

**U.S.-CHINA: WINNING THE ECONOMIC  
COMPETITION, PART II**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
ECONOMIC POLICY  
OF THE  
COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED SIXTEENTH CONGRESS  
FIRST SESSION  
ON  
EXAMINING THE HIGH STAKES OF THE STRATEGIC ECONOMIC  
COMPETITION BETWEEN THE UNITED STATES AND CHINA

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## **U.S.-CHINA: WINNING THE ECONOMIC COMPETITION, PART II**

**WEDNESDAY, DECEMBER 16, 2020**

U.S. SENATE, SUBCOMMITTEE ON ECONOMIC POLICY,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Subcommittee met at 9:31 a.m., via Webex, Hon. Tom Cotton, Chairman of the Subcommittee, presiding.

### **OPENING STATEMENT OF CHAIRMAN TOM COTTON**

Chairman COTTON. I will call this hearing to order. Welcome to today's meeting of the Economic Policy Subcommittee, which is open to questions from all 25 Members of the Banking Committee in addition to Subcommittee Members.

I would like to thank Senator Cortez Masto and her staff and all the Committee staff for helping pull this together under unusual circumstances.

We have an exceptional roster of witnesses today. I want to introduce them briefly.

The Honorable Will Hurd has served as a member of the House of Representatives for 6 years, where he has been a leader on national defense and security issues. Most notably, he has served on the House Intelligence Committee as the Ranking Member of its Subcommittee on Intelligence Modernization and Readiness.

Derek Scissors is a resident scholar at the American Enterprise Institute, where he focuses on the Chinese and Indian economies and on U.S. economic relations with Asia. He produces a wealth of useful resources related to China, notably the China Global Investment Tracker and the China Beige Book.

Melanie Hart is a senior fellow and director of China policy at the Center for American Progress. Her most recent work focuses on developing a comprehensive U.S. strategy toward China, analyzing the domestic political factors driving Chinese foreign policy, tracking Chinese industrial policy, and assessing China's intentions toward the world.

Finally, Roy Houseman is legislative director for the United Steelworkers, North America's largest industrial union. In that capacity, Mr. Houseman oversees congressional affairs and works to improve wages, hours, and conditions for the Steelworkers' 1.2 million members and retirees.

I want to thank all of our witnesses for participating today and thank our audience for tuning into our second hearing on this topic, United States–China: Winning the Economic Competition.

By now, it has dawned on many that the United States and China are at the beginning of a long economic competition. The big question now is whether we plan to fight or surrender.

Thankfully, many people want to stand and fight, and we have made great strides in the past few years by, for example, strengthening oversight of foreign investment in the United States, tightening export controls of sensitive technology, and imposing sanctions on malicious Chinese enterprises like Huawei.

Despite these welcome actions, however, great challenges still remain. The coronavirus pandemic has exposed the great extent to which we depend on the goodwill of the Chinese Communist Party to access essential goods, such as personal protective equipment and medicine.

And each day, it seems, brings fresh revelations of American companies seeming to kowtow to China, such as Apple TV recently acknowledging that it will not stream content critical of China.

So, clearly, not everyone has woken up to the threat that China poses to our country, or perhaps they are awake to the threat but they are hedging their bets. There are even some warning signs that the next Administration might roll back some of the progress we have made in the past few years in an attempt to return to a failed policy of engaging and accommodating China that both parties pursued over the last 30 years.

But, of course, winning our competition with China is not a partisan issue. I have been fortunate to work with my Democratic colleagues on a number of important initiatives, from these hearings with Senator Cortez Masto, to my bill to restore semiconductor manufacturing in America with Senator Schumer. I hope that in next Congress this body will continue to build on the good work we have already done on a bipartisan basis.

Hearings such as this are opportunities for us to explore new ideas at greater length with top experts. So I am looking forward to hearing what all our witnesses have to say.

And on a final note, for the record I want to say that over the past year, my staff has been hard at work on a report that addresses this very issue of competition with China and how to win it. That report is nearing completion, so I hope you all will have a chance to pick up a copy once it is released early in the new year.

Thank you again for joining us, and now I will turn it over to Senator Cortez Masto, our Ranking Member, for her remarks.

**OPENING STATEMENT OF SENATOR CATHERINE CORTEZ  
MASTO**

Senator CORTEZ MASTO. Senator Cotton, thank you so much. And thank you to your staff. They have great to work with, and I so appreciate all of the hard work that they have put into the past two Committee hearings that we have had.

Thank you to the witnesses. I am excited for the discussion today and so appreciate you taking the time.

Listen, I am so glad to be here to talk about what I believe is a point of bipartisan agreement: that China is a strategic competitor on the global stage. And as we talk about what that means, I think it is important for us to talk not only about what that means for our current moment, but for the decades to follow.

Competition with China affects every sector—how we innovate, how we do business, how we tackle climate change, how we trade with other Nations, how we protect our national security, and how we are able to impact the world around us. We have an opportunity now—in the midst of this horrible pandemic—to use this point of bipartisan agreement to invest in our ability to compete, not just today, but tomorrow as well.

At key moments in history, when faced with overwhelming challenges—from the Great Depression to putting the first man on the Moon—this country has risen to the challenge. And I am looking forward today to talking about how we can make sure that we have the right tools and right plan to do that again.

China's economic activity makes up a growing share of our global economy. Some of that has been good for this country. We have added jobs, reduced the price of goods by expanding trade with China.

But in other cases, it has not worked out well. In too many cases, Beijing has taken our technology, undercut our domestic manufacturing base, and created an unfair playing field for our companies and our workers.

We have seen this competition play out in Nevada in multiple ways. At our military bases, leaders have repeatedly expressed concern about Chinese Government attempts to spy on the sensitive training that occurs there. I have heard similar concerns from leaders in other sectors—forced technology transfer and industrial espionage.

In the critical mineral sector, we have seen a different but equally important aspect of the competition playing out. While China has invested in developing the ability to extract and process critical minerals that are essential to many of our emerging technologies, we in the United States have underinvested in those capabilities. In Nevada, that has left important opportunities for economic growth untapped. Of course, we must pursue these opportunities in environmentally and socially responsible ways, but by failing to invest in these key sectors, we are giving Beijing the advantage and hurting ourselves.

Yet in Nevada we also see another aspect of our relationship with China. We have strong cultural and economic ties to China. We have a diverse Asian-American community in Las Vegas, with a vibrant Chinese-American population. Our world-class casinos and resorts attract more than 200,000 tourists from China annually. Now, that is good for Nevada, and it is good for China.

So I believe we must approach our relationship with China with a clear-eyed commitment to doing what is best for the American people, but also with balance and attention to the nuanced nature of our relationship.

We need to be able to compete and look for opportunities to cooperate. We need to be able to call out the Chinese Government where we disagree, while still respecting the rights and freedoms of people in China and of Chinese Americans here at home.

So I see three parts to our response to economic competition with China.

First, we must invest at home. I have led bipartisan bills like the ACCESS BROADBAND, SPEED, and Moving FIRST Acts to

strengthen our 5G and broadband infrastructure and our emerging tech sector. We must ensure we are investing in innovation to bolster our manufacturing industry, especially in the sectors that will create the jobs of the future, like clean energy.

I joined my colleagues on the Senate Democrats' Special Committee on the Climate Crisis over the past 2 years, where we heard from stakeholders about the opportunities that a clean economy can unlock for domestic manufacturing. So I look forward to talking more about some of these opportunities today.

But we also must protect and support our most important asset: our people. I am a longtime advocate for collective bargaining rights, for supporting safe and fair workplaces and the growth of good-paying jobs in Nevada and throughout the country. I am also proud to say that today I am joining my colleagues Senators Schumer, Menendez, and others in cosponsoring America LEADS, which is the most comprehensive China legislation to date and makes significant investments in the resources our workers, entrepreneurs, researchers, and manufacturers need to get ahead and stay ahead.

And, second, we must rebuild our relationships with our allies and partners so we can face the China challenge together. We will not win in this competition on our own. President Trump has rightfully identified some of China's unfair trade practices, but he has gone about addressing them in a way that has hurt Americans.

That is why I have advocated for stronger enforcement mechanisms in trade agreements, including in U.S.–China trade negotiations and questioned the Trump administration on their strategy of alienating our closest allies in an increasingly globalized economy.

Third, we must ensure we have the Government structures to adequately address this challenge. Competition with China does not fit neatly into committee jurisdictions or bureaucratic organizational charts.

That is why I have been working with my colleagues to build an informal bipartisan working group to ensure we are talking across committees about these challenges. And I am exploring legislation for the next Congress to work with the Executive branch around similar issues, especially on emerging technology.

And, finally, we are in a unique moment now. So many of us are hurting from this horrific pandemic. We are working to pass another COVID relief package, which we sorely need. But I also see an opportunity in this moment for us to really double down, to make investments not just to get us over this short-term challenge, but to set us up to lead in the 21st century.

So I am grateful to all of the witnesses who are here today to talk about the current state of our competition and the policy tools that we need to address it. Thank you for joining us today.

Chairman COTTON. Thank you, Senator Cortez Masto.

We will now turn to opening statements from our witnesses. We will start with Representative Hurd.

#### **STATEMENT OF REPRESENTATIVE WILL HURD OF TEXAS**

Mr. HURD. Chairman Cotton, Ranking Member Cortez Masto, thanks for the opportunity to testify, and my comments are based on my decade career as an undercover officer in the CIA where I did operations against the Chinese. It is my time in the private sec-

tor helping businesses grow in the markets where the Chinese were already existing. My comments are informed by my time helping to build the cybersecurity company where you see the threat from Chinese hackers to not only the Government but to the private sector, and then obviously my time on the House Permanent Select Committee on Intelligence. In your opening remarks, you alluded to this.

We are engaged in a new cold war with the Chinese Communist Party. Now, some people do not like that term “cold war.” I use it because we are not fighting with weapons, with, you know, guns and tanks. But this is a struggle. This is not my assessment. This is not from collecting intelligence. This is based on what the Chinese have said about themselves. We all know about Made In China 2025 where the Chinese themselves have said they are going to try to surpass the United States of America as the sole hegemon by being involved and leading in a number of advanced technologies. This is a generation-defining struggle on who is going to be the global leader on advanced technologies like 5G, AI, quantum, things like syntactic foam. These are all issues that if we do not win—why should we matter—why should we care about this? If we do not win, it is because the U.S. economy will no longer be the most important economy. The dollar and English will not be the things on which global economic activity happens. It will be Mandarin and the yuan. And we have to realize that the Chinese intelligence services are the best in the world at seeding operations. And they are doing this against academia; they are doing this against the startup community; and they are doing it against Government officials.

We have seen, you know, the fact that people know this woman Fang Fang and what has happened with a number of elected officials to include some of my colleagues in California. The fact that Chinese intelligence take the long-term approach to looking at what is a potential intelligence operation 20 or 30 years down the road. Our intelligence services are not prepared to deal with that. We do not operate that way.

I am currently investigating some reports in South Texas of how Chinese nationals have come across our southern border illegally in order to start working in some of these commercial space companies. This is absolutely crazy that they would take astrophysicists and try to get them to act like they are going to go paint a wall or be a basic day laborer in order for them to get access to some of these commercial space facilities.

We know about the Thousand Talents program. We know about the Fox Hunt program that the FBI is aggressively pursuing. The Chinese intelligence services operate differently from us. Just because we do not consider it ourselves intelligence does not mean it is not an intelligence operation, and we are going to have to change our thinking.

When I was an undercover officer in the CIA and if you would have said “made in China,” I would have thought that meant a knock-off. But now “made in China” actually means made in America first, and there are so many examples: the syntactic foam company based in Texas that had connection to Dr. Hart and my alma mater, Texas A&M, where a Chinese company, you know, started

working with an academic institution in order to get access to technology that they could then steal and develop themselves.

There is a wind farm in far West Texas that is owned by a Chinese company, and the work that you all did and our colleague in the Senate John Cornyn did on FIRRMA and strengthening CFIUS. You have a Chinese general buying 40,000 acres in West Texas creating a wind farm and connecting to the Texas grid. The long-term potential implications of that is interesting, and the way you stop this is simply reciprocity. A U.S. general would not be able to buy 40,000 acres in Beijing. Why are we allowing a Chinese general to do that here in the United States, a retired Chinese general?

This is the same thing when it comes to cloud and credit cards. Why do we treat Alibaba in the United States like an American company but Amazon is not treated like a Chinese company in China? Why is Mastercard, Visa, and Amex not allowed to operate in China but we allow the Chinese applications, WePay, to operate here in the United States?

So these are some of the issues that we have to address, and I am glad to answer questions after we get through these opening remarks.

Chairman COTTON. Thank you, Representative Hurd. Those are some good questions posed, and I hope we will come to them later in our hearing.

Mr. Scissors.

**STATEMENT OF DEREK SCISSIONS, RESIDENT SCHOLAR,  
AMERICAN ENTERPRISE INSTITUTE**

Mr. SCISSIONS. Thank you. I would like to spend my time, my 5 minutes, talking about one aspect of the competition, which is whether it is, in fact, short-term or long-term. I think it is legitimate to argue that it is long-term, but I am going to make the case, at least briefly, that it is short-term. And the reason I think this is important is because whether it is more short-term or long-term changes the policy steps that we should take at the outset.

So let me start with why it might be short-term, and this is mostly on the Chinese side. I think we are all familiar with the fact that China has a serious aging problem because many families were restricted to one child, and encouraging births now, as the Chinese are trying to do, is much harder as societies develop. They are on a worse demographic trajectory than Japan. The heaviest blow demographically probably starts in a few years. In any case, China in 2040 will be unrecognizable both demographically and socially. So when we talk about a long-term competition with China in 2040, we are talking about a different country, and demographics establish that.

On debt, Chinese bank lending starts outrunning its GDP growth in 2002. Everyone is very impressed with Chinese GDP growth. Chinese bank lending is faster than Chinese GDP growth and has been for about 17, 18 years. They caught us—this is not a race we want to win. In broad economic leveraging, financial leverages measures, the Chinese caught up to us in 2016. They were less leveraged than us prior to that; now they are about as leveraged as we are. But they are much less productive than us on a per capita

basis. And when you are less productive, when you are a more backward economy in that sense, you are wasting a ton of money if you are highly leveraged.

So what has happened in recent years is China has wasted a lot of money. They have wasted their opportunity to catch up in productivity. They have spent a lot of money for progressively less economic gain. That is going to be an anchor around their economy for years to come. We have a problem there, too, which I will get to in a second, but debt is a larger problem at present for China than for us.

The party and many people observing China think innovation will come to the rescue. Discussing innovation is automatically less precise than discussing demography and debt, but a large economy facing serious demographic and debt problems, it is hard to innovate enough to carry that economy forward. The Japanese have not been able to do it, for example, and the Chinese actually have a worse problem than Japan, because they reserve 20 to 25 sectors for the State, and State-owned enterprises, which do not face competition, have no reason to innovate. Chinese oil companies are not innovative. The Mainland Chinese telecom services providers—China Telecom, China Unicom, et cetera—are not innovative because they do not have to be. And there are 20 sectors like that in China, so that is a drag on their economy as well. So that is my argument for why China is less of a long-term threat than it is a short-term threat.

There is an important qualifier here, which is if we do not take care of our own problems, then in 2040 we will be looking at two overrated long-term competitors, the Chinese and us, instead of just one—China. So we have to deal with our own problems. But if the challenge is short-term, we have to deal with China first because that is what we can handle in 2021. Addressing long-term issues in the United States is worthwhile absolutely, but it is going to take a good amount of time, and we have an opportunity in 2021 to respond to China immediately.

The first thing that is necessary in that response is boring, and no one ever wants to do it when they take over the Executive branch, Democratic or Republican. We have to document the problems. We have to document Chinese subsidies to their full extent, which we have never done. We have talked about it. We have to document coercive IP transfer, both theft and coercion within China. We had a private organization do that at a general level. The U.S. Government has never published anything.

We have to document outbound capital flow, which is a relatively new issue where we are not following where our money is going and what it is supporting in China. We have had a lot of concern about China. We have not had people wanting to do detailed, boring work. Outbound capital flow, for example, U.S. capital flow to China might now be near \$1 trillion, mostly through the Caymans. We do not know what the end user is. We do not know where the sectors are being concentrated. We do not know enough to make good policy.

