



# **RECOMMENDATIONS FOR THE 2026 REGULAR SESSION OF THE KENTUCKY GENERAL ASSEMBLY**

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**Recommendations for the 2026 Regular Session  
of the  
Kentucky General Assembly**

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**Recommendations for the 2026 Regular Session  
of the  
Kentucky General Assembly**

**Take Broad Action to Protect Kentucky from China's Malign Activities**

Many states have taken action to protect its citizens and businesses from the growing challenges to America posed by the Chinese Communist Party and the People's Republic of China. KAM believes it is time for Kentucky to take broad action to do so.

**Reauthorize and Fund the Kentucky Product Development Initiative (KPDI)**

KPDI is a proven economic development tool that strengthens the Commonwealth's competitiveness by investing in site readiness. By ensuring communities have marketable, infrastructure-ready properties, KPDI positions Kentucky to attract major industrial projects and secure long-term private investment. KAM strongly supports continuation of the program and a \$100 million appropriation for it in the next biennium.

**Fund a Be Pro Be Proud Mobile Workshop To Help Solve Kentucky's Workforce Challenges**

Be Pro Be Proud (BPBP) is the national workforce development initiative begun in 2016 by Associated Industries of Arkansas that uses mobile workshops to promote high-demand, high-wage, high-skill technical professions in manufacturing, construction, transportation, and utilities. KAM believes the BPBP model would be an important part of the short- and long-term solution to Kentucky's workforce challenges, and we are joined in that belief by the Metals Innovation Initiative and the Associated General Contractors of Kentucky.

**Modernize Kentucky's Priority Economic Development Sectors for Our 21<sup>st</sup> Century Economy**

The General Assembly last identified priorities for the Commonwealth's economic development programs in state law a quarter century or more ago. It is time to designate new priorities for our modern economy.

**Make Key Tax Reform Changes**

KAM has long believed that for Kentucky to be competitive in the race to attract capital, businesses, and skilled workers, the Commonwealth's state and local tax code must continuously evolve to address changes in the marketplace. Congress' passage of the One Big Beautiful Bill Act (OBBBA) has prompted many states to consider increasing alignment with the latest federal provisions. Kentucky should do so, as well as tweak our tax incentives, undertake a considered look at whether those incentives are sufficient, and adopt measures to attract more defense and national security investment here.

**Adopt Transparency and Integrity Measures for the 340B Drug Pricing Program**

Recent years have seen mounting pressure to reform the federal 340B Drug Pricing Program, which was originally designed to help safety-net providers offer discounted outpatient drugs to low-income Americans. However, concerns about program misuse, lack of transparency, and unintended financial impacts have prompted legislative, regulatory, and judicial actions. The General Assembly should adopt transparency and integrity measures for 340B before it considers any expansion of the controversial program.

**Kentucky Association of Manufacturers  
Recommendations for the 2026 Regular Session of the Kentucky General Assembly**

**Take Action to Protect Kentucky from China's Malign Actions**

Many states have taken action to protect its citizens and businesses from the growing challenges to America posed by the Chinese Communist Party and the People's Republic of China. KAM believes it is time for Kentucky to take broad action to do so.

We propose for the General Assembly's consideration the "Top 10 Best Practices for States" (Attachment 1) from the advisory firm State Armor to defend against China's "subnational" strategy targeting state and local interests across America with what are often malign actions.

It is difficult to overstate the extent of the threat that China poses to America's national, state, and local interests, across all fronts – economic, security, governmental, and military. Beijing's hard and soft power strategy to challenge America's global economic, diplomatic, and military leadership is vast and, though underway for many decades, has only recently come into clear focus for American business, government, and community leaders.

For additional background, see Attachment 2, the July 2002 bulletin, "Safeguarding Our Future: Protecting Government and Business Leaders at the U.S. State and Local Level from People's Republic of China (PRC) Influence Operations," from the National Counterintelligence and Security Center.

**Kentucky Association of Manufacturers  
Recommendations for the 2026 Regular Session of the Kentucky General Assembly**

**Fund a Be Pro Be Proud Mobile Workshop for Kentucky**

**Background**

Be Pro Be Proud (BPBP) is the national workforce development initiative begun in 2016 by Associated Industries of Arkansas that uses mobile workshops to promote high-demand, high-wage, high-skill technical professions in manufacturing, construction, transportation, and utilities.

KAM believes the BPBP model would be an important part of the short- and long-term solution to Kentucky's workforce challenges, and we are joined in this proposal by the Metals Innovation Initiative (MI2) and the Associated General Contractors of Kentucky (AGC-KY). BPBP addresses the workforce challenge by introducing content and experiences to help students, parents, and teachers gain new perspectives on these careers. Through the BPBP mobile workshops, students are:

- 1) Informed about work environments and job responsibilities, highlighting income potential.
- 2) Introduced to relatable peers who project the potential for success.
- 3) Connected with schools offering technical training.
- 4) Introduced to companies hiring in these fields.

Visiting middle and high school campuses, the state-of-the-art, custom-built BPBP mobile workshops offer students the chance to use augmented and virtual reality simulators to experience high-demand jobs in engaging ways. The mobile workshops operate 40 weeks/year with a goal of hosting 150 students/day, 3 days/week, effectively reaching 18,000 students every year.

BPBP mobile workshops are operating in eight states: Alabama, Arkansas, Georgia, North Carolina, New Mexico, South Carolina, Tennessee, and Texas. Indiana and Ohio are among several states considering participation. Program data collected across all states measure the success of the program, with results showing improved perceptions of CTE courses, technical education, and technical careers. Participating states have also reported increased high school graduation rates and double-digit increases in post-secondary enrollments in CTE programs.

