more mundane challenge facing most U.S. states: investing pension funds in China, even if it doesn’t directly subsidize Chinese human-rights abuses or further Beijing’s military ambitions, places undue risk on already-burdened state pension systems. The opacity of Chinese corporate governance, combined with China’s official policy of refusing to comply with the oversight standards of bodies such as the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB), makes such investments inherently risky

What’s more, investing state pension funds in Chinese companies exposes states to China’s political whims and its proclivity for economic blackmail, with billions of dollars in assets hostage to Beijing’s approval of any aspect of a state’s approach to China. (If this sounds hyperbolic, go ask Australian wine producers, Norwegian salmon fishermen, and Taiwanese pineapple growers whether China plays politics with economic decisions.)

There are many other elements of China policy that U.S. states must tackle independent of the federal government in the years ahead. While national security-sensitive investments will trigger review by the Committee on Foreign Investment in the U.S. (CFIUS), states should begin to develop their own approaches to courting Chinese investment in light of the current era of great-power competition. Every state official must balance the potential, short-term economic gain of Chinese investment with the longer-term threat posed by persistent and pervasive intellectual-property theft and the dangers inherent in greater economic integration with Beijing.

This holds true as well for state colleges and universities, which have relied heavily on Chinese students and opened satellite programs in China in recent years. Washington may set immigration policy, but state universities have an obligation to think critically about their admissions policies and international relationships. It does not advance any state’s interests to have Chinese researchers obtaining sensitive intellectual property from its universities’ laboratories, or Confucius Institutes acting as a hub for the Chinese Communist Party to monitor Chinese students on American campuses.

Some governors and state legislatures are acting swiftly to address the multidimensional challenge posed by China at the state and municipal level. Governor Ron DeSantis and the Florida legislature have banned Confucius Institutes on state campuses, and taken proactive action against intellectual-property theft by increasing penalties for such crimes. More states can and should follow suit, and indeed, some have already begun to do so; a number of states are now considering establishing bipartisan commissions to study the China question and recommend new approaches to their governors and legislatures.

If the United States is to compete successfully with China in the decades to come, it cannot be via an effort directed solely from Washington. State, municipal, and tribal governments, along with America’s private and nonprofit sectors, must take actions of their own to meet the challenges posed by Beijing, too. It is only by harnessing the full power of our federalist system that we will succeed in the competition to come.

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