My second recommendation is a twofold recommendation on technology. Export controls were passed overwhelmingly on a bipartisan basis in both the Senate and the House in the summer of

2018, and they remain unimplemented, which I find unconscionable. We need to implement those export controls as the Congress has directed by the Department of Commerce in 2021.

We also need to start punishing beneficiaries of IP theft and coercion. We really have not done that. We have talked about it. We have talked about punishing the thieves. As an economist, I do not care who stole it. I care where it ends up and how that firm can use American technology to compete against American companies and workers.

If we do not start punishing the beneficiaries of IP theft, when we put export controls in place, the IP theft will get worse. When we say, “Hey, you cannot share technology with China,” the Chinese are going to say, “Great, we will take it.” So those two things have to go together.

Third, once we document the subsidies, we need to employ more broadly—and maybe this gets to the reciprocity Representative Hurd was talking about—we need to employ more broadly countervailing duties and other actions against subsidized Chinese production. And that is not just Chinese imports. It is also the fact that Chinese subsidies prevent American exports to China, effectively closing off those sectors, which means we need to consider what our response is to that, that we will never be able to in the current Chinese system compete openly in the Chinese market.

And, last, as I have mentioned about capital, once we document those capital flows, if we find out that a large amount of American money is going to areas that we consider important, the Chinese are certainly trying to draw to areas they consider important. But if we get the numbers and we say, wow, we are giving \$150 billion to advance Chinese technology, we have to restrict it. I do not want to advocate for restrictions right away because we do not know enough. But I do want to advocate, to close on a point Senator Cotton brought up, if we are going to help American semiconductor manufacturing, we cannot at the same time have American financial institutions pour money into China-based semiconductor manufacturing. That is not sensible policy. So if we find out that is the case, we are going to need to impose outbound investment restrictions along with trade technology.

Thank you.

Chairman COTTON. Thank you, Mr. Scissors.

We will turn now to Ms. Hart.

**STATEMENT OF MELANIE HART, SENIOR FELLOW AND DIRECTOR FOR CHINA POLICY, CENTER FOR AMERICAN PROGRESS**

Ms. HART. Thank you. Chairman Cotton, Ranking Member Cortez Masto, and distinguished Members of the Subcommittee, thank you for the opportunity to testify before you today.

The United States stands at a critical juncture. China is nipping at our heels. A new industrial revolution is underway. But instead of marshaling our resources to leverage this revolution for our maximum economic benefit, the United States is drifting, and Beijing is watching.

China’s leaders know that drifting Nations do not prevail in industrial revolutions. In Beijing’s view, current U.S. inaction is cre-

ating a once-in-a-century opening for China to finally catch up to and surpass the United States as the world's leading economic and technical power. To turn this dynamic around, the U.S. must address its economic challenges head-on and reinvest in the fundamental drivers of our own economic prosperity. The decisions that this Committee and other members of the U.S. Congress make over the next year will play a critical role in determining whether the U.S. succeeds or fails.

I would like to make four key points in my opening statement.

First, over the past two decades, China prioritized investment decisions of its own economic power. The U.S. did not, and that is one reason why China is now our peer competitor. For decades, the U.S. was the world's leading investor in research and development, and that gave us a critical edge. But over the past two decades, as globalization and the digital revolution unfolded, our spending did not change. We did not upgrade our strategy, and the U.S. lost its edge.

A similar pattern is playing out in public infrastructure. While China and other Nations invest in world-class systems, the U.S. forces its workers and companies to make do with aging infrastructure built in and designed for the 1960s. The United States would never send its military into today's battles with cold war-era weaponry, but it forces its workers to fight the 21st century economic battles with 20th century infrastructure. That is a gift to Beijing.

Second, Beijing also deploys predatory industrial policies to siphon off U.S. technology advantage and boost Chinese firms over their American competitors. I know the Committee is familiar with some of those policies and the damage they cause.

Third, Beijing is responding to the Trump administration's policies by doubling down. If the Trump administration's ultimate aim was to force Beijing to abandon its predatory economic policies, that effort has officially failed. Last month, Chinese leaders issued a communique signaling the direction they plan to take their Nation over the next 5 years. It does not signal a change in China's economic strategy. Instead, the new plan suggests that Beijing is doubling down.

Fourth, if the U.S. competes at full strength, China cannot beat us. But that requires the U.S. to do two things effectively that we are not yet doing: first, invest in our own comparative advantages, the advantages that China cannot match; and, second, form broad, global coalitions to neutralize China's predatory behavior.

On the domestic front, the U.S. needs to treat the China challenge as a "Sputnik moment" and rally around a national competitiveness initiative that makes key long-term investments in our comparative advantages. That should include things like making high-quality postsecondary education affordable for all Americans, rebuilding workforce development infrastructure, making moonshot investments in national R&D, and investing in productive public infrastructure.

The U.S. should also make rapid, targeted investments to reduce supply chain dependence on China and speed time to market for disruptive innovation. 5G network equipment is the perfect example. We have made-in-the-USA 5G equipment solutions. We have that. Some of them, like Virtual RAN, are still relatively new, and

mobile operators in the U.S. and around the world are nervous about being the first company to roll those new innovative technologies out. Congress can help by funding test networks around the country. That is already happened on U.S. military bases.

In my view, underserved rural communities around our Nation are a logical next step. Once American companies are demonstrating that they can successfully run made-in-the-USA 5G networks in our Nation to address some of our broadband devices, we can begin exporting them as well.

And, finally, high-tech sectors provide a near-term opportunity to join forces with other Nations to build a broad global coalition around China. We have opportunities to do that on digital technology governance and also on assessing how some of Beijing's subsidies and underpriced capital boost Chinese firms at our expense, as Derek suggested previously.

Thank you, and I look forward to your questions.

Chairman COTTON. Thank you, Ms. Hart.

Finally, we will turn to Mr. Houseman.

**STATEMENT OF ROY HOUSEMAN, LEGISLATIVE DIRECTOR,  
UNITED STEELWORKERS**

Mr. HOUSEMAN. Chairman Cotton, Ranking Member Cortez Masto, Members of the Subcommittee, thank you for the opportunity to testify today. I commend the Committee for uplifting the voice of organized workers in this discussion, and our International President, Tom Conway, gives his regards.

The United Steelworkers is the largest industrial union in North America, representing workers throughout the manufacturing sector. We also represent a growing segment of health care, public sector, and even tech workers. This diversity in profession creates a strength in understanding the impacts that China's economic competition will play on the worker in America.

Our first effort in competing with China must be to invest in the basic infrastructure necessary to make Americans feel safe from the COVID-19 pandemic, starting with an immediate COVID-19 relief bill for the millions of Americans currently laid off. We also need to immediately advance a regulatory framework that ensures workers feel safe returning to work. OSHA and MSHA standards dealing with a pandemic are sensible to anyone who has stood shoulder to shoulder in a processing plant or who has had to go through a lock-out, tag-out procedure.

As the country starts receiving the vaccine and containing the pandemic, the existing challenges we faced prior to the pandemic related to the Nation's infrastructure, labor force, and international competitiveness will only become clearer.

Since such a large percentage of our members manufacture today's high-tech materials and metals, I wanted to provide focus on how China's near monopoly or market dominance has impacted workers here and undermined U.S. competitiveness.

For example, in steel, China now accounts for over 51 percent of global production. In aluminum, China's share of global output touched 57 percent in May. In rare earths, China not only holds 35 percent of the world's entire rare earth supply, but accounts for 70 percent of global production. Rail CRRC, the Chinese State-

owned enterprise, calculates they control roughly 83 percent of the global rail market. And in fiber optic cable, China's production reached 61.6 percent share of the global total in 2019. These levels of production or capacity can swing prices and prevent domestic entry and have led to 205 antidumping and countervailing duty remedies slapped against firms in China by the U.S. alone. Each of these orders represent not just a recognition that China has committed illegal trade practices, but also during a 3-year period of time, domestic industry lost jobs, cut benefits and/or lost market share.

The U.S. Government should respond to China's State capitalism through a mix of policies and investments that recognizes State economic power must be met with reciprocal State economic responses.

We are a \$22-trillion economy, and simple investments would allow us to get goods out the door, whether it is the steel or the next generation of medicines. Yet these products have to travel on our crumbling infrastructure, as Ms. Hart indicated. In 2019, the U.S. spent just 2.5 percent of our GDP on infrastructure, down from 4.2 percent in the 1930s, while China spends around 8 percent of its GDP on infrastructure.

We need to upgrade our ports, our roads, expand broadband, build out our critical minerals, and improve our education system. Our union members want that work, and American workers are guaranteed that their tax dollars will go to expand the manufacturing infrastructure to compete with China. This leads to a simple fix. Expanding our Buy America provisions to ensure the money Congress approves does not inadvertently go to jobs in China.

Another investment we should make is expanding our Manufacturing USA program. The 14 Manufacturing USA Institutes conducted nearly 500 applied R&D projects to broad industry. Legislation like the LEADS Act by Senators Schumer and Menendez expands this successful program.

We should also expand the Manufacturing Extension Partnership program. A network made up of the 51 MEP Centers has led to American firms creating or retaining over 114,000 manufacturing jobs in fiscal year 2019. We should build on this success and expand the program.

Last, we need to press back against China by building a robust, unionized working class. Reducing wealth inequality in America will unleash a spending potential that will propel us into the future. The economic competition between the U.S. and China will be a generational rivalry. United Steelworkers believes our country, with the proper investments, planning, and commitment to our most powerful asset—the American worker—will be how we succeed in that rivalry.

Thank you, and I look forward to answering any questions you may have.

Chairman COTTON. Thank you, Mr. Houseman. Thank you all for your statements. We will turn now to questions. I will begin.

I want to address this to Representative Hurd and Mr. Scissors. You both advocates for taking a harder line on China on the economic domain, but I want to note that you have slightly different approaches.

Representative Hurd, you have written about the need to adopt a policy of reciprocity aimed at changing China's behavior. So, for example, if Beijing restricts investment or market access for U.S. firms, we could respond in kind until they open their markets. The premise of the strategy, as I understand it, is to encourage structural changes in China's economy and changes to Chinese Communist behavior.

In contrast, Mr. Scissors, you have written that a partial decoupling from China is overdue. You go on to state that a strategy of decoupling is a recognition that America should drop the pretense of changing the People's Republic.

So a question for both of you. To what extent can we expect U.S. policy to change CCP economic behavior? I believe the answer to this question is vital in formulating that policy. Representative Hurd, I will turn to you first, and then I will turn to Mr. Scissors.

Mr. HURD. Thank you for the question, Chairman. The U.S. and China were frenemies, and if we want to get them to change their behavior, it has got to hurt. And so the U.S. Trade Representative just produced a report last year about the things the Chinese Government has not done at the WTO. It was like 122 pages. So we need to be making sure that we are working with our allies to put pressure on them in agencies like the WTO.

The U.S. market is a market that buys a lot of Chinese products, so we have a tool in our toolkit in order to use that to try to get them to start operating fair. And so that is one way—we are going to be able to out-innovate them. The fact that an authoritarian Government can get somewhere first because they can move all factors of production into one area—they may get somewhere first, but they are not going to be able to get beyond that point. And so that is why here in the U.S. we have also got to make sure that we are prepared to compete with them.

AI is one of those issues. Robin Kelly, my colleague from Illinois, and I just passed an AI national strategy. It went through six committees. It was saying that we needed to double down on research like Ms. Hart was talking about, that we need to focus on the national security implications of AI, that we need to promote the ethical use of it, and that we need to start developing workforce pipelines to ensure that Americans are ready for this, so in other ways we can out-innovate them and we should, but let us build relationships with our colleagues. It is good to have friends or other Nations. The Chinese are just like the Russians. They do not necessarily have allies. They have dependents. And so we need to leverage that tool in our toolkit to try to enforce some of those behaviors.

Chairman COTTON. Thank you.

Mr. Scissors.

Mr. SCISSORS. I have no objections at all to the use of reciprocity, as Representative Hurd has suggested. I think it is a good idea, and if this were 10 years ago, I would have led with reciprocity as a guiding principle for U.S. policy as well.

The change has been the ascent to power and consolidation of power of Xi Jinping, and a different Chinese leader might be gone in 2 years, and I might say, "Hmm, I do not know what our policy should be in 2023 and beyond." But under Xi, reciprocity is not

enough. Even if it is enough in trade, it is not enough in technology. Let me give you an example.

How are we going to reciprocally respond to Chinese theft? Are we going to try to steal their technology? That does not work as—first of all, we do not really want their technology that much in most cases. But, second, we do not want to be advocating for coercion of foreign enterprise in the United States, for illegal actions against Chinese firms. That is not the way we want to go.

So reciprocity has a role. The reason I moved to advocating decoupling is because China has changed. It is not the same country in 2020 as it was in 2010. It is not the same country under Xi Jinping as head of the Communist Party—I could spend all of my time documenting just the political side of that—as it was under Hu Jintao in 2010 much less Jiang Zemin in 2000. And a different China, a less aggressive, repressive China, that is a different story. But this China, with Xi Jinping, who wants to stay in power indefinitely, who is absolutely, as Melanie mentioned as well, committed to the State sector. Reciprocity is not enough. We do not want to be just like China, and I do not mean to say that Representative Hurd says we do. But we cannot match their actions, thankfully, in a number of areas. So the response to criminal activity, and a lot of Chinese activity in technology is essentially criminal, is to separate from them. We cannot fully punish Chinese companies because we do not have access to them because they are protected by the party, so that is where decoupling comes in. Reciprocity is a fine principle for a lot of reasons. It is a good start. But with Xi Jinping's China, we need to do more, especially in the technology area.

Chairman COTTON. Thank you, Mr. Scissors.

My time is up. I will turn the questioning to Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. This has been a really enlightening conversation, and thank you so much for your initial comments.

Let me jump back to manufacturing. There is a lot of talk about how we need to manufacture American made again here in the United States, how we bring the supply chains back. Let me put a focus on something that is very specific to Nevada as an example, and then I want to expand from that.

In Nevada, particularly in Henderson, we have the TIMET plant, and the TIMET plant there manufactures, creates the titanium sponge, with is the purest form of titanium. It is an essential ingredient for so many things we build, from commercial airplanes to our military's combat vehicles.

Now, the only domestic supplier that we have on this important resource was in Nevada at that TIMET plant in Henderson, but it went idle this year and had to lay off workers. Before that happened, TIMET warned Federal regulators that if the Henderson plant were to close, they said the U.S. military “will be 100 percent reliant upon titanium sponge from risky countries, including China and Russia.”

Let me just say this, Mr. Houseman. We so appreciate the steelworkers' efforts for this plant, and thank you very much. But this just gives you another example of how do we—as we have this con-

versation today, how do we turn this into a focus on what constructively we can do to address concerns? We hear this going on across the country. We hear that this is happening. And we know that there is a range of manufacturing industries that are going to be either put at risk or we need to bring the supply chains back and start this manufacturing. But how do you compete say, for instance, with China, who already has reduced the costs for doing this and it is going to be hard for our companies to startup even if they wanted to, to go down this path? What are your recommendations?

Let me just start with Ms. Hart, if you would, because we talk about, we hear about this all the time, but how do you actually—how do you get it started? Because the costs are going to be so high for any company that wants to start down this path.

Ms. HART. Sure. Thank you, Senator Cortez Masto, for the question. You know, the missing piece in the current Administration's trade strategy toward China is doing a supply chain-by-supply chain assessment to identify in which supply chains do we have too much dependence on China or other Nations. Where do we need to diversify? And depending on the substance, does that diversification need to involve targeted investments here at home? Can it also involve exchange with American allies and partners? So in rare earth sectors, we can work together with Australia to improve diversification and reduce our reliance on China. In others, targeted investments at home make sense. And so that will require us to make some smart investments, and that supply chain-by-supply chain analysis is critical to target and determine where do those investments make sense and how do we make sure we are getting the biggest economic and national security bang for the buck when we make them.

Senator CORTEZ MASTO. Thank you. And, Mr. Scissors, let me go back to you because this is your idea of how we document, that we need to take the time to document, that it so boring nobody really wants to take the time to do that. But if we are able to document and really put this information down on paper and identify it, it is a starting point for all of us to work from. Is that what you are getting at?

Mr. SCISSORS. Absolutely. I wrote that down while Melanie was speaking, and you obviously heard the same thing I did. Supply chain-by-supply chain is an excellent approach because it involves both investment and trade. You combine the two, and technology, where we are in technology supply chains.