**Recommendation**

- We recommend the General Assembly appropriate \$3 million to the Kentucky State Treasury in Fiscal Year 2027-28 of the upcoming fiscal biennium for the construction and operation of the Kentucky BPBP mobile workshop, contingent on the private sector BPBP partners raising \$1 million in private matching funds by June 1, 2027; and that fiscal management and oversight of the newly established Kentucky BPBP initiative be provided by the Office of the Kentucky State Treasurer.

**Kentucky Association of Manufacturers  
Recommendations for the 2026 Regular Session of the Kentucky General Assembly**

**Modernize Kentucky's Priority Economic Development Sectors for  
Our 21<sup>st</sup> Century Economy**

**Background**

The General Assembly has identified targeted economic development sectors in several sections of Kentucky Revised Statutes (KRS). Those legislatively targeted sectors are not only statutorily inconsistent; several have not been modified in the past 25+ years.

For example, [KRS 154.1-020](#) sets forth the mission and goals of Commonwealth's economic development system, but references goals to be achieved by 1993 and 2000, while [KRS 154.20-030](#), which sets forth the purpose of the Kentucky Economic Development Finance Authority, was last amended in 2000.

In addition, while the Cabinet for Economic Development develops such targets periodically, including the 2024 Collaborative [Blueprint](#) developed in conjunction with the Kentucky Association of Economic Development and McKinsey, it is the General Assembly's purview to specify the Commonwealth's economic development priorities and to engage stakeholders in the business community and elsewhere in the development of such priorities and the policies to support the growth of those sectors.

**Recommendations**

KAM recommends the General Assembly designate the following sectors as the Commonwealth's new priorities for its economic development activities to make clear these are the pillars of Kentucky's current and future economy:

- Aerospace
- Agribusiness
- Artificial Intelligence
- Automotive
- Chemistry
- Defense and National Security
- Energy
- Food and Beverage Production
- Metals
- Transportation and Logistics

We also recommend the General Assembly:

- Assess whether Kentucky's economic development incentives and related policies are sufficient to support the growth and sustainability of Kentucky's future economy.
- Update Kentucky law to eliminate out-of-date references and clearly set forth the state's priority sectors wherever appropriate to provide guidance to policymakers, the business community, and the public.

**Kentucky Association of Manufacturers  
Recommendations for the 2026 Regular Session of the Kentucky General Assembly**

**Modernize Kentucky's Tax Policy**

**Background**

KAM has long believed that for Kentucky to be competitive in the race to attract capital, business, and skilled labor, the Commonwealth's state and local tax code must continuously evolve to address changes in the marketplace.

Congress' passage of HR 1, better known as the One Big Beautiful Bill Act (OBBBA), earlier this year has prompted many states to consider amending their state corporate tax laws to increase alignment with the latest federal provisions. Such changes would promote simplicity for Kentucky's business community and business owners, lead to additional growth, and cause Kentucky to stand out among its competitor states.

A similar alignment took place in the wake of 2017's Tax Cuts and Jobs Act (TCJA), when states, including Kentucky, adopted many of TCJA's definitions and provisions.

In addition, Kentucky manufacturers are reporting to KAM a more frequent need to modernize and retool their facilities to adapt to the latest manufacturing processes and technologies.

Unfortunately, Kentucky does not allow businesses to utilize either of its traditional economic development incentives – Kentucky Reinvestment Act (KRA) or Kentucky Business Incentive program (KBI) – until any previous incentive awards have run their course, even if such new investments would otherwise be eligible.

Such a prohibition made sense when manufacturing processes changed more slowly. But in today's fast-moving economy, the prohibition makes it more challenging for manufacturers and other businesses to decide to make such new investments in Kentucky – even if the investments would lead to job expansions.

Finally, the United States faces a new set of long-term strategic challenges to its global economic and international security leadership, primarily from the coordinated actions of China, Russia, Iran, and North Korea.

A strong consensus has emerged that our nation must strengthen its defense and national security industrial base, supply chain, and manufacturing preeminence to ensure America can deter and defeat any future threat – economic, biological, or military.

America will benefit if Kentucky plays a leading role in the industrial and technological expansion that must now ensue. The Commonwealth has a long history as both a competitive choice to manufacture and deliver world-class products across the globe and as an outsized contributor to the nation's defense. Kentucky is home to four key military

installations, a diverse manufacturing economy, exceptional transportation and logistics capabilities, and a wide range of supporting industry and businesses.

## **Recommendations**

1. The Kentucky General Assembly should adopt relevant OBBBA business tax provisions and definitions in state law, including enhanced IRC Section 179 expensing, allowing the immediate deduction of domestic R&D expenditures under new IRC Section 174A, and establishing a Qualified Business Income deduction based on IRC Section 199A.

In addition, legislators should consider adopting TCJA provisions that Kentucky has yet to follow, such as depreciation rules (including bonus depreciation which was restored, expanded and made permanent by the OBBBA) under IRC Section 168(k), and new 100% expensing for qualified production property under IRC Section 168(n).

2. The General Assembly should modify its incentive programs, such as KRA and KBI, to allow for concurrent tax abatements when such investments would otherwise be eligible for the incentive program. In addition, the General Assembly should enact a new, tailored incentive to promote investments by Kentucky's automotive manufacturers relating to vehicle electrification, which would secure automotive jobs in Kentucky for the future.
3. To ensure Kentucky supports the strengthening of our nation's defense industrial base, the General Assembly should:
  - (a) Establish a new economic development priority to attract and grow national security-and defense-related companies and their manufacturing and related operations; and
  - (b) Incentivize companies that do so by abating, or providing transferable credits for, their corporate income taxes.