You and Senator Cotton are doing wonderful work on this through this hearing and elsewhere, but you cannot make decisions on where to invest and where to cooperate with our allies and what to startup with if you do not know where the Chinese element in the supply chain is. Maybe it is not important at all. Maybe it is incredibly important. Maybe it is hidden.

So we have to have that information to make good policy. It is dull, but it would start off the Biden administration with the base to make the necessary actions for all of you to judge this is crucial for us to act now, this is secondary, judgments which we really cannot make now, because even if we decide that we know the importance of a supply chain, it is not obvious what the Chinese role is.

I will wrap up here, but we all know an example of this, which is active pharmaceutical ingredients, where the Chinese are not the primary exporter. Our imports come from other countries other than China, but they make the chemicals to go into those ingredients. And so there is a hidden dependence on China in that sector, and that requires a different policy than a policy where—than policies required where the imports come directly from China. So I 100 percent agree with both Melanie and you. The first step has to be information.

Senator CORTEZ MASTO. Thank you. I notice my time is up. Thank you very much.

Chairman COTTON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. I am glad that we are having this second hearing on the U.S.–China economic competition. Since the last hearing, I introduced with a number of my colleagues the America LEADS Act. This bill seeks to do four things: one, invest in American competitiveness; two, invest in American alliances and partners; three, invest in our values; and, four, invest in our economic statecraft to ensure China pays a price for its predatory actions.

America LEADS provides a comprehensive strategic approach for addressing the new competitive U.S.–China relationship and to define policies and allocate critical resources that combine and mobilize all aspects of U.S. national power, starting with the recognition that American competitiveness starts with investments here at home in our workers, our education, in science and technology and innovation. Further, this bill is driven by a need to retool the U.S. economy and workforce to compete in the 21st century.

So with that as a preface as to how I look at this, I would like to ask Dr. Hart and Mr. Houseman, would you agree that any serious approach to the China challenge has to start with reinvesting in our domestic sources of competitiveness?

Mr. HOUSEMAN. Yes, Senator. It is this concept of, you know, as you indicated in your legislation, where putting in \$350 billion into workers, entrepreneurs, and the manufacturing community will kind of create this virtuous cycle, basically, of, you know, reinvesting in plants that many of these domestic manufacturers have—as has been kind of pointed out, these plants were built oftentimes in the 1960s. I look back at the hard hat of the paper mill I used to work out that was built in the late 1940s, and, you know, upgraded its infrastructure over time. But that lack of domestic investment ultimately led to a plant closure about a decade ago yesterday.

And so we think about this as like these sorts of innovative competitiveness environments where, if we provide those direct investments to our manufacturers, both in today's technology and for future technologies, we will have an opportunity to really engage.

Ms. HART. Thank you, Senator Menendez, for the question. Absolutely, good defense is great. Good defense is important. But you do not win a game by only playing defense. You have to play offense as well, and that is what those smart investments are all about.

Senator MENENDEZ. Let me ask you both—I think you may have had a chance to look at the legislation—what do you think is miss-

ing from our bill? What did we get right? What did we get wrong? How can we improve it? Any suggestions in that regard?

Mr. HOUSEMAN. I would say that the key piece is there, as I indicated in the testimony, the MEP program, the Manufacturing Institutes, those sorts of expansions of those programs create these hubs of innovation, just the same as, you know, Silicon Valley started with one or two companies and then expanded out. That wealth of knowledge gathers other wealth of knowledges. And investing into these communities, I would say the one thing that really would be impactful is ensuring that we invest in communities such as that have been hollowed out in the deindustrialization in part because of China's advance in manufacturing.

Ms. HART. Thank you. Senator Menendez, the piece that I think we are all waiting to see is how well these initiatives are resourced. I really commend you for pushing forward the bill in 2020 to invest, and I believe initially proposed \$1 billion in providing 5G alternatives to Huawei. And my understanding is that was whittled down to less than \$100 million, perhaps over a 5-year timeframe. And it is great to pick a step forward, but we need to be serious about what we are investing in and how well do we want to equip American workers, American companies, to fight a good offense against our biggest peer competitor. That requires real resourcing, not small ball resourcing.

Senator MENENDEZ. And I appreciate that comment because in view of what China is doing resourcing their initiatives, it is significant competition.

I have only got a few seconds left, but let me just ask you, it seems to me that if we really want to be able to challenge China, not only confront it but to challenge it, we are going to need partners—the EU, Australia, Japan, and others. And when you put all the economies of these countries together, now we have a real fighting chance against China.

You know, how would you recommend that we broaden the set of partners willing to work with us to address the real national security and economic threats that China poses?

Ms. HART. Thank you. So, briefly, the first thing we can and should do is work together to document what China is doing, and then once we have shared broad agreement on exactly what China is doing, then we can identify shared agreement on how we will respond as a unified group.

Senator MENENDEZ. Well, thank you, Mr. Chairman, for your courtesy. I see Congressman Hurd there. Always appreciate his insights and advice, and I look forward to continuing to work with you, Mr. Chair, on this issue.

Chairman COTTON. Thank you.

Senator Smith.

Senator SMITH. Thank you, Mr. Chair and Ranking Member Cortez Masto. It is great to be with you. This is a really interesting panel, and I want to start with an issue that I think is primarily a trade issue, though not exclusively..

I am really proud to represent Minnesota's Iron Range where three-fourths of the new iron in this country is mined, thanks to

the great American companies and great American workers led by the United States Steelworkers.

You know, it is interesting to think, because we have so much—we struggle sometimes—we say “competing with China,” yet our United States steelmakers are more efficient, they are cleaner, and they are more innovative than Chinese producers. Yet we still have—China has no great natural advantages when it comes to manufacturing steel, yet because of their massive subsidies and unfair trade practices, we end up getting screwed, frankly.

And so I just am looking at you, Mr. Houseman. Could you talk a little bit about what lessons we have learned over the last few years about how we can stop these unfair trade practices, what we need to do differently, and how we can really leverage our competitive advantage when it comes to steel particularly?

Mr. HOUSEMAN. Great, thanks. I would say there are two things. One is we have to kind of engage in a multilateral effort to capture it, basically contain China’s overcapacity related to steelmaking. Just this year, the OECD mentioned in reports that there are over 63 million tons of expansion of Chinese firms into Southeast Asia. These are new plants being put into the Southeast Asia region, and they are going to then start to expand and displace domestic market share in those home countries, but then very likely target the U.S. market as well.

We are seeing actually this year, with China’s capability to reinvest and get restarted as quickly as they have, they are not hitting production levels that have not been seen before in steelmaking.

And so for our workers in Iron Range in part it has increased some pricing for iron ore, and they have been working to restart there. But the inverse is that our members here, our domestic industry makes about 100 million tons in a given year, but a lot of those facilities, you know, they need that commitment to buy American in large infrastructure projects to get goods out on the ground, rebuild the steel, and that would create that whole virtuous cycle, both from our traditional blast furnaces to our electric arc furnaces.

Senator SMITH. Right, right. Well, and I know you all often speak a lot about it is mined, melded, and made in America. It is the whole package, and that, I think, gets a little bit to some of the interesting supply chain issues that you all are talking about.

I just have a couple more minutes, a minute or so, but let me turn to Ms. Hart. I was quite interested in the point that you made about how in the last several years in the Trump administration actually China has really sort of doubled down on their practices. Could you just go into a little bit more detail about what lessons we have learned, as we think about how we go forward, what lessons we have learned.

Ms. HART. Sure. You know, the biggest takeaway that I have from the past 4 years is that taking China on unilaterally does not work, and it also forces American consumers, workers, and companies to carry water and pay costs for the entire global community. Every problem that we have about Chinese economic policy is not just a U.S. problem; it is a global problem. And it is not fair to ask the American people to carry costs for fixing that problem for the

entire global community instead of spreading that out and sharing it.

You know, we see that where the U.S. joins common cause with other Nations, we can have a much bigger impact in a way that works well for the United States. So to follow up on the steel conversation, you know, one of comparative advantages our industries have is that we are much cleaner than China. There are much lower carbon emissions. That is a great comparative advantage. The European Union is starting to talk about carbon border adjustment measures. If we had an agreement in place whereby the European Union only purchased steel that met certain climate targets and ours naturally did and China did not, then that would, you know, make progress toward addressing some of our problems with China in a way that works together with our allies, benefits American workers, and also addresses our climate goals as well. There are great opportunities out there as long as we think smartly about who we want to work with and how we can take care of American citizens at the same time.

Senator SMITH. Right, right. That is great. Thank you very much.

Chairman COTTON. All right. We will move into a second round of questions. I want to address export controls. As our economic competition with China intensifies, Government agencies that have traditionally prioritized commerce and facilitating commerce, like the Commerce Department's Bureau of Industry and Security, have often been thrust onto the front lines of national security. The BIS has done good work over the past 4 years to update our export controls to deal with China, but I believe there is more still to be done.

Mr. Scissors, what do you view as the most urgent priorities for BIS over the coming weeks and months in dealing with Chinese technology transfer efforts?

Mr. SCISSORS. Thank you, Senator. I am not as complimentary toward BIS as you just were, in particular because this is an area—we are having a pretty bipartisan panel here, to the credit of the Senators on the Committee. Export control legislation was absolutely bipartisan, and we identified at that time more than a dozen foundational and emerging technologies that we wanted to update our export controls for. The foundational ones as we needed updated controls, the emerging technologies we needed new export controls, and we have got implementing regulations for 2 of those 14 in 2½ years. Most people do not think of the Department of the Treasury as being really rabidly anti-China. They got their implementing regulations for the FIRRMA bill as attached to the NDAA done by the end of 2019. We are at the end of 2020, and we still do not have the export control regulations.

So the top thing I want from nominees at Commerce, at BIS, the Under Secretaries, the Assistant Secretaries, is a commitment that says we are going to get this done in 2021. There is just no reason at this point that we do not have export control implementing regulations put in, and then they can be evaluated. They are not going to be perfect, but at least we can see them.

And the reason I think that is overwhelmingly important is if you restrict Huawei or ZTE or another Chinese telecom company, the Chinese will just create a new one to substitute for it. If we actually succeed in putting Huawei out of business, Huawei's as-

sets would end up in another company with a slightly different name, and we would have exactly the same problem. That is the idea of State control over key sectors of the economy.

We need to focus on technology and sectors, not particular end users. The Congress knows that. It passed export controls, and we have not gotten a benefit out of that because the Department of Commerce has not done it. So that is my overwhelming priority for 2021.

Chairman COTTON. You make a good point that right now our export control system mostly bars specific Chinese individuals or entities from acquiring technology rather than the transfer of technology in general. I take it that you believe that entity-based approach to export controls does not work given the realities of how the Chinese Communist Party operates, Mr. Scissors?

Mr. SCISSORS. Yes. I mean, of course, if a company commits—Huawei is up in Federal court on multiple criminal charges, but we are still giving them export licenses. So, of course, punishing a company like Huawei, if we believe they are guilty of criminal activity, is important. But that is not an export control activity. That is a rule of law activity. We are not controlling exports to China by preventing them from going to Huawei and allowing them to go to Fujian Micro or another company, you know, who imports semiconductors.

So I do not want to, you know, ban every Chinese sector from trading with the United States, but in technologies we want to control, as the Congress tried to designate in 2018, you cannot just restrict one Chinese company. You know very well, Senator, that civil–military fusion means if a technology is seen as important for the military, it goes throughout the military production complex. It is not limited to one firm. If those firms are engaged in criminal activity, punish them, but technology has to be controlled on a sector basis.

Chairman COTTON. So given those points, Mr. Scissors, do you think we should shift our export control process away from the Commerce Department and toward an agency or department whose statutory and cultural and historic mission is more geared toward national security rather than fostering commerce?

Mr. SCISSORS. I think we should be actively thinking about it. I think if the Secretary nominee, if the Deputy Secretary, the Under Secretary for BIS, the Assistant Secretaries, they all come in and they say, oh, yeah, exports, we really need to promote exports, we really need to promote exports, there is nothing wrong with that, of course, but not advanced technology exports to the People's Republic of China. That is a carve-out. Exports to Germany, lower technology exports to India, all of those things are fine.

If Commerce nominees are not willing to explicitly commit to changing the culture at Commerce, to changing the primary goal, it needs to go someplace else that is not so devoted to the business community. I love the business community, but for advanced technology in China, they cannot be making American policy.

Chairman COTTON. All right. Thank you, Mr. Scissors.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Let me jump back to technology and the use of technology for clean energy jobs. I know, Mr.

Houseman, United Steelworkers is a founding member of the BlueGreen Alliance, which brings together the labor and environmental organizations to solve environmental challenges in ways that create and maintain quality jobs and build a stronger, fairer economy.

One of the falsehoods that I find—and you take it to task in the manufacturing agenda portion of the report—is the notion that you cannot have good jobs and a clean environment. So I would love for you to engage in this conversation, because I think there are opportunities here to not only create jobs, add to our economy by the use of the technology that also creates this clean environment in this green economy. Would you elaborate on that a little for the workforce here and what we need to do to transition the workforce to these jobs of the future?

Mr. HOUSEMAN. Sure. I think one of the key things that America led on something, the Clean Air Act, way before many other countries. And as China has industrialized, they have not held those same standards as us. And so this idea that we have already set some standards and, you know, we have put our industry in a place where going forward into a clean energy economy, we are already well positioned. And so this idea of taking our plants, who have already done a significant amount of investment to reduce emissions and reduce greenhouse gases, is it put us into the right place to leap forward. And it is just a matter of making sure that we have those investments, that the Federal investments help guide and encourage that sort of—those pillars, and also recognizing that we have certain humanitarian concepts here in the U.S. like labor rights and decent wages and a right to health care, these sorts of basic things that we need to emphasize and establish. And that is why, you know, increasing R&D funding, these sorts of programs, and establishing the permanent labor jobs workforce programs in the Office of the Secretary, all of these areas to transform our industry and responsibly mine, recycle, all of these pillars that are a part of the BlueGreen Alliance's manufacturing agenda, give us kind of like a North Star direction for these sorts of investments.

Senator CORTEZ MASTO. Thank you. So, Representative Hurd, there was an opinion piece you put in *USA Today*, and it is titled, "It Is Not Realistic To Cut U.S.–China Economic Ties. We Should Compete and Win Instead". And one of the areas that you focused on was our workers need new skills, and you said in there, "Washington should also be working to streamline legal immigration so that America continues to be the beneficiary of the decades-long 'brain drain' of the rest of the world."

Can you elaborate on that? Because I think there is this part about having the best and the brightest to really innovate, to be there on the forefront, for the very reason that we have all just talked about. But there is also room here—right?—for our workforce to grow, and everybody grows with it.

So, Representative Hurd, can you expand on that a little and your thoughts on that comment?

Mr. HURD. Sure. If the Chinese Government wants to steal our technologies and incorporate them into their own products, why don't we steal their engineers? You know, if you are going to be an AI researcher, I want you to come to the United States of America

and participate and help American companies. If you are a quantum researcher, let us get you here as quickly as possible.

We have benefited from that global brain drain for so long. Let us continue that. And there is a way to do that in a smart, safe way. We know that the Chinese Government is putting pressure on Chinese nationals that are coming to U.S. schools in order to learn and then come back and use technologies in the United States. We can address that at the same time while being open.

I guarantee you if we give a Chinese quantum researcher the opportunity to flourish in the United States of America or go back and work for a repressive regime like the Chinese Communist Party, we are going to win out. And so we can do both things at the same time, protect our Nation and make sure that we are vetting students properly, but also being open to make sure that we are attracting the talent that we need.

Senator CORTEZ MASTO. Well, I have only got a few seconds left, but I am curious on how we ensure that we are putting that balance in place and still addressing what you also talked about, the intelligence piece of that. How do we protect our intelligence? How do we lead in this space and then also recognize that, as we have seen over the years, China is really infiltrating and trying to steal a lot of our information? So how do we find that dynamic and how do you bring in academia and everyone else around to understand and educate them to be able to find that balance?

Mr. HURD. Chairman, if I could have 15 seconds to answer that? So I will take it. So I think our universities—

Chairman COTTON. Yes, you may.

Mr. HURD. The FBI is doing a good job of trying to educate universities on how the Chinese Government is trying to leverage the universities. So the FBI needs to continue that and grow that program.