**Kentucky Association of Manufacturers  
Recommendations for the 2026 Regular Session of the Kentucky General Assembly**

**Increase the Integrity and Transparency of the 340B Federal Drug Pricing Program**

**Background**

Recent years have seen mounting pressure to reform the federal 340B Drug Pricing Program, which was originally designed to help safety-net providers offer discounted outpatient drugs to underserved populations. However, concerns about program misuse, lack of transparency, and unintended financial impacts have prompted legislative, regulatory, and judicial actions.

Recent studies have shown that the 340B program is contributing to higher healthcare costs for employers, including:

- Growth in 340B hospital sites is linked to an estimated 8% rise in employer-based health insurance premiums from 2017–2023.
- Employers lose negotiated drug rebates when prescriptions are filled under 340B pricing.
- Outpatient procedures at large 340B hospitals cost up to 20% more than at non-340B hospitals.
- In 2023, 340B growth was associated with approximately \$23 billion in additional employer-based healthcare expenses nationally.

**Recommendation**

KAM recommends the General Assembly require greater transparency and accountability for 340B transactions by Kentucky hospitals, such as the requirements proposed in 2025's House Bill 685, before it considers expanding the program.



**The Chinese Communist Party's worldview is simple:  
*For China to win, everyone else must lose.***

The Threat: As a part of a broader victory strategy, the Chinese Communist Party (CCP) threatens the United States by undermining American resilience and targeting our states, which the CCP views as a weakness of our federalist system to exploit. In fact, the CCP considers states to be the “soft underbelly” of American governance, ranking governors for “friendliness” and compliance with the CCP agenda, targeting states with political warfare, and in the past leveraging states to undermine President Trump’s first-term agenda.

The Solution: Yet China’s subnational strategy has a critical vulnerability—if state leaders wake up to the CCP’s duplicitous game, America’s decentralized system can be one of our greatest assets as a source of strength against China. States have the power to eliminate multiple threat vectors through policy reforms that curtail threats to land and critical infrastructure, technological dependence, financial and economic coercion, exploitation of American universities, and combat political warfare. Against the threat from the People’s Republic of China (PRC), State Armor’s policy framework balances the risk of conflict-related vulnerabilities—*breaking glass*—against the long-term importance of ending pernicious influence campaigns that undermine America’s resilience—*breaking the United Front*.

## **TOP 10 BEST PRACTICES FOR STATES**

### **Priority 1: Break Glass.**

*States must brace for the risk of war and the “great struggle” forecasted by China President Xi Jinping. Looming on the horizon is a potential Chinese invasion of Taiwan, which the CCP views as prerequisite for its broader objectives and which the U.S. Navy estimates to occur between 2025-2029, known as the Davidson Window. Further, China and the Philippines, America’s treaty-bound ally, are in grey zone conflict over control of the South China Sea. As a defensive posture, states can take deterrent actions now that would be essential in case of invasion and prudent even if conflict never erupts.*

### **#1 Initiate a Pacific Conflict Stress Test (PCST)**

Assess the impact of a Pacific conflict on the state. Conduct a table-top exercise and compile vulnerabilities to critical infrastructure, state supply chains, and state financial holdings in the event of a Pacific conflict. Develop solutions to protect critical infrastructure, diversify supply chains, and remove financial exposure ahead of such conflict. Stand up command and control and continuity of government functions that would take effect in the event of a Pacific conflict.

Recommended Policy Text: To date, **three states** directed a PCST: AZ, NE, and OK. State Armor recommends the Nebraska legislative language and the Oklahoma executive order language, which can be simplified and tailored to each state.

- **Nebraska** [LB 1300](#) (2024) – Creates the Pacific Conflict Committee to conduct a PCST with reports from the Department of Administration and Investment Council.
- **Oklahoma** [EO 2024-11](#) (2024) – Orders a PCST to be conducted by the Office of Management and Enterprise Services.



- **Texas** [EO GA 49](#) (2024) – Orders a PCST including a “black start event” to prepare to restart the Texas energy grid after attack.

## #2 Adopt the Critical Infrastructure Protection Omnibus (CIPO)

Scrape all PRC access and technology from critical infrastructure. The omnibus prohibits direct adversary access to critical infrastructure; prohibits adversary software from accessing critical infrastructure; prohibits collection of critical infrastructure data by adversaries; removes adversary routers (e.g., TP-Link), modems, computers, laser sensors, batteries, cellular internet-of-things modules (CIMs), smart meters and traffic cameras from state government and critical infrastructure, including water, power, and communications; and catalogues the geographic areas that are still serviced by legacy Huawei, ZTE, and Hikvision communications equipment, all of which the FBI assesses can be used for espionage and to disrupt communications.