Two, if you are able to—if a Border Patrol agent is able to detect that someone who is coming across the border illegally is actually an astrophysicist, then I think we have some pretty good tools in order to catch that.

So vetting applicants is not difficult. We know how to do that. And we have just got to make sure that when people are applying for F-1 visas, the student visas, that if they are coming from certain States, there may be additional scrutiny. This is not something new, but it is just a policy that needs to be put in place so that we are protecting national security, but we are staying open at the same time.

Senator CORTEZ MASTO. Thank you.

Chairman COTTON. Thank you. I want to address data and companies like TikTok and WeChat. For nearly 2 years, we have known about PRC efforts to collect information and manipulate public discourse through applications like TikTok and WeChat. Their corporate parents, like any company in China, is not truly private. It is obligated to provide user data to PRC intelligence agencies at any time as a result of their 2017 national security law. And among other things, these applications can promote, they can minimize, or they can block content posted by Americans based on their assessment of its effect on China's image and interests.

They also capture large amounts of personal and proprietary information, not just of Americans but also of Chinese subjects when they leave their country and seek to participate in the discourse of the free country that they are visiting.

Representative Hurd, what is the risk these applications could present to privacy and free speech of Americans, especially considering China's 2017 law and the opaque governance and ownership structures of these and similar companies?

Mr. HURD. Thank you, Chairman. I think the real concern about TikTok—so why does data matter? Data matters because it trains algorithms, and if you have a better algorithm, you're going to be able to produce something at the end. So the Chinese Government does not care about civil liberties. They do not care about privacy. And so they are always going to have more data in order to train these algorithms.

So now the national security threat of TikTok is not that you are doing some silly dance and sharing that with your friend. It is that now the Chinese Government has appended data on locations, faces, in order to better train those algorithms. And those tools that they are using, we know they are using it to put the Uyghurs, their ethnic minority, into concentration camps. We know that they are trying to keep track of dissidents, and they are improving those algorithms for different faces, for different attributes, and they are exporting that to other regimes.

That is why the TikTok threat is nefarious, and then they can improve these tools, and if more people are using the tools, more control.

Chairman COTTON. Does an application like TikTok potentially give access to all the data on one's device in addition to just the videos one uploads or the other data inside that app?

Mr. HURD. So it can, and that is why looking at the—any American company that is using an application in China has to give its source code to the Chinese Government in order for it to be reviewed. Guess what? That is not a similar thing that we do here in the United States of America, in order to test that reality.

So, yeah, there is no such thing as an impenetrable device, and so if you are able to put tools on that device, you are going to be able to get information off of that device. And so, yes, it could be a threat.

Chairman COTTON. Thank you.

Mr. Scissors, did you want to respond to this?

Mr. SCISSORS. I agree with Representative Hurd, and I agree with the thrust of your question. Just to put a little point on it, the Administration, I think for good reasons, brought up TikTok and WeChat and in the Administration and in the Congress, more broadly the idea of Chinese apps as something we need to evaluate, we should not just take for granted, as we had for years. But we have not actually seen any action. Many deadlines have passed about this solution or that solution.

So I think it would be really useful for Congress, because this Administration is leaving and without taking action on TikTok, WeChat and so on, for Congress to say what is our primary concern? Is our primary concern—and you have identified several. Is our primary concern a national security concern that these are on

devices of people who have national security information? Or is a civil liberties concern? Or is it an economic concern with loss of data?

And so I do think these applications should be restricted, but I do not have a sense from the Trump administration of what the real fear is? Is it national security? Is it economic and so on? And I think Congress has a role here to direct U.S. policy in one of those directions.

Chairman COTTON. Ms. Hart.

Ms. HART. Sure. Thank you. You know, the big piece that is missing is comprehensive privacy legislation. We need to have standards to clarify what is acceptable and what is not regarding American citizens and their private data. Once we have that in place, then it will be much easier to do what Derek is talking about and identify what is the problem with all apps, be they U.S. apps, Chinese apps, or from other Nations. And, critically, that process will also make it possible to have common approaches between the United States, Europe, Japan, and other allies, because we do not want to just—if banning TikTok is the answer, it is not enough to do that in the United States. That should happen in Europe and Canada and Japan and in other Nations as well. We want to see the United States working together with allies and partners instead of alone.

Chairman COTTON. All right. Thank you. I have run over time, so I will turn it back to Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you, Senator Cotton.

I could not agree more with you, Dr. Hart, and that is why I have introduced comprehensive privacy legislation. We need to finally do something about it for the very reasons that you just talked about.

But let me jump into foreign interference because this is another area where I am concerned—and many of my colleagues are—about the growing foreign interference that we have seen in our elections and our public discourse. We have written legislation, I have written legislation around this space and oversight letters to address the Chinese Government's attempt to influence our media, our FinTech, and our schools. We have talked about it. We have seen that with Russia.

So let me ask you, because I know you have done some research in this area, what has your research shown about the Chinese Government and its attempts to influence our public discourse? And what specifically can Congress do about that?

Ms. HART. Thank you so much for the question. You know, as someone else has mentioned before me, the interference attempt reaches through multiple platforms, multiple audiences. There are Confucius Institutes and other initiatives that work through universities. There are attempts to sway think tank reports, to sway U.S. media reporting. This is a many-headed Hydra, and the most important thing that we can do to push back is transparency and exposure to help American citizens, universities, companies understand exactly what is happening, where information is coming from, and who they are dealing with.

For example, American universities likely would not admit a PLA officer who is hiding that affiliation in order to register in

their university and serve as a guest scholar, but they often do not have that information. They do not know who it is that they are letting in. So we need much bigger capacity to assess who we are granting, considering granting visas to, to allow them to come into our country.

American companies often struggle to do the due diligence to figure out who is the final beneficiary beyond the layers of shell companies to the company that is trying to source their technology or do deals with them. And American citizens need to understand when they see information from think tanks, from NGO's, from the U.S. media, is that an independent American voice, or was there some kind of Chinese funding involved?

My think tank, the Center for American Progress, has called for the U.S. Congress to require all nonprofits to declare any Chinese Government or other foreign funding on their 990 Forms. We have also called for the United States to require any foreign State propaganda actor to have to put a massive disclaimer on propaganda material in the United States.

If I wanted to run for elected office and I wanted to put campaign ads out, I would have to put a big label stating, "Paid for the Campaign of." But that kind of label does not apply on foreign Government propaganda from China or elsewhere. Those are all steps that we can take. You know, I believe strongly that transparency is the sunlight and sunlight is the best disinfectant, and we can do a lot by revealing what China is doing and helping American citizens make better decisions.

Senator CORTEZ MASTO. I saw, Mr. Scissors, you were shaking your head. Would you agree with Dr. Hart's comments?

Mr. SCISSORS. Melanie and I know each other well, so I should clarify that I was shaking my head in agreement. I usually shake my head at Melanie in disagreement, but in this case it is agreement. Yes, absolutely, the first step—we want to arm our people with information, and I do not want to repeat what Melanie said, but the U.S. Government itself does not recognize Chinese actors. I will give an example in my own field. We classify investment going in and out of the country wrongly. If a Chinese subsidiary is set up in Ireland, we act as if it is Irish. If we invest in the Caymans and it is ending up in China, we act as if we have invested in the Caymans. So you can imagine—and these are U.S. Government agencies with lots of money and lots of time and lots of people working for them. You can imagine that ordinary people have no way to do this.

So, again, it is another boring step, providing information, but it will identify the further action that we need to take. I do not mean to say that this is the only thing we should do, but the first step is to identify actors as Chinese. And I will say that I am not an expert at all on Russia, but the Chinese have a lot more money. And so the first foreign actor I want to identify is our Chinese actors. There are other foreign actors who are going to try to cause trouble, but I do not think it is at the scale of China. I would be very surprised if it was. So step one, make the Chinese label themselves properly, and then we will figure out what to do from there.

Senator CORTEZ MASTO. Thank you. I notice my time is up. Thank you very much.

Chairman COTTON. Thank you.

I have one final set of questions I want to ask. It is not often that we have a member of Congress testify in front of us, and especially a member of Congress who is a former clandestine officer at the Central Intelligence Agency. So I want to take the opportunity to ask him a question about the way China conducts espionage against the United States. It has been recently reported that Christine Fang, who operated at the direction of the Chinese Ministry of State Security, spent 2011 to 2015 befriendng various American politicians, including mayors and members of Congress, through campaign fundraising, networking, and social relationships. She apparently managed to gain proximity to significant power. I think the case demonstrates China's strategy not only for targeting people who are in the Federal Government who have access to classified information, but also those who might at some point in the future later in their political careers rise into those positions, even if it takes years or decades to bear fruit.

Representative Hurd, from your experience working as a CIA officer, what can you tell us about China's influence operations targeted toward elected officials?

Mr. HURD. So the Chinese intelligence services are—so the way you recruit a spy and steal secrets, it is the same no matter where you go. You spot, assess, develop, recruit, turn over. And the way the Chinese do it, each phase of that process is done by a different officer. And they look at what they consider to be intelligence as something that we might consider to be public source information.

There is no way that the U.S. intelligence services would be looking at a city councilperson somewhere overseas. That just would not happen. If we go back to the 2016 election—and this is not a criticism of Federal law enforcement. When a political party was hacked, it did not immediately rise to the top of the agency and say, hey, something is happening, something is happening, because we would never care about another political party overseas.

And so in this case, the fact that Fang Fang was focusing on folks at a lower level and then got close to a member of Congress that had access and was ultimately serving on the House Intelligence Committee should concern us all. And my frustration is—your earlier question, Ranking Member, what can Congress be doing? I have sat in CI, counterintelligence, briefings about these threats, and all members of Congress need to recognize the concern of the Chinese Party. And what I love about this hearing today is you have a diversity of ideas, and we all recognize the threat. That has not always been the case even in the House Permanent Select Committee on Intelligence.

And so we need to make sure other members have been briefed on these tactics that the Chinese Government is using. I know that the Chinese Party uses honeypot operations because of my time in the CIA. However, in no briefing since I have been in Congress has there been anyone talk about these activities that we have seen happening out in California. That should scare us all because the only way that we can protect ourselves and recognize the threat is if we know what has already been done.

And so this is textbook Chinese Government, and if they start using—you know, if the Chinese are great at seeding operations,

the Russians are best in the world in disinformation. And the Chinese are learning about disinformation operations from the Russian. And as Mr. Scissors said, they have the money. You put those two things together, and they are going to be incredibly powerful.

Chairman COTTON. Representative Hurd, if the CIA or, for that matter, most Western intelligence services would not target a city councilman or a county commissioner or a State legislator, hoping they ascend the political ladder in their future, what is it about the Chinese Communist Party that they do target such local and State officials?

Mr. HURD. They have a long-term approach. Why did they agree to the Brits to let them have Hong Kong for 95 years? Because they were fine taking it back after 95 years, right? And so they have this perspective, a long-term approach, and they are willing to play the long game. They are willing to invest years in an operation that may or may not bear fruit, and it is just they are willing to take that risk and put that time because they have a long-term plan. I think it is part of just their culture and how they have operated.

Chairman COTTON. Thank you, Representative Hurd. That concludes my questions.

Senator Cortez Masto, any further questions from you?

Senator CORTEZ MASTO. No, other than to say thank you. This has been so enlightening. I so appreciate everyone today this morning. And, Senator Cotton, thank you for having this hearing.

Chairman COTTON. Thank you, Senator.

I want to thank all of our witnesses once again for joining us. The hearing will now come to a close, and I also want to note that if any other Members of the Committee would like to submit questions for the record, those will be due by December 23rd.

So thank you all again for joining us. This hearing is adjourned. [Whereupon, at 10:53 a.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

**PREPARED STATEMENT OF CHAIRMAN TOM COTTON**

This hearing will come to order. Welcome to today's meeting of the Economic Policy Subcommittee, which is open to questions from all 25 Members of the Banking Committee.

As a reminder, Members will be addressed in order of seniority on this Subcommittee followed by seniority on the larger Committee.

I'd like to thank Senator Cortez Masto, her staff, and all the Committee staff for helping pull this together.

We have an exceptional roster of witnesses today. I'd like to introduce them briefly.

The Honorable Will Hurd has served as a member of the House of Representatives for 6 years, where he has been a leader on national defense and security issues. Most notably, he has served on the House Intelligence Committee as the ranking member of its Subcommittee on Intelligence Modernization and Readiness.

Derek Scissors is a resident scholar at the American Enterprise Institute, where he focuses on the Chinese and Indian economies and on U.S. economic relations with Asia. He produces a wealth of handy resources related to China, notably the China Global Investment Tracker and the China Beige Book.

Dr. Melanie M. Hart is a senior fellow and director of China policy at the Center for American Progress. Her most recent work focuses on developing a comprehensive U.S. strategy toward China, analyzing the domestic political factors driving Chinese foreign policy, tracking Chinese industrial policy, and assessing China's intentions toward the world.

Finally, Roy Houseman is legislative director for the United Steelworkers, North America's largest industrial union. In that capacity, Mr. Houseman oversees congressional affairs and works to improve wages, hours, and conditions for the Steelworkers' 1.2 million members and retirees.

Thank you all for testifying. And thanks to our audience for tuning in to our second hearing on this topic, "U.S.—China: Winning the Economic Competition".

By now, it has dawned on many that the United States and China are at the beginning of a long economic competition. The big question now is whether we plan to fight or surrender.

Thankfully, many people want to stand and fight, and we've made great strides in the past few years by, for example, strengthening oversight of foreign investment in the United States, tightening export controls of sensitive technology, and imposing sanctions on malign actors like Huawei.

Despite these welcome actions, great challenges remain. The Wuhan virus pandemic has exposed the great extent to which we depend on the goodwill of the CCP to access essential goods, such as personal protective equipment and medicine.

And each day, it seems, brings fresh revelations of ostensibly American companies kowtowing to China, whether it's Apple TV admitting it won't stream content critical of China, or massive hedge funds like Bridgewater Associates encouraging Americans to invest in Chinese companies so they can [QUOTE] "have a stake in both sides" of the next Cold War.

Clearly, not everyone has woken up to the threat that China poses to our country—or perhaps they're awake to the threat, and are hedging their bets. There are even warning signs that the next Administration could roll back much of the progress we've made the past few years, in an attempt to return to the failed dream of engaging and accommodating China.

But of course, winning our competition with China isn't a partisan issue. I've been fortunate to work with my Democratic colleagues on a number of important initiatives, from these hearings with Senator Cortez Masto, to my bill to restore semiconductor manufacturing in America with Minority Leader Schumer. I hope next Congress this body will continue to build on the good work we've done already, on a bipartisan basis.

Hearings such as this are opportunities for us to explore new ideas at greater length, with top experts. So I'm looking forward to hearing what our witnesses have to say.

One final note, for the record: over the past year, my staff have been hard at work on a report that addresses this very issue of competition with China—and how to win. That report is nearing completion, so I hope you'll all pick up a copy once it is released in the new year.

Thanks again. Now, I'll turn it over to the Ranking Member for her remarks.

**PREPARED STATEMENT OF SENATOR CATHERINE CORTEZ MASTO**

Thank you, Senator Cotton, thank you to our witnesses.

I'm glad to be here today to talk about a point of bipartisan agreement: that China is a strategic competitor on the global stage. And as we talk about what that means, I think it's important for us to think not only about what that means for our current moment, but for the decades to follow.

Competition with China affects every sector—how we innovate, how we do business, how we tackle climate change, how we trade with other Nations, how we protect our national security, and how we're able to impact the world around us. We have an opportunity now—in the midst of this horrible pandemic—to use this point of bipartisan agreement to invest in our ability to compete, not just today, but tomorrow too.

At key moments in history, when faced with overwhelming challenges—the Great Depression, putting the first man on the moon—this country has risen to the challenge. I am looking forward today to talking about how we can make sure we have the right tools and right plan to do that again.

China's economic activity makes up a growing share of our global economy. Some of that has been good for this country—we've added jobs and reduced the price of goods by expanding trade with China.

But in other cases, it has not worked out well. In too many cases, Beijing has taken our technology, undercut our domestic manufacturing base, and created an unfair playing field for our companies and our workers.

We have seen this competition play out in Nevada in multiple ways. At our military bases, leaders have repeatedly expressed concern about Chinese Government attempts to spy on the sensitive training that occurs there. I've heard similar concerns from leaders in other sectors—forced technology transfer and industrial espionage.