Recommended Policy Text: To date, **seven states** passed portions of the omnibus: CO, FL, IN, ME, MD, NE, and TX. State Armor recommends using its omnibus model bill text, which is based on the TX, FL, and CO bills. *Note that no state has yet passed the section on removing adversary routers or modems.*

- **Texas** [SB 2116](#) (2021) & [SB 2013](#) (2023) – Prohibits contracts that would provide access to or control of critical infrastructure by a foreign adversary entity. Requires background checks for access to critical infrastructure and bans equipment and software that would give a foreign adversary access to critical infrastructure.
- **Florida** [SB 264](#) (2023) & [HB 1363](#) (2024) – Prohibits government entities from contracting with foreign adversary entities if such contract would provide the entity with access to personally identifying information. Prohibits contracts with traffic camera vendors if such vendor is a Chinese company.
- **Colorado** [SB 151](#) (2024) – Requires communications providers to certify with the state that it is not using federally-banned equipment and, if it is, to provide regular updates on the removal of such equipment. Deregulates removal process.
- **Nebraska** [LB 683](#) (2023) & [LB 1300](#) (2024) – Prohibits the use of state telecommunications Universal Service Funds from being disbursed to any telecommunications company using or providing covered communications equipment (Huawei) and deregulates removal of such equipment. Prohibits the use of foreign adversary LiDAR systems in critical infrastructure.

## #3 Protect Land: Agricultural, Military, & Critical Infrastructure Sites

Prohibit adversaries from purchasing land and other property, particularly near military installations and critical infrastructure. Reduce the surface area of exposure from which the CCP can conduct signals collection, espionage, and sabotage operations. Consider a whistleblower referral and reward system for exposing property owned in violation of the act. In addition to agricultural land bans, extend the prohibition to nonresidential real property within a reasonable perimeter of military installations, if not for the entire state. Note that the prohibition should not apply to residential purchases by legal permanent residents outside of especially sensitive locations.

Recommended Policy Text: To date, **17 states** took action to protect against land and other property purchases by foreign adversaries and related affiliates: AL, AR, FL, GA, ID, IN, LA, MS, MO, MT, NE, ND, SD, TN, UT, VA, and WY. While many states have similar language, State Armor recommends a



specific prohibition on “companies domiciled or headquartered in China along with their affiliates and subsidiaries,” finding that bans on the “Chinese government” and “state-owned enterprises” are insufficient.

- **Florida** [SB 264](#) (2023) – Prohibits foreign adversary entities from acquiring agricultural land or any property near a military base or critical infrastructure installation; and prohibits any entity domiciled within the PRC from owning any property in the state
- **Nebraska** [LB 1301](#) (2024) – Prohibits any restricted foreign entity from acquiring property in the state.
- **Missouri** [EO 24-01](#) (2024) – Prohibits foreign adversary purchase of land near military installations.

## #4 Protect Procurement, Equipment, & Supply Chains

Prohibit the procurement of products or services from foreign adversary companies, whether through direct sale or—importantly—from a third-party vendor, which is often a loophole in procurement policy. Ban the procurement of any CCP technologies, such as computers, passenger rail cars, connected vehicles, and other internet-of-things devices. Phase out sanctioned CCP drones (2-4 years). Ban medical reimbursement for organ transplants that originate from China and ban the use of sanctioned CCP DNA sequencing technologies, such as those produced by Beijing Genomics Institute, from state-regulated or licensed healthcare facilities. Prohibit prospective (i.e. post-2027) licensing and registration of new vehicles that contain CCP or Russian surveillance technologies that pose a grave threat to state security via legislation or executive order.

Recommended Policy Text: To date, at least **13 states** took action to protect state and local procurement processes: AR, FL, ID, IN, IA, ME, MS, NE, OR, SD, TN, TX and UT. State Armor recommends a combination of the Utah (public procurement), Arkansas (drone) language, and Idaho (private sector and DNA/organs) language while the Florida text is a great model for an executive order.

- **Utah** [HB 404](#) (2024) – Prohibits state procurement offices from acquiring technology from foreign adversary entities and companies listed under certain federal procurement lists; and prohibits acquiring a forced labor product.
- **Arkansas** [HB 1653](#) (2023) – Prohibits public entities from procuring drones from foreign adversary entities.
- **Idaho** [HB 670](#) (2024) – Prohibits the private sector—any medical facility or research facility—from using genetic sequencing devices or software produced by foreign adversary entities; prohibits health insurers from reimbursing the costs of an organ transplant if the transplant occurred in China.
- **Florida** [EO 22-216](#) (2022) – Instructs the Department of Management Services to adopt rules prohibiting governmental entities from procuring any information or communication products from foreign adversary entities

## #5 Protect Financial Holdings through Divestment

Divest pensions, endowments, and all other financial holdings from China-based companies as soon as possible. Require reporting of all PRC investment holdings, mandate the sale of all directly owned PRC equities and funds containing PRC equities, and prohibit any new investments in China through alternative investment vehicles, such as venture capital and private equity. Rationale: American fiduciaries are unable to fulfill their duties to monitor and investigate PRC assets properly; PRC companies are involved in abhorrent human rights abuses and China’s military buildup; and PRC assets



would likely be frozen or nationalized in the event of a conflict, causing states to lose billions in investments.

Recommended Policy Text: To date, **six states** along with the federal THRIFT savings plan took action to divest from China: FL, ID, IN, KS, MO, and OK. TN had pre-existing law that prohibited such investments. State Armor recommends both the Indiana and Kansas bills with a few clarifying provisions that improve the definition of China-based companies, ensuring the sale of Chinese assets but not the accidental sale of American assets.

- **Indiana** [SB 268](#) (2023) – Orders the public retirement system to divest all holdings in PRC companies.
- **Kansas** [HB 2711](#) (2024) – Orders the public employees retirement fund and any other fund managed by a state agency to divest all holdings in foreign adversaries.

### **Priority 2: Break the United Front.**

*China President Xi Jinping considers his “United Front” influence campaign as his #1 magic weapon—even ahead of #2, the People’s Liberation Army (PLA), and #3, the CCP—serving as the most immediate and dangerous threat to U.S. states. Examples of United Front warfare include (1) manufacturing the derivatives of fentanyl to sell to Mexican cartels—and laundering their profits—to incapacitate and demoralize military age Americans; (2) leveraging TikTok to win the “smokeless battlefield” of ideology, particularly with American youth; and (3) coopting trade associations and chambers of commerce to steer their policy direction in China’s favor. In fact, recent reports estimate that nearly 1,000 United Front entities operate within the United States with many agents focused on penetrating institutions of higher education. To combat the Chinese war stratagem to “use the local to surround the central,” states can take action to root out Chinese influence at the ground level.*

### **#6 Pass a Foreign Agents Registration Act (FARA)**

Require registration and transparency disclosures from foreign agents representing a principal from a foreign adversary nation. Improve upon federal FARA by deleting loopholes for lobbying, commercial activity, and scholastic activity and authorize civil investigatory powers, which can help expose United Front operations.

Recommended Policy Text: No state has yet passed a state-level FARA; however, bills were introduced in Arizona and Oklahoma. State Armor recommends language that mirrors the federal FARA with amendments to remove loopholes, impose civil rather than criminal penalties, empower attorneys general with civil investigatory powers, and impose transparency measures.

- **Oklahoma** [HB 1150](#) (introduced) – Creates the Foreign Agents Registration Act.

### **#7 Codify Transnational Repression (TNR) in the Criminal Code**

Define transnational repression (TNR), which is the commission of a crime, such as harassment or stalking, on behalf of a foreign government. Provide information to the public, initiate law enforcement



training, require mandatory reporting for TNR on college campuses, provide centralized reporting under the attorney general, and enforce enhanced penalties for crimes committed in the context of TNR.

Recommended Policy Text: No state has yet passed a state-level TNR bill; however, California introduced legislation and Florida passed [SB 264](#) (2023), which is very close in concept. State Armor recommends bill text with a robust definition of TNR, enhanced criminal penalties for TNR, centralized reporting for instances of TNR, training modules for law enforcement officers for recognizing and responding to TNR, and mandatory reporting of instances of TNR on college campuses.

- **Texas** [EO GA 47](#) (2024)– Calls for data collection, policy formation, prosecution and punishment related to transnational repression.

## **#8 Adopt the Higher Education and K-12 Protection Omnibus**

Remove academic partnerships, contracts, funding, and cultural agreements with PRC universities and require reporting on all past agreements. Eliminate student associations that are funded or directed by adversary governments, particularly Chinese Students and Scholars Associations (CSSAs). Require enhanced researcher screening and enhanced IP theft penalties. Require that K-12 school districts cease contracts with China-owned and affiliated vendors. Prioritize partnerships with U.S. treaty allies, including Taiwan for Chinese cultural education.

Recommended Policy Text: To date, **four states** took some action to protect school systems from the CCP: AL, IN, TN, and FL with the former three all adopting portions of the FL bill. In addition, the Florida Education Commission directed a K-12 ban on curriculum materials owned by foreign adversary companies, noting that Primavera Capital Group, a PRC company, owns Tutor.com and Princeton Review. State Armor recommends enacting higher education omnibus legislation is based upon the two Florida laws. Governors can enact executive orders modeled on Governor Abbott's EO GA 48.

- **Florida** [HB 7017](#) (2021) – Requires gift reporting and contract reporting by all state agencies; prohibits any agreement or grant that would give a foreign adversary influence over curriculum or values; requires research universities to screen foreign researchers for security risks; and requires universities to establish a foreign travel security program
- **Florida** [SB 846](#) (2023) – Prohibits state higher education institutions from accepting any grant or participating in any agreement with a foreign adversary entity; prohibits institutions from accepting gifts from foreign adversary entities; and restricts state scholarship dollars from private schools owned or controlled by foreign adversary entities.
- **Texas** [EO GA 48](#) (2024) – Prohibits participation in foreign adversary talent recruitment programs. Requires reporting on gifts from foreign governments.

## **#9 Combat Political Warfare through State Ethics and Human Resources**

Strengthen standards in state ethics and human resources to combat the CCP's political warfare and United Front influence operations. Provide new ethics training so state employees can recognize, report, and respond to influence campaigns. Require ethics reporting for any interactions with adversary entities. Prohibit gifts for government employees that come from adversaries, including sponsored or reimbursed foreign travel and conferences. Create training for law enforcement to study TNR crimes, propose solutions, and conduct outreach to the Asian-American community.





Recommended Policy Text: No state has yet initiated action to combat political warfare, however, in the wake of the Chinese espionage scandal in the New York Governor's Office, the time is ripe for states to act. State Armor recommends and can provide its model text for executive order or legislation.

- **Texas** [EO GA 48](#) (2024) – Prohibits accepting any gifts or travel from any entity associated with a foreign adversary. Requires reporting for interactions with entities from foreign adversary countries.

## **#10 End Adversary Sister Cities**

Eliminate sister city agreements, which are exploited by the PRC and filtered through a centralized entity under the CCP. Sister city agreements are leveraged for broad influence campaigns and should be ended with all adversary nations.

Recommended Policy Text: To date, **two states** took action: IN and UT. State Armor recommends prohibiting sister city and state agreements with any adversary subnational units of government.

- **Indiana** [HB 1120](#) (2024) – Prohibits all sister city agreements with any foreign adversary entity.
- **Utah** [HB 404](#) (2024) – Prohibits all sister city agreements with any municipality unless that municipality confirms there are no forced labor production facilities in the municipality's borders.