In the critical mineral sector, we've seen a different but equally important aspect of the competition play out. While China has invested in developing the ability to extract and process critical minerals that are essential to many of our emerging technologies, we in the United States have underinvested in those capabilities. In Nevada, that has left important opportunities for economic growth untapped. Of course, we must pursue these opportunities in environmentally and socially responsible ways, but by failing to invest in these key sectors, we are giving Beijing the advantage and hurting ourselves.

But in Nevada we also see another aspect of our relationship with China. We have strong cultural and economic ties to China. We have a diverse Asian American community in Las Vegas, with a vibrant Chinese American population. Our world class casinos and resorts attract more than 200,000 tourists from China annually. That is good for Nevada and it is good for China.

So I believe we must approach our relationship with China with a clear-eyed commitment to doing what's best for the American people, but also with balance and attention to the nuanced nature of our relationship.

We need to be able to compete, and look for opportunities to cooperate. We need to be able to call out the Chinese Government where we disagree, while still respecting the rights and freedoms of people in China and of Chinese Americans here at home.

I see three parts to our response to economic competition with China.

First, we must invest at home. I've led bipartisan bills like the ACCESS BROADBAND, SPEED, and Moving FIRST Acts to strengthen our 5G and broadband infrastructure and our emerging tech sector. We must ensure we are investing in innovation to bolster our manufacturing industry, especially in the sectors that will create the jobs of the future, like clean energy.

I joined my colleagues on the Senate Democrats' Special Committee on the Climate Crisis over the past 2 years, where we heard from stakeholders about the opportunities a clean economy can unlock for domestic manufacturing. I look forward to talking more about some of these opportunities today.

We also must protect and support our most important asset—our people. I am a longtime advocate for collective bargaining rights, supporting safe and fair workplaces and the growth of good paying jobs in Nevada, and throughout the country. I am also proud to say today that I am joining my colleagues Senators Schumer, Menendez, and others in cosponsoring America LEADS, which is the most comprehensive China legislation to date, and makes significant investments in the resources our workers, entrepreneurs, researchers, and manufacturers need to get ahead and stay ahead.

Second, we must rebuild our relationships with our allies and partners, so we can face the China challenge together. We will not win in this competition on our own.

President Trump has rightfully identified some of China's unfair trade practices, but he has gone about addressing them in a way that has hurt Americans.

That is why I've advocated for stronger enforcement mechanisms in trade agreements, including in U.S.–China trade negotiations and questioned the Trump administration on their strategy of alienating our closest allies in an increasingly globalized economy.

Third, we must ensure we have the Government structures to adequately address this challenge. Competition with China does not fit neatly into committee jurisdictions or bureaucratic organizational charts.

That is why I've been working with my colleagues to build an informal bipartisan working group to ensure we are talking across committees about these challenges. And I am exploring legislation for the next Congress to work with the Executive branch around similar issues, especially on emerging technology.

Finally, we are in a unique moment right now. So many of us are hurting from this horrific pandemic. We are working to pass another COVID relief package, which we sorely need. But I also see an opportunity in this moment for us to really double down, to make investments not just to get us over this short-term challenge, but to set us up to lead in the 21st century.

I am grateful to our witnesses who are here today to talk about the current state of this competition and the policy tools we need to address it.

Melanie Hart from the Center for American Progress, whose expertise on China's industrial policies and thoughtful work on crafting responses will offer us valuable insights into what a balanced but strong response looks like.

Roy Houseman from United Steelworkers, whose work to elevate and advance policies that help American workers will offer us valuable insights today on how we can continue to invest our economic future.

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#### **PREPARED STATEMENT OF REPRESENTATIVE WILL HURD OF TEXAS**

Senator Cotton, Ranking Member Cortez Masto, thank you for holding this timely hearing and for inviting me to testify today. As a former CIA officer and a member of Congress on the House Permanent Select Committee on Intelligence, I've seen how the Chinese Government threatens global supply chains, steals American intellectual property and economically bullies smaller countries. 2020 brought this reality to every American household.

We in Congress were the first to recognize the potential for China to replace the United States as the most important economy in the world. Investigations into China's Thousand Talent program and its Belt and Road program initiated in Congress. Congress has long led the fight for human rights in China, first by focusing attention on what China is doing in Tibet, and then by raising concerns about China's horrific treatment of its Muslim Turkic population.

I am trained to look beyond the obvious and it has been clear to me for a long time that China is playing a long game to become the sole world hegemon. It is past time for the United States to put in place a comprehensive strategy of dealing with China.

I am not suggesting a containment strategy like how we contained the Soviet Union because our interdependence with China is so much greater.

We know what does not work. As we look at the history of the U.S. and China relationship, we have a clear picture of actions which failed to produce the desired results. Economic interdependence with China and encouraging China to become part of the global economic structure did not create a genuine market economy nor reform China's political system. This Administration's aggressive use of the sanction policy also failed to change the behavior of Chinese communists and made them more entrenched and threatening towards their neighbors.

Instead, the first step is for all branches of Government, the private sector and academia to accept that China, despite its trappings of a capitalist system, like the Shanghai Stock Exchange, is an authoritarian society which is ruled by an unreformed Communist Party. The CCP does not tolerate dissent, imprisons dissidents, and builds concentration camps for those it wants to "reform." These actions need to be met with a foreign policy and national security strategy where one of its planks is based on a simple principle: Be nice with nice guys and tough with tough guys.

The second step is to define clear goals—what do we want our competition to achieve? During the Cold War, the objective was to contain and possibly reduce Soviet influence, not a regime change.

Right now, the U.S. is an underdog in this global competition because we dismantled our Cold War apparatus that fought the Soviets on the airwaves, in the media,

and in institutions of higher learning. In this case, we also have a sophisticated technological adversary which has already made significant inroads in our free, open, and democratic society in a way the Soviets never did. We do have leverage because our economy is the largest market for Chinese made goods. Congress and the new Administration must focus on trade policies that incentivize structural changes in China's economy and its treatment of foreign companies and investors. Simply, we need reciprocity. If American companies and investors are unable to do something in China, then Chinese companies and investors should be unable to do those same things here.

Our second weapon is the American people—they don't want to buy products made by slave labor or watch movies produced in Chinese provinces which engage in horrific behavior towards its citizens. And while I oppose cutting off academic and other ties with Chinese people because I believe that Chinese students and academics studying and teaching here can see for themselves the benefits of living in a free society, we need to institutionalize screening of such visa applicants to weed out those with connections to the CCP and PLA.

Every American voter should care about this struggle because we face a potential future where Mandarin and the yuan, not English and the dollar, dominate the global economy. Whoever wins this generation-defining struggle will not just affect our economy but will shape the rest of the century for the entire world.

Thank you again for having me at today's hearing, and I look forward to your questions.

## QUESTIONS AND ANSWERS

### How can we fight Chinese government disinformation?

- Until recently, the United States did not realize (or at least did not act as if it does) that it is in global competition with China, not unlike the Cold War with the Soviets, but much more sophisticated due to technological advances. Previously, tensions with China were largely viewed through an economic prism, but now misinformation has come forward as another major issue with the battle for tech, AI and cyber.
- A second lesson from the cybersecurity domain is we should be partnering with our allies more. Chinese Communist Party's tactics, techniques, and procedures (TTPs) in information operations could be used against our allies before us. We should have a better understanding of what is happening across the globe so we can plan our countermeasures appropriately.
- As a former intelligence officer, I can attest that misinformation is a powerful tool and it is cheap to use. Authoritarian societies are better at using misinformation because they lack internal checks and balances to call out their lies. Their populations are cowed and those who dare to question the government are met with harsh reprisals. Earlier this year, I called out China for lack of transparency on dealing with COVID before the WHO organization even acknowledged that it is a pandemic.

### How can we ensure that students China sends here are not spies?

- The fact that bright Chinese students want to study, live and build things in the United States is a **strategic advantage** and a testament to the superiority of a free society and free enterprise, so the U.S. must remain a welcoming place for the best and the brightest to come and study, to do research, and to work
- And the overwhelming majority of students coming from China are not here at the bidding of the CCP. In order to do this, we must have better tools to uncover bad actors and those who wish to exploit our society for illicit activities. Our consular officers on the front lines who are interviewing visa applicants for research, study, or work, must be trained to look for such activity. The dual technology list, which is maintained by the Department of Commerce must be kept current to keep up with the changing technology and its potential for dual usage
- Our institutions of higher learning must be educated about the CCP recruitment of scientists and students; they must resist any efforts of the CCP to stifle the freedom of speech, the criticism of CCP, and information sharing about the egregious human rights abuses in China.

**China Trade Reciprocity Framework Key Points**

- If an American company can't do it in China, then a Chinese company should not be able to do it here.
- That's why I'm looking at several potential policy options to force China to change their behavior, including:
  - Imposing restrictions on Chinese firms operating in the U.S. service sector.
    - Mechanism: Restricting or denying service sector access authorizations, which are licenses or permits foreign service firms need to operate in the U.S.
  - Punishing China for targeting American firms by:
    - Sanctioning the Chinese officials responsible for these practices; and
    - Sanctioning Chinese firms involved or complicit in these practices.
  - Strengthening CFIUS to ensure that any companies with significant direct or indirect ties to China must go through a national security review.
- These actions are not meant to be permanent or to close our economy to the world. Our goal should be to incentivize China to change its behavior without harming American consumers.

## ARTICLES

### **U.S. targets only one percent of Chinese students over security-White House official**

[Reuters](#) 9/30/2020

The United States is targeting only about one percent of the 400,000 Chinese students in the United States over China's bid to gather U.S. technology and other information, a top White House said official said on Wednesday.

Matt Pottinger, the deputy White House national security adviser who has been a leading figure in the development of President Donald Trump's China policy, said the vast majority of Chinese students were welcome.

"It's a surgical approach," Pottinger said in a online event hosted by the Ronald Reagan Institute, referring to the administration's policy of denying student visas to Chinese nationals it considers a security risk.

"President Trump has taken action to target roughly one percent of that massive number, to target military-affiliated Chinese researchers who are in some cases here under false pretenses or even false identities," he said.

Other cases involve individuals who have come to the United States to gain access to "technologies that would be useful to Chinese military advancement or to the repression of their own people," he added.

Pottinger said the overwhelming majority of Chinese students were "people that we're glad to have here, and many will stay here and start great businesses."

The U.S. action against Chinese students has come at a time when China-U.S. relations have sunk to the lowest point in decades in the run-up to Trump's Nov. 3 re-election bid. The world's two biggest economies have clashed over issues ranging from trade and human rights to Hong Kong and the coronavirus.

The U.S. State Department said this month the United States had revoked visas of more than 1,000 Chinese students and researchers deemed security risks. China called this a violation of human rights.

Washington said the action followed a May 29 proclamation by Trump in response to China's curbs on democracy in Hong Kong.

The large number of Chinese students studying in the United States bring significant revenue to U.S. universities, although the COVID-19 pandemic severely disrupted returns to campus this fall.

## House Republicans Move to Cripple China's Growing Military

[Washington Free Beacon](#) 9/30/2020

The Congressional China Task Force unveiled a legislative proposal Wednesday to cripple China's military industrial base by blacklisting any company tied to Chinese armed forces.

After months of closed-door interviews with policymakers, experts, and military officials, the task force presented multiple proposals, including a boycott of companies known to aid China's military. The goal is to economically isolate the People's Liberation Army (PLA), one of the primary instruments of China's expanding influence.

The report also calls for major increases to the U.S. defense budget to "modernize our nuclear triad and conventional weapons, [and] develop cutting-edge capabilities to counter China in space and cyberspace," Rep. Liz Cheney (R., Wyo.), the China Task Force's deputy chair, told the Washington Free Beacon.

Lawmakers and congressional sources told the Free Beacon the task force's findings should serve as a wake-up call for the American public about the pressing threat China poses.

The report includes nearly 200 legislative proposals that officials hope will undermine China's growing military and ensure the United States has the resources for any potential conflict. The task force, which Congressional Democrats boycotted and labeled a "distraction," hopes the report will serve as a template for GOP leaders as they push a range of policies meant to undermine China.

Rep. Michael McCaul (R., Texas), the China Task Force's lead member, said financial blacklists would force American companies to divest from China's military and its supporting industries.

"We shouldn't be using our capital to support companies that are building weapons aimed at the United States," McCaul told the Free Beacon. "As an investor, is it a good long-term strategy to invest in these types of companies when they have a very high potential to come under U.S. government sanctions in the future?"

Along with the blacklists, GOP lawmakers are also considering a proposal to require any companies tied to China's military sector to divest.

The recommendations are meant to identify and address Beijing's fusion of military, business, and politics, according to a senior congressional aide who worked on the report.

China currently boasts the largest navy in the world, rapidly expanded amphibious capacity, and significant leaps in its space and communications technologies. These developments point toward Chinese leader Xi Jinping's ultimate goal—replacing the United States as the world's foremost military, economic, and technological power by 2049.

The task force report contains a comprehensive list of key military investments the United States must make to maintain its edge over China, including defense budget growth of at least of 3-5 percent each year. Congressional leaders also say the United States must forward deploy troops in the Indo-Pacific region and partner with allies to help push back Communist forces.

**PREPARED STATEMENT OF DEREK SCISSORS**

RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

DECEMBER 16, 2020

American economic competition with China may be more silver lining than dark cloud. Chinese competitiveness is likely to decline, due to aging, debt, and poor long-term choices affecting rural areas and innovation. As a more broadly innovative and soon to be younger country, the U.S. has better economic fundamentals and can have them indefinitely.

This happy baseline however, makes for poor incentives. Beijing's are clear: try to offset declining competitiveness through more predatory policy. In particular, use subsidies and (coercive) transfer of intellectual property to undermine national and corporate rivals. Meanwhile, American incentives are muted. With better fundamentals and much more wealth, the U.S. has room to make further mistakes, such as continued leveraging and unwillingness to take costly measures to respond directly to China.

This is seen in needed policies, which will be controversial. Some observers celebrate large budget deficits not causing higher interest rates, but \$1 trillion spent with no sustained return is still a bad idea. Ideally, borrowing would fund research and human capital improvements—education and health—with future payoffs. Better China policy may be more politically feasible. Neither bilateral trade deficits nor long-term climate cooperation, for example, matter much to competitiveness. Instead, subsidies and intellectual property (IP) are vital. The U.S. should:

1. Steadily increase Federal research and development spending, which has been underemphasized for decades, through the 2020s.
2. Experiment with education programs aimed at boosting labor productivity, since education is a major advantage over China.
3. Document Beijing's harmful behavior with regard to competitiveness, featuring subsidies, IP transfer, and capital flows.
4. Using this, apply countervailing duties much more broadly to subsidized Chinese production.
5. Implement the export control reform passed in 2018.
6. Ban business with Chinese firms benefiting from stolen or coerced IP.
7. Evaluate the competitiveness impact of growing American capital flows to China, possibly restricting flows in a select set of industries.

**China Starts Sinking**

The People's Republic of China (PRC) is presently taking over the world, the same way the Soviet Union did in the 1960s and Japan did in the 1980s. Its economy is large, it grew rapidly in the past, and there is controversy over its trajectory. There should be less. Since Xi Jinping became General Secretary of the Party, the PRC has shown little interest in procompetition, proproperty rights reform. Without that, Chinese competitiveness will unavoidably decline.

The debt situation is familiar. At the end of 1997, outstanding credit was 109 percent of GDP. Eleven years later, it was 139 percent. Eleven years after that, in 2019, it was 259 percent.<sup>1</sup> The equivalent American figures are 186 percent, 240 percent, and 254 percent of GDP. Here, China has indeed caught up. Beijing acknowledges that the era of fast growth is over, and aging will require more Government spending. The only way to maintain or improve the contribution of capital to economic growth is to cut State bank lending to State-owned enterprises, whose debt easily exceeds \$20 trillion. A cut is certainly not Xi's intention.<sup>2</sup>

Demography will eclipse debt as a drag. According to the U.N., Japan's media age was 22.3 years in 1950 and 37.3 in 1990, when its stagnation set in. In 1980, with reform under way, China's median age was 21.9. In 2020, it is estimated at 38.4, a slightly worse path than Japan's. By 2015, Japan's median age was 46.4; in a gen-

<sup>1</sup> Bank for International Settlements, "End-of-Year Credit to Nonfinancial Sector From All Sectors at Market Value—Percentage of GDP—Adjusted for Breaks", updated December 7, 2020, <https://www.bis.org/statistics/totcredit.htm?m=6%7C380%7C669>.

<sup>2</sup> Jia Chen and Nan Zhong, "Debt Burden of State-Owned Enterprises Decreases in 2018", *China Daily*, October 24, 2019, <https://www.chinadaily.com.cn/a/201910/24/WS5db10417a310cf3e355723dd.html>; and Frank Tang, "Xi Jinping Calls for China's State-Owned Enterprises To Be 'Stronger and Bigger', Despite U.S., EU Opposition", *South China Morning Post*, November 3, 2020, <https://www.scmp.com/economy/china-economy/article/3108288/xi-jinping-calls-chinas-state-owned-enterprises-be-stronger>.

eration, China's is forecast to be 47.2.<sup>3</sup> The 2022–2035 period will see the fastest aging, the age 65+ cohort expanding by close to 100 million within a roughly stable population.<sup>4</sup> As retirees exit and unemployment shrinks, labor market reform will be easier, but it will not save productivity in the face of this kind of contraction.

Land is an underrated problem. The PRC imports commodities such as iron ore to a far greater extent than its economic size requires. One reason is a ban on private land ownership, which Xi has had years to change and refused.<sup>5</sup> Agriculture imports are the world's largest at \$133 billion in 2019, crude oil imports were \$100 billion more than that.<sup>6</sup> Rural Chinese do not control their farming choices and cannot sell their land. Related to this is education, where rural attainment badly lags urban.<sup>7</sup> As a result, official 2019 disposable income per capita was just \$2,300.<sup>8</sup> The number reflects 550 million rural citizens still held back in contribution to competitiveness.

Innovation to the rescue? The Party hopes so.<sup>9</sup> In contrast to other factors, innovation trends are positive. Annual research and development (R&D) spending is rising as a share of GDP. So are Chinese patents granted in the U.S. (grants in China are not useful information).<sup>10</sup> But it is difficult under ideal conditions for innovation to carry such a large economy in the face of aging and high debt. Innovation conditions are not ideal, due to the insistence on huge State quasimonopolies in more than a dozen major industries. To illustrate, the PRC has 10 companies in *Fortune's* top 50. Seven are guaranteed a degree of monopoly power and have little reason to innovate.<sup>11</sup>

<sup>3</sup> World Population Prospects, "Median Age of the Total Population (Years)", United Nations, Department of Social Affairs, 2019, <https://population.un.org/wpp/DataQuery/>.

<sup>4</sup> Xizhe Peng, "Coping With Population Ageing in Mainland China", *Asian Population Studies*, November 4, 2020, <https://www.tandfonline.com/doi/full/10.1080/17441730.2020.1834197>.

<sup>5</sup> Ian Johnson, "Barred From Owning Land, Rural Chinese Miss Spoils of Country's Success", *New York Times*, September 28, 2019, <https://www.nytimes.com/2019/09/26/world/asia/china-land-rights-farming.html>.

<sup>6</sup> United States Department of Agriculture, Foreign Agricultural Service, "China: Evolving Demand in the World's Largest Agricultural Import Market", September 29, 2020, <https://www.fas.usda.gov/data/china-evolving-demand-world-s-largest-agricultural-import-market>; and Daniel Workman, "Top 15 Crude Oil Suppliers to China", *World's Top Exports*, <http://www.worldstopexports.com/top-15-crude-oil-suppliers-to-china/>.

<sup>7</sup> Qianer Liu and Yuan Yang, "Online Classes Exacerbate China's Rural–Urban Education Gap", *Financial Times*, April 29, 2020, <https://www.ft.com/content/18455abf-d683-48f1-a6ed-b97bf3fc162e>.

<sup>8</sup> National Bureau of Statistics of China, "Statistical Communique of the People's Republic of China on the 2019 National Economic and Social Development", February 28, 2020, [http://www.stats.gov.cn/english/PressRelease/202002/t20200228\\_1728917.html](http://www.stats.gov.cn/english/PressRelease/202002/t20200228_1728917.html).

<sup>9</sup> Reuters, "China Will Step up Technology Innovation To Drive Growth: President Xi", August 24, 2020, <https://www.reuters.com/article/china-economy-xi/china-will-step-up-technology-innovation-to-drive-growth-president-xi-idINKBN25K1BP>.

<sup>10</sup> OECD Data, "Gross Domestic Spending on R&D", 2020, accessed December 8, 2020, <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>; and United States Patent and Trademark Office, "Calendar Year Patent Statistics (January 1 to December 31)", <https://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports-stco.htm>.

<sup>11</sup> *Fortune*, "Global 500", 2020, <https://fortune.com/global500/2020/search/>.

## US Treading Water

## 2019 Competitiveness Snapshot

	US	China
Outstanding credit / GDP <sup>xii</sup>	2.54	2.59
Money supply / GDP	0.72 <sup>xiii</sup>	1.93 <sup>xiv</sup>
Labor productivity <sup>xv</sup>	\$128,768	\$30,143
Median age <sup>xvi</sup>	38.2	38.1
R&D spending, % GDP	2.8% <sup>xvii</sup> (\$597 billion)	2.2% <sup>xviii</sup> (\$322 billion)
Outside citations <sup>xix</sup>	300,000	164,000
Share of global trade (g&s) <sup>xx</sup>	11.3%	10.7%
Share of global FDI <sup>xxi</sup>	22.3%	6.1%

Other witnesses may examine U.S. competitiveness in more detail. The World Economic Forum identifies key American strengths in internal labor mobility, availability of venture capital, and scientific publications, among others.<sup>22</sup> The near-elimination of very large net petroleum imports in 15 years is both a signal of and a minor input to long-term competitiveness.<sup>23</sup> In a comparison to China, the U.S. leads almost across the board, with the most sizable advantage in the crucial measure of labor productivity. Related, mean years of schooling in the U.S. is 5.5 years higher than in the PRC and it would take decades to close the gap.<sup>24</sup>

But the better team still loses when it call the wrong plays. For two decades, policies important for economic competitiveness have been made more for political convenience. At the end of 1999, public debt was 13.4 percent of household net worth.

<sup>12</sup> Bank for International Settlements, op. cit.

<sup>13</sup> Board of Governors of the Federal Reserve System (U.S.), “M2 Money Stock”, retrieved from Federal Reserve Bank of St. Louis, December 7, 2020, <https://fred.stlouisfed.org/series/M2>.

<sup>14</sup> Table 19-4 in National Bureau of Statistics of China, “Annual Data”, <http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>; and “Financial Intermediation—Money Supply at National Bureau of Statistics of China”, <https://data.stats.gov.cn/english/?cn=A01>.

<sup>15</sup> World Bank, “GDP per Person Employed (Constant 2017 PPP \$)”, March 1, 2020, Accessed August 13, 2020, <https://data.worldbank.org/indicator/SL.GDP.PCAP.EM.KD?locations=US-CN&view=chart>.

<sup>16</sup> World Population Prospects, op. cit. Interpolated.

<sup>17</sup> Paul Heney, “Global R&D Investments Unabated in Spending Growth”, R&D World, March 19, 2020, <https://www.rdworldonline.com/global-rd-investments-unabated-in-spending-growth/>.

<sup>18</sup> CGTN, “China’s Spending on R&D Rises to 2.23 percent of its GDP in 2019”, August 28, 2020, <https://news.cgtn.com/news/2020-08-28/China-s-spending-on-R-D-rises-to-2-23-of-its-GDP-in-2019-TjJCRYE6t2/index.html>.

<sup>19</sup> Total citations net of self-citations, U.S./China and China/U.S. from Scimago Institutions Rankings, “Scimago Journal & Country Rank”, 2000, 2018, and 2019, <https://www.scimagojr.com/countryrank.php>.

<sup>20</sup> UNCTAD Stat, “Trade in Services, Values, Shares, and Growth, Annual”, UNCTAD Stat, “Merchandise: Total Trade and Share, Annual”, UNCTAD Stat, “Exports and Imports of Total Services, Value, Shares and Growth, Annual”, <https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>; and UNCTAD Stat, “Exports and Imports of Goods and Services, Annual, 1980–2013 (Discontinued)”, <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=25116>.

<sup>21</sup> UNCTAD Stat, “Foreign Direct Investment: Inward and Outward Flows and Stock, Annual”, <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>.

<sup>22</sup> Klaus Schwab, “The Global Competitiveness Report 2019”, World Economic Forum, 2019, <http://www3.weforum.org/docs/WEF-TheGlobalCompetitivenessReport2019.pdf>.

<sup>23</sup> Independent Statistics & Analysis, “Petroleum & Other Liquids”, United States Energy Information Administration, November 30, 2020, <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pets&mtntus2&f=a>.

<sup>24</sup> United Nations Development Programme, Human Development Reports, “Human Development Index (HDI)”, <http://hdr.undp.org/en/data>.

At the end of 2019, it was 19.6 percent.<sup>25</sup> The economy did not become more dynamic during this time—it was not the borrowing for long-term return always touted by advocates of deficit spending. In a further sign of ill health, the discount rate the Federal Reserve offers banks has not passed 3 percent since 2008.<sup>26</sup> If growth can only be achieved through leveraging, it will stop. The only question is how soon.

### What China Will Do

Xi's been General Secretary for 7 years, he's not suddenly going to become a market reformer. Barring internal failure or external confrontation, the policy path is set. The fiscal deficit will remain large—as a share of GDP, it was larger than ours in 2019. Bank lending will continue to outpace nominal GDP, as it has since 2002.<sup>27</sup> Leveraging will thus worsen. Land rights will be limited, keeping rural Chinese poor. On the labor side, the two-child policy has had little impact to now and cannot boost competitiveness for two decades.<sup>28</sup> Labor mobility will increase, improving educational attainment for rural migrants, but that will also be slow.

The PRC will continue to spend heavily on innovation, with some success. But the aversion to competition will blunt innovation in industries where State firms are mandated to play the leading role. This undercuts expectations from 10–15 years ago that China would come to respect foreign IP. With innovation nonetheless becoming more important economically, theft from and coercion of foreign IP holders will be intense. It's possible to identify some targets. Beijing will focus on IP transfer in sectors and products where the State leads and results are obviously lagging, as seen with chipmakers Tsinghua Unigroup and Wuhan Hongxin recently.<sup>29</sup>

The incentive for more predatory behavior in IP extends to more predatory behavior generally. Intense subsidies have cost the PRC a great deal financially but have generated technology, industrial, and employment benefits, due in part to the complete lack of foreign response. They result in China's preferred outcome: the costs of limited competition being imposed globally while its benefits go disproportionately to Chinese entities. Limiting State intervention in favor of the market, in comparison, would save money but extend dependence on foreign companies. Barring durable and serious foreign retaliation, there is no reason for Beijing to curb subsidies.

Complementing its attempts to be more independent are louder attempts to use others' dependence as a weapon. These are not new, but the PRC's greater willingness to be open about them is an important signal of future behavior for dependent countries and companies. Australia is currently facing a series of Chinese trade sanctions, in part for enforcing its own laws. A number of Governments have boasted of billions in Chinese loans and investment, which will only materialize under difficult conditions, either in terms of costs or ownership of prized assets.<sup>30</sup> The past year or two has seen some American financials possibly becoming dependent on the China market, with total U.S.-to-PRC capital flow exceeding \$900 billion.<sup>31</sup>

<sup>25</sup> Board of Governors of the Federal Reserve System (U.S.), "Households and Nonprofit Organizations; Net Worth, Level", retrieved from Federal Reserve Bank of St. Louis, December 7, 2020, <https://fred.stlouisfed.org/series/TNWBSHNO> and United States Department of the Treasury, Fiscal Service, "Federal Debt: Total Public Debt", retrieved from Federal Reserve Bank of St. Louis, December 7, 2020, <https://fred.stlouisfed.org/series/GFDEBTN>.

<sup>26</sup> International Monetary Fund, "Interest Rates, Discount Rate for United States", retrieved from Federal Reserve Bank of St. Louis, December 7, 2020, <https://fred.stlouisfed.org/series/INTDSRUSM193N>.

<sup>27</sup> Xinhua, "China's Fiscal Revenue Growth Slows Amid Tax Cuts", February 20, 2020, [http://www.xinhuanet.com/english/2020-02/10/c\\_138771503.htm](http://www.xinhuanet.com/english/2020-02/10/c_138771503.htm); and National Bureau of Statistics of China, "Annual Data", <http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>.

<sup>28</sup> Jing Yu and Yiwei Hu, "Is China Seeing a Baby Boom Five Years Into Two-Child Policy?" CGTN, October 29, 2020, <https://news.cgtn.com/news/2020-10-29/Five-years-into-two-child-policy-China-s-birth-rate-is-declining-UYIc05CtLa/index.html>.

<sup>29</sup> Yusho Cho, "Tsinghua Unigroup Default Tests China's Chipmaking Ambitions", Nikkei Asia, November 18, 2020, <https://asia.nikkei.com/Business/China-tech/Tsinghua-Unigroup-default-tests-China-s-chipmaking-ambitions>; and Guoping Luo and Yelin Mo, "Wuhan's Troubled \$18.5 Billion Chipmaking Project Isn't as Special as Local Officials Claimed", *Caixin Global*, September 4, 2020, <https://www.caixinglobal.com/2020-09-04/wuhans-troubled-185-billion-chipmaking-project-isnt-as-special-as-local-officials-claimed-101601504.html>.

<sup>30</sup> Jonathan Kearsley et al., "If You Make China the Enemy, China Will Be the Enemy: Beijing's Fresh Threat to Australia", *Sydney Morning Herald*, November 18, 2020, <https://www.smh.com.au/world/asia/if-you-make-china-the-enemy-china-will-be-the-enemy-beijing-s-fresh-threat-to-australia-20201118-p56fqs.html>; and Jason Koutsoukis and Cecilia Yap, "China Hasn't Delivered on Its \$24 Billion Philippines Promise", *Bloomberg Quint*, July 26, 2018, <https://www.bloombergquint.com/global-economics/china-s-24-billion-promise-to-duterte-still-hasn-t-materialized>.

<sup>31</sup> Antonio Coppola et al., "Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens", July 2020, <https://globalcapitalallocation.s3.us-east-2.amazonaws.com/CMNS-Paper.pdf>; and Derek Scissors, "American Funding of China Is Be-

### What America Should Do

Changing American policy to compete with China will be controversial. Since the end of the cold war, fiscal and monetary policy has often looked like an exercise in buying short-term popularity. A large budget deficit was justified from 2008–2010 and in 2020–21. Excluding those years, Federal debt since 1990 has still risen over \$9 trillion. Little of it was invested in the future in any meaningful sense; there was no economic or strategic justification for borrowing. The discount rate has never returned to 1990 levels. Low interest rates value the present over the future, making it difficult to raise productivity and thus competitiveness.<sup>32</sup>

That's a 30,000 foot view; closer to the ground is no better. Defense R&D was lower in absolute terms—forget inflation and economic growth—in 2019 than 1990. Interest on the debt is often said to be low. It was \$190 billion higher in 2019 than 1990, while nondefense R&D was only \$33 billion higher, the opposite of procompetitiveness spending.<sup>33</sup> The Government must not boost individual companies or bring particular products to market. But development spending is only 0.3 percent of GDP and should return to near 0.7 percent, as seen in the 1980s.

Human capital, featuring education and health, is vital to competitiveness. A healthy population is not measured by spending; they may even be negatively related. In 2019, Federal health care spending was \$1.2 trillion, with research, training, and occupational safety only \$42 billion of that. More spending to improve health would be superior to paying to treat ill health. Federal education outlays have been rising, but totaled only \$115 billion in 2019. It will certainly be a challenge to make greater education spending valuable in raising productivity, but competing with China makes it at least worth an attempt.

#### *Direct Responses to China*

Enhancing economic competitiveness is unavoidably slow. If the U.S.–PRC rivalry is at its most intense in 2035, there's time. If the threat from China peaks in the 2022–2028 period, though, more urgent action is required. The 2030s may see lower tension than the 2020s because Chinese demographic deterioration will become stark and Xi will be increasingly weak or have departed (he would be 74 at the 2027 Party Congress). If the greater danger is over the next 8 years or so, reacting directly to Beijing on competitiveness is correspondingly more important.