***\*\*\*For more information, please visit [statearmor.org](https://statearmor.org)\*\*\****



July 2022

## **Overview**

For decades, a broad range of entities in China have forged ties with government and business leaders at the state and local levels of the United States, often yielding benefits for both sides. However, as tensions between Beijing and Washington have grown, the government of the People's Republic of China (PRC) under President Xi Jinping has increasingly sought to exploit these China-U.S. subnational relationships to influence U.S. policies and advance PRC geopolitical interests.<sup>1 2</sup>

In confronting this challenge, it is important that U.S. state and local leaders not cast blanket suspicion on all outreach from China, given that the threat of exploitation emanates from the PRC government and the Chinese Communist Party (CCP), not the people of China generally and not Chinese Americans, who themselves are often victimized by PRC aggression.<sup>3</sup> In partnering with any foreign entity, U.S. state and local leaders should exercise vigilance, conduct due diligence, and ensure transparency, integrity, and accountability are built into the partnership to guard against potential foreign government exploitation.

## **Threat**

Some of the goals of PRC influence operations in the United States are to expand support for PRC interests among state and local leaders and to use these relationships to pressure Washington for policies friendlier to Beijing.<sup>4</sup> The PRC understands U.S. state and local leaders enjoy a degree of independence from Washington and may seek to use them as proxies to advocate for national U.S. policies Beijing desires,<sup>5 6</sup> including improved U.S. economic cooperation with China, and reduced U.S. criticism of China's policies towards Taiwan, Tibetans, Uyghurs, pro-democracy activists, and others.

The PRC and CCP continue to seek to influence Washington directly, with the U.S. President in May 2022 calling out the CCP for lobbying against the Bipartisan Innovation Act in U.S. Congress.<sup>7</sup> Yet the PRC has also stepped up its efforts to cultivate U.S. state and local leaders in a strategy some have described as "using the local to surround the central."<sup>8</sup> For the PRC and CCP, targeting state and local entities can be an effective way to pursue agendas that might be more challenging at the national level.<sup>9</sup>

## **Risk**

Leaders at the U.S. state, local, tribal, and territorial levels risk being manipulated to support hidden PRC agendas.<sup>10</sup> PRC influence operations can be deceptive and coercive, with seemingly benign business opportunities or people-to-people exchanges sometimes masking PRC political agendas. Financial incentives<sup>11</sup> may be used to hook U.S. state and local leaders, given their focus on local economic issues. In some cases, the PRC or its proxies may press state and local leaders to take actions that align with their local needs, but also advance PRC agendas, sometimes over national U.S. interests.<sup>12 13</sup> By their nature, these efforts can have a corrosive effect on targeted societies.<sup>14</sup> They can also threaten the integrity of the U.S. policy-making process<sup>15</sup> and interfere in how U.S. civil, economic, and political life functions.<sup>16</sup>



## **PRC Influence Actors**

The CCP's United Front Work Department (UFWD) plays a leading role in foreign influence efforts, aided by PRC government agencies. The UFWD coordinates and conducts influence operations globally through various front organizations<sup>17</sup> and it also manages and expands the "united front," which is a coalition of entities working towards CCP goals.<sup>18</sup>

- In January 2022, the United Kingdom's (UK) domestic intelligence agency MI5 issued a security notice to members of UK parliament warning that a well-known lawyer in the UK who publicly advocated for the U.K.-Chinese community also worked covertly with the UFWD to interfere in UK politics and promote CCP agendas by facilitating financial donations from China to UK political parties, legislators, and aspiring politicians from across the political spectrum.<sup>19 20</sup>

Among the PRC government agencies involved in foreign influence operations are China's Ministry of Foreign Affairs, Ministry of State Security, and Ministry of Education.<sup>21</sup> In the United States, China's Embassy and Consulate offices play an active role in such efforts. There are also many quasi-official entities or proxies involved in united front work and foreign influence operations whose ties to the CCP or PRC government may be hidden or not readily apparent.<sup>22 23</sup>

- For instance, the Chinese People's Association for Friendship with Foreign Countries (CPAFFC) describes itself as a "national people's organization engaged in people-to-people diplomacy of the People's Republic of China."<sup>24</sup> The U.S. Department of State has called CPAFFC "a Beijing-based organization tasked with co-opting subnational governments" that "has sought to directly and malignly influence state and local leaders to promote the PRC's global agenda."<sup>25</sup> Others have called CPAFFC "the coordinating force behind China's most prominent mechanisms of state and local influence" in the United States<sup>26</sup> and "part of China's united front bureaucratic structure."<sup>27</sup>
  - CPAFFC is entrusted by the PRC government with overseeing and developing "sister" relationships between China and localities in the United States and other nations.<sup>28</sup> In the United States, CPAFFC has been a sponsor of conferences connecting PRC officials and others with U.S. governors, mayors, and state and local legislators. Since 2011, CPAFFC has been a sponsor of the China-U.S. Governors Forum, whose 2019 forum in Kentucky was billed as an "exclusive deal making opportunity"<sup>29</sup> for investors, industry, and government leaders of both nations. In 2020, the U.S. Department of State withdrew the United States from the formal agreement supporting the China-U.S. Governors Forum, noting "CPAFFC's actions have undermined the Governors Forum's original well-intentioned purpose."<sup>30</sup>
- Another organization, the National Association for China's Peaceful Unification (NACPU), has described itself as a "non-profit organization" in Washington, D.C. seeking to promote friendship between the United States and China.<sup>31</sup> At the same time, it has advocated positions in line with PRC policies on Taiwan and Tibet in letters to U.S. Congress and other fora.<sup>32</sup> In October 2020, the U.S. Department of State designated NACPU as a foreign mission of the PRC under the U.S. Foreign Missions Act, calling it a front organization controlled by the UFWD.<sup>33</sup>

## **PRC Toolkit**

The PRC uses a range of techniques to influence leaders at the U.S. state and local level. PRC foreign influence activities can be overt, such as public diplomacy where the role of the PRC government is open and unobscured. They can also be covert, where the PRC government's role is hidden, as well as coercive or even criminal in nature. Below are some of the more concerning PRC approaches.