There are generally three China camps: (i) the status quo is fine; (ii) sanctions will best improve America's position; or (iii) separation will best improve America's position. Endless talk aside, the first view remains dominant, as seen in the widespread unwillingness to bear sizable costs to change the status quo. If that continues, so will loss of jobs and companies, while some sectors continue to benefit. On sanctions, President Trump's tariffs, if sustained, can narrowly boost American competitiveness over Chinese. But they have not been accompanied by any other meaningful sanctions, probably due to the President's overemphasis on bilateral goods trade.<sup>34</sup>

While Xi remains in power, it will be more productive to partly separate the two economies.<sup>35</sup> Outside of competitiveness, this will reduce both benefits being provided to the People's Liberation Army and indirect U.S. support for worsening Chinese repression. Decoupling can also improve our relative competitiveness in advanced technology, in Covid-related and other critical products, and in many ordinary goods, in light of pervasive Chinese economic distortions

The first step is the same for all serious China policies: better document the subsidies Beijing employs (regulatory protection as well as financial support), the sectors

coming Dangerous", American Enterprise Institute, December 2020, <https://www.aei.org/wp-content/uploads/2020/12/American-Funding-of-China-Is-Becoming-Dangerous.pdf>.

<sup>32</sup> Ernest Liu et al., "Low Interest Rates, Market Power, and Productivity Growth", NBER Working Paper 25505, National Bureau of Economic Research, August 2020, <https://scholar.princeton.edu/sites/default/files/ernestliu/files/lms-2020-revised-final.pdf>.

<sup>33</sup> Office of Management and Budget, "Historical Tables", <https://www.whitehouse.gov/omb/historical-tables/>; and American Association for the Advancement of Science, "Historical Trends in Federal R&D", <https://www.aas.org/programs/r-d-budget-and-policy/historical-trends-federal-rd>.

<sup>34</sup> Continued sales to Huawei are telling. Office of Public Affairs, "Chinese Telecommunications Conglomerate Huawei and Subsidiaries Charged in Racketeering Conspiracy and Conspiracy To Steal Trade Secrets", United States Department of Justice, February 13, 2020, <https://www.justice.gov/opa/pr/chinese-telecommunications-conglomerate-huawei-and-subsidiaries-charged-racketeering>; and Linda Hardesty, "Intel Receives Commerce Dept. License To Sell to Huawei", *Fierce Wireless*, September 22, 2020, <https://www.fiercewireless.com/regulatory/intel-receives-commerce-dept-license-to-sell-to-huawei>.

<sup>35</sup> Derek Scissors, "Partial Decoupling From China: A Brief Guide", American Enterprise Institute, July 2020, <https://www.aei.org/wp-content/uploads/2020/07/Partial-decoupling-from-China.pdf>.

and firms involved in IP theft and transfer, the end users of the huge amount of American investment in the PRC, and so on. Countervailing duties (CVDs) against subsidies can easily exceed 100 percent. With better documentation, the scope of CVDs can be greatly expanded, improving relative American competitiveness here and blunting some of the advantages granted by China's subsidies. This may encourage the PRC's other partners to follow suit, when shipments originally intended for the U.S. hit their markets.

Technology transfer that boosts Chinese competitiveness should be sharply curbed by finally implementing the export control reform passed by Congress in 2018. Most important to competitiveness are "emerging technologies" as designated by that legislation.<sup>36</sup> Further, Chinese entities that have benefited from illegal IP transfer should not be permitted to do any business with American partners for a period suiting the value of the IP. Finally, U.S. funds flowing into China should be evaluated for competitiveness effects—is the return for American investors worth the capital being provided to the PRC? This will almost certainly vary by sector and end user. A large competitiveness loss would warrant limitations.

These actions would involve the Congress, United States Trade Representative, International Trade Commission, and departments of Commerce, Justice, and Treasury, at least. To actively improve American competitiveness versus China requires a comprehensive strategy and costly implementation. Or we can just hope for the best. That will probably work by 2035 or 2040, but passive policy will leave the next 15 years painful for many more companies and workers.

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#### PREPARED STATEMENT OF MELANIE HART

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DECEMBER 16, 2020

Chairman Cotton, Ranking Member Cortez Masto, and distinguished Members of the Subcommittee, thank you for the opportunity to testify before you today.

The global economy is entering a period of great change. The fourth industrial revolution is beginning to unfold. Digital networks are now fast enough to enable a previously unimaginable array of devices to work in concert, ushering in new applications such as self-driving cars and AI-powered manufacturing. We do not yet know exactly what this revolution will bring, but we know it will involve fundamental change.

Chinese leaders view this transition as their Nation's strategic opportunity. Chinese President Xi Jinping frequently states that "the world is undergoing profound changes unseen in a century." Beijing sees the United States drifting, squandering its resources, and allowing its comparative advantages—the advantages that China cannot match—to atrophy. In the 20th century, the United States invested unswervingly in the foundations of its own power, building the world's leading innovation economy. But since the early 2000s the United States has faltered. Instead of investing in its own competitiveness, it coasted on investments made decades ago. Now, as a new industrial revolution dawns, the United States is losing its edge.

Meanwhile, Beijing has sought to beat the United States at its own game: investing in the foundations of its own domestic economic power the way the United States did in previous decades. Beijing knows drifting Nations do not prevail in industrial revolutions. Chinese leaders see a once-in-a-century opportunity to catch up to and potentially surpass the United States, and they are dedicating massive resources to achieve that goal. In addition to making smart investments modeled on previous U.S. success, Beijing is also deploying market-distorting industrial policies to siphon technical know-how from the United States, tilt global markets in China's favor, and speed the catching-up process. When measured in domestic purchasing power, China's GDP already surpasses that of the United States. Beijing's ultimate aim is to reshape the global economic order, bringing about a system in which China is the dominant economic and technical power and the Chinese Communist Party determines which firms, technologies, and ideas succeed in global markets.

If China prevails, there is a risk the United States and the world will be less free, less prosperous, and less safe. The United States does not need to engage China in a Cold War to avoid this outcome. However, it does need to put its own ideas on

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<sup>36</sup>Lindsay B. Meyer et al., "Commerce Releases Long-Awaited Proposed Rulemaking for 'Foundational Technologies' but Significant Questions Remain", Venable LLP, August 28, 2020, <https://www.venable.com/insights/publications/2020/08/commerce-releases-long-awaited-proposed>.

the table internationally, advocate for that vision, reassert global leadership, and rectify a pattern of serious missteps at home.<sup>1</sup> On the economic front, the U.S. has a near-term opportunity to respond to this challenge in ways that will put our Nation on a path to prosperity for decades to come. To prevail, the U.S. must do two things effectively: (1) double down on its own comparative advantages—the advantages that China cannot match; (2) build a broad global coalition to effectively counter and neutralize China’s predatory behavior.

This testimony will cover four main points:

1. Over the past two decades, China prioritized investing in the foundations of economic power; the United States did not. That is why China is now our peer competitor.
2. In addition to investing at home, Beijing deploys predatory industrial policies that siphon off U.S. technology advantages and boost Chinese firms over their American competitors.
3. Beijing is responding to the Trump administration’s policies by doubling down on both the domestic investment and predatory aspects of its economic strategy.
4. The United States must do two things to compete at full strength: invest in its own comparative advantages; form broad coalitions to neutralize China’s predatory behavior.

#### **Investment Disparities Erode U.S. Innovation Edge**

For decades, Beijing has funneled State resources into building the foundations of economic power: education, infrastructure, R&D, and higher-end manufacturing capabilities. During the same time period, U.S. investments in its own foundations have remained relatively flat. That disparity plays a critical role in the declining U.S. edge vis-a-vis China.

**Research and Development:** For decades, the United States has been the world’s largest R&D spender, and those investments gave it an edge in global innovation. However, the United States has not adjusted its R&D strategy to keep up with rapid technology developments, and China is now on track to surpass the United States and may have already done so. Total global R&D spending tripled from 2000 (\$722 billion) to 2017 (\$2.2 trillion), growing an average 11 percent per year.<sup>2</sup> Over that same time period, China’s R&D spending grew an average 17 percent per year while U.S. spending grew just 4.3 percent per year. In 2000, the U.S. spent \$268 billion on R&D, dwarfing China’s \$33 billion. By 2010, China had narrowed the gap (spending \$213 billion) but was still substantially behind the U.S. (\$408 billion). In 2015 China surpassed Europe as the world’s largest R&D spender. Between 2015 and 2017 the remaining U.S.–China spending gap shrunk by 40 percent. As of year end 2020, China may now have surpassed the United States.

China rapidly caught up to the United States because U.S. spending as a percentage of GDP has remained relatively flat: it was 2.6 percent in 2000 and 2.8 percent in 2017. The world entered the digital era, but the United States did not change its R&D investment strategy. China did not make the same mistake.

**Infrastructure:** A similar pattern is playing out in public infrastructure. While China invests in a world-class system, the United States forces its workers and companies to make do with aging infrastructure built in and designed for the 1960s. Since the early 1990s, the United States has spent an average 2.4 percent of its GDP on public infrastructure (roads, rail, telecommunication, utility, airport, and seaport projects). In contrast, most European Nations spend 5 percent of their GDP per year. In recent years, in the face of rising global economic competition and the digital revolution, U.S. infrastructure spending actually decreased. The American Society of Civil Engineers gives the overall U.S. public infrastructure system a D+ rating.

In contrast, China spends an average 8.5 percent of its GDP on public infrastructure per year. In response to the COVID crisis, Beijing rolled out a stimulus program that pledges to invest \$1.4 trillion in high-tech “new infrastructure” projects through 2025. The goal is to speed the Nation’s deployment of next-generation digital infrastructure systems, particularly 5G mobile communication networks, AI-empowered manufacturing, high-speed rail, EV charging systems, and internet-of-things application. If these programs are even partially successful, they will give

<sup>1</sup>Melanie Hart and Kelly Magsamen, “Limit, Leverage and Compete: A New Strategy on China”, Center for American Progress, April 2019.

<sup>2</sup>R&D spending data from National Science Board, “The State of U.S. Science and Engineering 2020”, January 2020, available at <https://nces.nsf.gov/pubs/nsb20201/global-r-d>.

Chinese firms an edge over their American counterparts and boost productivity across the Chinese economy.

The United States would not send its military into today's battles with Cold War weaponry, but it sends its workers into 21st century economic competition with 20th century infrastructure. That is a gift to Beijing.

Last year Senator Cortez Masto supported two critical bills that aim to address U.S. infrastructure deficits: the ACCESS BROADBAND Act and the Moving and Fostering Innovation to Revolutionize Smarter Transportation (Moving FIRST) Act. Those bills represent good steps forward, but more work is needed to equip our Nation for success.

### **Predatory Policies Boost China at U.S. Expense**

The other half of Beijing's strategy is a collection of market-distorting industrial policies. In the early stages of China's reform and opening, it provided low-cost manufacturing for foreign firms. That approach forced China to rely on other Nations for high-end technology. In Beijing's view, that position brought insufficient profit margins and unacceptable security risks. China aimed to catch up to the United States and other leading innovation Nations and supplant them at the top of global value chains. If it relied solely on capacity-building strategies such as smart investments in education, R&D, and infrastructure to do so, it would still be many decades away from success. Beijing decided to speed the process by deploying three powerful Chinese assets to boost China at U.S. expense: (1) China's massive domestic market; (2) Beijing's ability to control access to that market, either shutting foreign firms out or forcing them to pay concessions to gain access; (3) massive State funds, which Beijing deploys through subsidies and State bank loans to boost favored Chinese firms over their American competitors. Beijing leverages those assets to achieve the following goals:

**Technology and production transfers:** Beijing controls access to the Nation's massive domestic market, and it leverages that control to coerce foreign firms into transferring critical technology to Chinese partners and moving their production operations to China. When foreign firms do not agree to those transfers, Beijing does not allow them to sell their products in China. When they do, Beijing leverages those transfers to move Chinese firms up the value chain. For example, in 2005 Beijing issued local content regulations requiring wind farms to source at least 70 percent of their components from domestic suppliers. At that time, no such suppliers existed in China, so foreign wind companies trained Chinese manufacturers to serve as their suppliers in order to meet the quota. Beijing funneled subsidies to the Chinese manufacturers, enabling them to rapidly build capacity and edge the foreign firms—their original technology donors and customers—out of China and then the global market.

In recent years, market access requirements are more frequently conveyed via closed-door deal-making that is harder to track. For example, in the aviation sector, aircraft manufacturers that do not form a joint venture or move assembly operations to China are less likely to win contracts from China's State-owned carriers.<sup>3</sup> In the electric vehicle sector, Beijing is dropping explicit joint venture requirements but foreign firms seeking to operate without a Chinese partner are reportedly running into problems acquiring licenses.

**State-directed market displacement:** Beijing directs Chinese firms to displace foreign competitors in critical technology markets and provides targeted State support to help them achieve their goals. Some aspects of that process are shockingly transparent. The Made in China 2025 Key Technology Roadmap lists market-takeover targets for 10 sectors that Beijing views as critical to the Nation's economic competitiveness: information and communication technology (ICT); advanced machine tools and robotics; aerospace technology; ocean engineering; advanced rail; new energy vehicles; electricity equipment; agriculture equipment; new materials; biopharmaceutical and medical equipment.<sup>4</sup> For each sector Beijing identifies high-priority sub-sectors, assigns a take-over target, and funnels State resources to Chinese firms to help them achieve it. For example, in mobile telecommunications equipment, the roadmap calls for Chinese firms to capture 75 percent of China's domestic market by 2020 and 80 percent by 2025. Globally, it calls for Chinese firms to capture 35 percent of the global market by 2020 and 40 percent by 2025. To meet the domestic

<sup>3</sup> Keith Crane et al., "The Effectiveness of China's Industrial Policies in Commercial Aviation Manufacturing", Rand Corporation, 2014.

<sup>4</sup> U.S.–China Business Council, "Unofficial USCBC Chart of Localization Targets by Sector Set in the MIIT Made in China 2025 Key Technology Roadmap", available at <https://www.uschina.org/sites/default/files/2-2-16%20Sector%20and%20Localization%20Targets%20for%20Made%20in%20China%202025.pdf>.

target, Beijing ordered China's State-owned mobile operators to source 70 percent of their 4G network equipment and 90 percent of their 5G equipment from Huawei and ZTE.<sup>5</sup> China has the largest domestic mobile market in the world, and Beijing gives Huawei and ZTE protected access. That protection gives Huawei and ZTE massive sales revenues, economy of scale, and deployment experience that foreign firms cannot match, all benefits that Huawei and ZTE can then leverage to expand their global market presence. In the first half of 2020, Huawei and ZTE captured just over 40 percent of all global telecom equipment market revenues. Beijing's champions are meeting their take-over targets ahead of schedule.

Deterring enforcement: The above-mentioned policies artificially increase global economic dependence on China, which Beijing then leverages to deter other Nations from pushing back. For example, earlier this year, as European Nations considered whether to ban Huawei from their 5G networks, Beijing threatened to retaliate by blocking Nokia and Ericsson from shipping components from their manufacturing centers in mainland China to their overseas buyers.<sup>6</sup> In May 2019, shortly after the Trump administration announced its intention to add Huawei to a Commerce Department entity list, Chinese President Xi Jinping signaled that Beijing could retaliate by blocking U.S. access to rare earth shipments from China.<sup>7</sup>

### U.S. Investment Deficits Continue as Beijing Doubles Down

Unfortunately, the Trump administration did not make meaningful progress on the China challenge. On the investment front, it did not prioritize critical U.S. R&D and infrastructure investments to enable the United States to compete at full strength; on the trade front, the Administration's phase one trade deal did not take meaningful action to address China's predatory industrial policies. The Administration did target certain beneficiaries of those policies, such as Huawei and ZTE. However, the Trump administration too often acted alone instead of building a broad coalition of Nations to take joint action alongside the United States, and it did not adequately plan for or hedge against the downside effects of its policies. One result: in the semiconductor sector, some third-country firms are reacting to the Huawei entity listing by designing U.S. semiconductors out of their products, and U.S. semiconductor revenues are declining.<sup>8</sup>

Meanwhile, Beijing is doubling down. If the Trump administration's goal was to force Beijing to abandon its economic and trade policies, that effort has officially failed. Last month Chinese leaders issued a communique signaling the direction they plan to take their Nation during the 14th Five-Year Plan period, which will run from 2021 to 2025.<sup>9</sup> The communique states that Chinese development is occurring within a "profound adjustment in the international balance of power," code for U.S. decline. Chinese leaders pledge to "successfully fight the tough battles for key and core technologies" and to exploit China's massive domestic market to turn "China into a trade powerhouse." The communique does not signal a change in China's economic strategy. Instead, three themes suggest that Beijing is ramping up its ambitions, particularly on the technology front:

- Dual circulation: The communique echoed Chinese President Xi Jinping's call to prepare the Chinese economy for further decoupling from the United States and other major economies, and to do so in a way that works best for China. What this actually means in practice is still unclear, but the United States should expect more efforts to replace U.S. high-tech products with home-grown Chinese versions.
- Independent controllability: The communique states that China aims for secure supply chains with "independent controllability," which is another code word for

<sup>5</sup>Melanie Hart and Jordan Link, "There Is a Solution to the Huawei Challenge", Center for American Progress, October 2020, available at <https://www.americanprogress.org/issues/security/reports/2020/10/14/491476/solution-huawei-challenge/>.