**Collecting information, including PII.** To find potential opportunities and targets for influence, the PRC may methodically collect and analyze information, including personally identifiable information (PII), on U.S. state and local leaders and those close to them.

- A 2019 study conducted by a Chinese university and a Chinese think tank affiliated with the CCP's political influence arm analyzed and ranked all 50 U.S. Governors' attitudes toward China as friendly, hardline, or ambiguous, while also including their age, gender, political affiliation, work history, and states by economic size, geographic location, and level of trade with China.<sup>34 35</sup>
- "In Washington, voices advocating a tough stance on China seem to have become mainstream and have growing momentum," the 2019 study stated. "Therefore, as Washington's attitude towards China toughens, the attitudes of the states are critical."<sup>36 37</sup>

**Targeting officials to exploit later.** The PRC may target U.S. state and local leaders early in their careers and seek to use them to advocate for PRC interests should they achieve higher office.<sup>38</sup>

- In January 2022, FBI Director Christopher Wray noted, "The Chinese government understands that politicians in smaller roles today may rise to become more influential over time. So they look to cultivate talent early—often state and local officials—to ensure that politicians at all levels of government will be ready to take a call and advocate on behalf of Beijing's agenda."<sup>39</sup>

**Exploiting partnerships.** The PRC may also exploit city-to-city partnerships between the United States and China, which are managed on the Chinese side by CPAFFC. Often called "sister" relationships, they can include business, technical, cultural, and educational exchanges between U.S. and Chinese communities. Last year, a PRC diplomat said China had 50 pairs of sister provinces and 231 pairs of sister cities with the United States.<sup>40</sup> While there is nothing inherently nefarious about such partnerships, which have brought benefits to many U.S. communities and are used by various nations to promote international friendship, the PRC may exploit these pacts to press its agendas.

- U.S. localities that participate in these formal agreements may be pressured by the PRC or CPAFFC to sever ties to foreign governments, cities, and people whom the PRC regards as problematic.<sup>41</sup> One such agreement between a Chinese and U.S. city barred the U.S. city's officials from sending delegations to Taiwan, flying the Taiwanese flag, or playing the Taiwanese national anthem, in keeping with PRC's "One China" policy toward Taiwan.<sup>42 43</sup> When it became public, the pact caused an uproar among the thousands of Taiwanese residents of the U.S. city.
  - City officials in Europe have also been pressured to adhere to PRC mandates in such engagements. In one case, a mayor in Germany was asked to apologize to the PRC Ambassador after Tibet's flag was raised in the town hall.<sup>44</sup> Some cities in the Czech Republic, Sweden, and the Netherlands have ended their city-to-city agreements with China due to such pressures or concerns over the PRC's human rights record.<sup>45</sup>
  - State and local officials in Australia have also experienced such challenges. In 2019, a city council member in Melbourne, which has a long-standing sister city partnership with Tianjin, China, sought to introduce a motion in the city council acknowledging the 30th anniversary of the Tiananmen Square massacre, but was dissuaded from doing so after being pressured by the local PRC Consulate.<sup>46</sup>
- Individual U.S. localities may be unaware that their partnerships with cities and states in China are centrally coordinated and managed in China by CPAFFC, which, as previously noted, is

closely tied to the CCP's political influence bureaucracy.<sup>47 48 49</sup> The PRC's centralized control over such partnerships underscores the need for U.S. state and local officials to understand the roles and intentions of all those participating on the Chinese side.

***Creating dependencies:*** The PRC may also view a U.S. state or localities' economic or other challenges as a key opportunity to create a dependency, thereby gaining influence.<sup>50</sup> The PRC or its proxies may use financial rewards and punishments, such as promising or withdrawing access to Chinese markets, to cultivate and leverage business and government leaders at the U.S. state and local level.<sup>51</sup>

- Rewards may take the form of investments in U.S. communities or business deals that promise “win-win” or “mutually beneficial” development. Paid trips to China for U.S. state and local leaders or PRC delegation visits to U.S. localities may also serve as enticements.<sup>52 53</sup>
  - “We welcome all cities and states of the U.S, including [yours] and all sectors of American society to share the vast opportunities of the Chinese market,” a PRC Minister told a U.S. state official in 2021. “China is ready to expand exchanges with [your state], further propose the cooperation in agriculture, new energy vehicles, education, and health, and expand mutual benefit,” a PRC Minister told another state official in 2021.
- PRC rewards directed at U.S. state and local entities may come with strings attached. State and local leaders may be asked to support measures and policies that align with PRC foreign policy or economic interests. They may also be pressured to oppose measures the PRC is against.<sup>54 55</sup>
  - In 2020, a PRC Consulate twice contacted a U.S. state senator with a resolution that PRC officials had drafted praising China for its efforts to combat the COVID-19 pandemic, requesting that the senator introduce the resolution for passage in the state legislature.<sup>56</sup>
  - In 2019, the PRC's U.S. Ambassador expressed concerns over Washington's trade policies towards China at the CPAFFC-sponsored China-US. Governors Forum and urged U.S. Governors “to pay serious attention to this, and not let some ill-informed, ill-intentioned people incite a ‘new Cold War’ at the expense of the people's interests.”<sup>57</sup>
- Punishments for U.S. subnational leaders whose views or actions are not favored by the PRC may take the form of withdrawn investments or other actions.
  - A March 2022 U.S. Justice Department criminal complaint alleged that an individual working on behalf of PRC's intelligence services orchestrated a plot to undermine the U.S. Congressional candidacy of a Chinese American man in Brooklyn who had been a student leader in the 1989 Tiananmen Square demonstrations and later served in the U.S. military.<sup>58</sup> The PRC operative allegedly told a private investigator to physically attack the candidate, noting “violence would be fine...beat him until he cannot run for election.”<sup>59</sup>
  - In 2019, a U.S. Governor received a letter from a PRC Consulate threatening to cancel a Chinese investment in the Governor's state if the Governor chose to travel to Taiwan.<sup>60</sup>

***Shaping policy via the business community.*** The PRC may view the U.S. business community as an especially important vector to influence local, state, and national leaders, given that companies are key constituents of and often contributors to politicians at all levels. The PRC may use market access, investments, or economic dependency as leverage,<sup>61</sup> and overtly press U.S. business leaders, particularly those with commercial interests in China, to lobby Washington for policies Beijing favors.

- A May 2022 civil action by the U.S. Justice Department alleged that a senior PRC official solicited a U.S. businessperson, who maintained a friendship with the former President as well as commercial interests in China, to lobby the then-President and members of the Administration to return to China a PRC national who was seeking political asylum in the United States.<sup>62</sup>
- In 2021, the PRC Embassy in Washington sent letters to select U.S. business leaders urging them to lobby the U.S. Congress to reject bills the PRC opposed, including bills designed to increase U.S. competitiveness vis-à-vis China: “[W]e sincerely hope you will play a positive role in urging members of the Congress to abandon the zero sum mindset and ideological prejudice, stop touting negative China-related bills, delete negative provisions, as to create favorable conditions for bilateral economic and trade cooperation, before it’s too late...”<sup>63 64</sup>
- In 2021, a senior PRC official instructed U.S. business leaders with interests in China to “speak up and speak out, and push the US government to pursue a rational and pragmatic policy towards China, stop conducting wars in trade, industry, and technology...” The PRC official added, “[T]he business community cannot make a fortune in silence.”<sup>65</sup>

## **Mitigation**

For many U.S. state and local communities, engaging with counterparts in China may be necessary or even vital. To benefit from these opportunities and guard against exploitation, U.S. communities should ensure these engagements are governed by principles of transparency, honesty, reciprocity, and accountability, and do not conflict with U.S. strategic interests. Understanding the scope and depth of the PRC government’s active role in guiding and often exploiting China’s subnational relationships overseas is the first step towards mitigating risks. This geopolitical reality has placed state and local officials in the United States and other nations on the front lines of national security.<sup>66</sup> Below are some basic mitigation measures to help state and local leaders navigate these engagements.

- **Exercise vigilance when engaging with foreign entities.** Understand there is no such thing as a “free lunch.” While partnerships or engagements with China or other foreign nations can bring economic, academic, and cultural benefits to U.S. state and local communities, there may be strings attached. Beware of those who would ask you to advance a position or lobby on behalf of another nation or group. Do not sign agreements that run counter to or undermine national U.S. policies. Understand that what may seem good for your city, county, state, or business in the short-term could undermine strategic U.S. interests over the long-term.
- **Know your partners and who you are doing business with.** As with any venture with a foreign entity, conduct due diligence to determine who the partner is, where their money comes from, which foreign government entity may have authority over them, and evaluate their motives.<sup>67</sup> Take time to understand the foreign country’s political system, laws, and approaches to foreign relations. PRC subnational engagements may involve a variety of entities, ranging from PRC government institutions to companies to cultural groups. None of them are necessarily free of Beijing’s control.<sup>68</sup> Consult your local FBI office, other cities and states, or national associations that have had experience dealing with these issues.
- **Insist on transparency in all agreements.** The terms of memoranda of agreement, memoranda of understanding, contracts, and partnership agreements with foreign entities should be transparent, public, and subject to public debate as they would with any other nation.<sup>69</sup> Beware of proposals that appear to run counter to democratic values or conflict with U.S. interests. Do not allow any foreign country to prohibit your interactions with other countries, entities, or

individuals.<sup>70</sup> Set boundaries in the relationship and do not make exceptions simply to placate foreign customs.

- **Share experiences with others to develop best practices.** Many U.S. cities and states may face similar challenges when it comes to engagements and requests from foreign entities. Work with them or with national associations representing U.S. states, counties, and municipalities to pool experiences and develop best practices for interacting with foreign nations in ways that do not undermine U.S. national interests.<sup>71</sup> Consider putting in place state or local coordination and review policies to manage engagements with foreign nations.
- **Maintain enduring connectivity with U.S. authorities.** Communicate regularly with field-based intelligence and information sharing agencies, including your state or regional fusion center, your local FBI office, and U.S. Department of Homeland Security field personnel for the latest threat information. Contact them when questions or doubts arise about a proposal for cooperation or partnership with a foreign entity. Draw on their insights to educate yourself on the goals and methods of foreign influence operations and help educate state and local partners. Develop a mechanism to identify risks associated with subnational engagements and factor those risks into future decision-making.<sup>72</sup>

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