<sup>6</sup>Liza Lin, Stu Woo, and Lingling Wei, "China May Retaliate Against Nokia and Ericsson If EU Countries Move To Ban Huawei", *Wall Street Journal*, July 20, 2020.

<sup>7</sup>James T. Areddy, "Xi Jinping Flexes China's Trade Muscle With Visit to Rare-Earths Hub", *Wall Street Journal*, May 21, 2019.

<sup>8</sup>Antonio Varas and Raj Varadarajan, "How Restricting Trade With China Could End U.S. Semiconductor Leadership", Boston Consulting Group, March 9, 2020, available at <https://www.bcg.com/en-us/publications/2020/restricting-trade-with-china-could-end-united-states-semiconductor-leadership>.

<sup>9</sup>For a superb English translation, see: Center for Security and Emerging Technology (CSET), full translation of the "Proposal of the Central Committee of the Chinese Communist Party on Drawing up the 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2030", available at <file:///C:/Users/Melanie/AppData/Local/Temp/t0237-5th-Plenum-Proposal-EN-1.pdf>.

boosting domestic suppliers and either shutting foreign companies out of China's market or forcing them to hand over proprietary data and source codes.

- Strategic emerging industries: The communique rehabilitates this term, which Beijing used to designate high-priority sectors prior to the launch of the Made in China 2025 plan. The communique lists most of the sectors covered under the 2025 plan, with one notable addition: green energy. The original Made in China 2025 plan focused more narrowly on energy-efficient vehicles and electricity equipment; the new communique broadens that out to include new energy, new energy vehicles, and green and environmentally friendly products.

Going forward, Beijing's industrial policies may become increasingly difficult to track. In June 2019, during the heights of the Trump administration's trade war, Chinese Vice Premier Liu He visited the Chinese Academy of Sciences and told the Nation's top researchers to maintain a "low profile" in their work.<sup>10</sup>

Beijing appears to have taken two big lessons from the Trump era: do more, faster; do it quieter, so the United States and other Nations struggle to identify exactly what China is doing and how they should react.

### **It Is Time To Compete at Full Strength**

The United States has woken up to the fact that China is now a major peer competitor. It has woken up to the fact that victory is not assured. But the United States has not yet rallied around a single, coherent strategy for success. Beating the drums of a new Cold War is not the answer. Beijing can beat those drums just as loudly and effectively as Washington can. Instead, the United States should focus the majority of its resources on strengthening its own comparative advantages, the advantages that Beijing cannot match: our democratic values, our open innovation system, our allies and partners, and the boundless potential of the American people. The United States has allowed all of these advantages to atrophy, but we still have time to turn the trend lines around. Specific steps include:

Launch a National Competitiveness Initiative: The United States needs to treat this challenge as a "Sputnik moment" and rally around a National Competitiveness Initiative that makes key long-term investments in its comparative advantages. That should include making high-quality postsecondary education affordable for all Americans, rebuilding workforce development infrastructure, making moonshot investments in national R&D, and investing in productive public infrastructure. The America Labor, Economic Competitiveness, Alliances, Democracy and Security (America LEADS) Act gets these fundamentals right, but urgent action is needed to resource these initiatives.

Make targeted investments to reduce U.S. supply chain dependence on China and speed time to market for disruptive innovations: Targeted public investments are needed to maintain the existing U.S. innovation edge and help U.S. firms overcome the market barriers Beijing has created through decades of distortionary industrial policy. For example, U.S. semiconductor firms are highly reliant on exports to China to generate revenue for R&D, and Beijing is hoping to replace U.S. chips with home-grown alternatives. Beijing has not yet succeeded, but the United States should not bet on Chinese failure. Instead, the U.S. should make targeted investments in domestic semiconductor R&D and fab capacity to maintain and grow the U.S. innovation edge and reduce U.S. reliance on overseas manufacturing facilities and export revenues. The American Foundries Act of 2020, which Senator Cotton supported earlier this year, is a great step forward, but more funding is needed, not only in semiconductors but also in other critical sectors such as 5G.

Form a coalition of Nations to push back against Beijing's predatory economic policies: When the United States frames the China challenge as a Cold War, the U.S. stands and fights alone. That strategy benefits China at U.S. expense, because it undercuts one of the biggest advantages we have: other Nations share our concerns. When China distorts global markets that is not just a U.S. problem. That is a global problem. When the United States takes unilateral action to address a global problem, we carry water for other Nations and pay unacceptable costs. That is exactly what happened with the Trump administration's trade war. It is time to pivot to a new approach, one that builds a broad global coalition, minimizes the costs to the American people, and puts China on its back foot. The United States should start with critical high-tech sectors: that is where China is focusing its efforts, and that is where we share clear common interests with allies in Europe, Asia, and the Americas. The U.S. should immediately:

<sup>10</sup>Zhou Xin and Wendy Wu, "China's Leading Scientists Advised To Keep a Low Profile in Their Work as U.S. Steps up Pressure on Tech Firms", *South China Morning Post*, June 24, 2019.

- Form a coalition of democracies to develop common principles and standards for digital technology governance. The European Union is already reaching out to propose forming a transatlantic technology alliance that could “form the backbone of a wider coalition of like-minded democracies” on high-tech issues.<sup>11</sup> This outreach presents an ideal opportunity for the United States to change course and work in concert with other Nations instead of standing alone.
- Form a coalition of Nations to assess how Beijing’s direct and indirect subsidies harm global markets—starting with mobile telecommunications—and devise appropriate trade remedies.<sup>12</sup>
- Conduct a comprehensive review to assess how Beijing uses credit to advantage Chinese firms over their competitors, and engage the G7 industrialized democracies to develop new rules limiting those actions.
- Form a coalition of export credit agencies to support vendors seeking to compete against Huawei and the loans Chinese State banks offer its customers.
- Engage the key 5G standardization partners—the European Union, Japan, India, and South Korea—to improve leadership transparency and diversity at the ITU.
- Push the ITU to adopt the O-RAN fronthaul interface as a common global standard.

Thank you and I look forward to your questions.

**PREPARED STATEMENT OF ROY HOUSEMAN**  
LEGISLATIVE DIRECTOR, UNITED STEELWORKERS

DECEMBER 16, 2020

Chairman Cotton, Ranking Member Cortez Masto, Members of the Subcommittee, thank you for the opportunity to testify on the topic of economic competition between the U.S. and China. I commend the Committee for uplifting the voice of organized workers in this discussion and our International President Tom Conway gives his regards.

The United Steelworkers is the largest industrial union in North America, representing workers throughout the manufacturing sector. We also represent a growing segment of health care, public sector, and even tech workers. This diversity in profession creates a strength in understanding the impacts that China’s economic competition will play on workers in America.

With 2½ weeks left in one of the most consequential years in modern history, it is hard to see past the 7 day average of 2,400 plus Americans dying daily from the COVID-19 pandemic. Our first effort must be to invest in the basic infrastructure necessary to make Americans feel safe. That starts with passing an immediate COVID-19 relief bill for the 10.7 million American currently laid off, aid for the long term unemployed (3.9 million) and those that are not in the labor force and need a job (7.1 million).<sup>1</sup> We also need to immediately invest in a regulatory framework that ensures workers feel safe returning to work. OSHA and MSHA standards for workers dealing with a pandemic are sensible to anyone who has stood shoulder to shoulder in a processing plant or who have had to go through a lock out, tag out procedure.

The Senators on this Subcommittee have the power to help guide a 22-trillion dollar economy to either success or ruin. The union urges you to use your individual power to influence the lives of every American and act to stop the economic bleeding from this pandemic. The country needs direct aid to where it is needed most, and from the union’s perspective that starts with the real mothers and fathers of this country—the American worker.

With an all hands-on-deck approach to a vaccinated country ongoing, the existing challenges we faced prepandemic related to the Nation’s infrastructure, labor force, and international competitiveness, will only become clearer.

In preparing the testimony it stuck me as interesting a simple comparison of market share and how as a society we have reacted to it. Last week 48 States and the U.S. Government filed an antitrust suit against Facebook for anticompetitive behavior. Using the legal tools available to them, Federal and State resources will coordi-

<sup>11</sup> Sam Fleming, Jim Brunsten, and Michael Peel, “EU Proposes Fresh Alliance With U.S. in Face of China Challenge”, *Financial Times*, November 29, 2020.

<sup>12</sup> For more detail on all 5G recommendations, see: Melanie Hart and Jordan Link, “There Is a Solution to the Huawei Challenge”, Center for American Progress, October 2020.

<sup>1</sup> <https://www.bls.gov/news.release/pdf/empisit.pdf>

nate to address monopoly against a firm with 60.52 percent of all social media site visits in the United States.<sup>2</sup> What if the press, Government, and society had the same concern about the monopoly over the metals, materials, and manufacturing concentration controlled by the Chinese Communist Party? What examples would they find? Below are a few examples.

- Steel—China now accounts for 51.3 percent of global steel production—a figure that also doesn’t capture production by Chinese-owned or affiliated companies in other countries.<sup>3</sup>
- Aluminum—China’s share of global output of the most widely used metal touched 57 percent in May.<sup>4</sup>
- Rare Earths—China not only holds 35 percent of the world’s entire rare earth supply, but accounts for 70 percent of global production.<sup>5</sup>
- Rail—China Railway Rolling Stock Corporation (CRRC), which by their calculation, controls roughly 83 percent of the global rail market.
- Fiber Optic Cable—China’s production reached 61.6 percent share of the global total in 2019.<sup>6</sup>

This is the threat of monopoly power by a country and the U.S. Government should respond in kind through a mix of policies and investments that recognizes State-controlled economic power must be met with reciprocal State responses.

### Infrastructure

We need to respect the vision of previous Congresses and Presidents and renew that sense of American ambition for the ideal. That requires addressing our crumbling infrastructure in a way that ensures maximum domestic job creation. In 2019, the U.S. spent just 2.5 percent of our GDP on infrastructure, down from 4.2 percent in the 1930s.<sup>7</sup> That decline in spending takes on an outsized role as we try to interconnect with the global economy. China has recognized the value of infrastructure interconnectedness in its domestic renewal. China has spent roughly 8 percent of its GDP on infrastructure since 2010, which is significantly higher than the 4 percent average of the next ten biggest spenders and clearly that of the U.S.<sup>8</sup>

While some may debate about China “catching-up” to other industrial countries, it’s hard for union workers that make the manufactured goods and basic materials for infrastructure to feel like more could be done to maintain a U.S. “lead.”

Take for example rail infrastructure: China has laid over 15,000 miles of high-speed rail.<sup>9</sup> Enough rail to travel from Washington, D.C., to Las Vegas, Nevada, nearly 6½ times. All the while China has successfully made high speed rail competitive with road and air transport for distances up to around 745 miles, which is just shy of a one-way trip from Washington, D.C., to West Memphis, Arkansas.<sup>10</sup>

As mentioned earlier on rail manufacturing CRRC is a State-owned enterprise (SOE) in rail with roughly 83 percent of the global rail market. The SOE has made a concerted effort to penetrate the U.S. market. Congress recognized the threat that State-owned enterprises in rail can cause for domestic national security and domestic manufacturing by putting up barriers to transit procurement with the passage of the Transit Infrastructure Vehicle Security Act. However, barriers can only be one aspect to a strategy to compete against China. We will need to make strategic investments in our rail infrastructure and manufacturing facilities and commit long term resources to push back against this sort of monopoly power.

Another example is our water infrastructure. Getting our goods across the globe will require investment in our ports and our ship building capability.

After the Reagan administration ended construction subsidies for U.S. shipyards, Asian shipyards, which did not see their Governments end shipyard subsidies, overwhelmed the global market. In 12 years, the U.S. went from the biggest commercial

<sup>2</sup> <https://www.statista.com/statistics/265773/market-share-of-the-most-popular-social-media-websites-in-the-us/>

<sup>3</sup> <https://foreignpolicy.com/2020/05/19/dont-let-china-steal-your-steel-industry/>

<sup>4</sup> <https://www.reuters.com/article/us-metals-aluminium-ahome/column-covid-19-will-tilt-aluminium-axis-further-towards-china-andy-home-idUSKBN23V2SN>

<sup>5</sup> <https://thehill.com/opinion/energy-environment/529229-us-dependence-on-china-for-rare-earth-minerals-is-a-disaster>

<sup>6</sup> <https://www.globenewswire.com/news-release/2020/09/25/2099120/0/en/Global-and-China-Optical-Fiber-Preform-Industry-Report-2020-2026.html>

<sup>7</sup> <https://www.infrastructurereportcard.org/covid-status-report/>

<sup>8</sup> <https://www.cfr.org/blog/boost-flagging-growth-china-doubles-down-its-least-productive-sector>

<sup>9</sup> <https://openknowledge.worldbank.org/handle/10986/31801>

<sup>10</sup> <https://www.railway-technology.com/features/high-speed-rail-in-china/>

shipbuilder in the world to no longer producing vessels for international trade.<sup>11</sup> In turn the number of U.S. flagged vessels sailing in the international trade has crashed from 183 ships in 1992 to 82 as of December 2017.<sup>12</sup> This impacts U.S. manufacturers up and down the supply chain who would have produced the steel, parts, and materials for merchant marine ships.

This lack of Federal manufacturing focus has put us behind the game for future shipping needs. Congress must engage on tomorrows heavy manufacturing needs to capitalize on the growth of new industries like offshore wind. Recognizing previous leader's sensible policy decisions to maintain domestic ship building capacity for security purposes the Jones Act is a guide stone for Congressional intervention in shipbuilding to combat the economic power of China's shipbuilding.<sup>13</sup> In 2018, 43.2 percent of the new ships in the world were built in China. For example, a shortage of ships that can install wind turbines the size of the Chrysler Building (1,046 feet) could come as early as 2022.<sup>14</sup> The signals are there, all it takes is the will of the most powerful democratically elected leaders in the world to act.

### **Manufacturing for the Future**

What actions can we take to uplift our manufacturers and put us on a path of renewal in our country? It is our union's belief that when we work collectively we can build a better society. This takes transformational investments not just in the physical infrastructure to move people and goods but the domestic manufacturers who want to not just maintain but capture domestic and international market share.

Our union takes an all of the above approach to building the next generation of manufacturers. For example, USW is a founding member of the BlueGreen Alliance, a partnership between the country's leading environmental and labor organizations. This year the Alliance put forward a manufacturing agenda that creates a north star of policy, that if broadly enacted would set the country down a path of renewal and improved competition with our economic competitors like China. Focusing on five pillars that is an aggressive strategy to address the climate emergency head on, while reinvesting in our manufacturers all the while achieving net zero emissions economywide by 2050.<sup>15</sup>

The USW is also a founding partner in the labor-management partnership the Alliance for American Manufacturing, which has been a vital partner in setting the agenda for American manufacturing and ensuring the policies that Congress debates maximize domestic job creation.

These partnerships have created a broad front and plethora of policies that can create a virtuous comparative advantage, that recognizes the dignity of the American manufacturing worker and will allow the country to succeed in the future.

The union and our partners strongly support the advancement and improvement of domestic procurement provisions like Buy America. But our members alone don't just support these policies. American voters overwhelmingly support Buy America policies. In fact, 80 percent support "requiring that all taxpayer-funded infrastructure projects use American-made goods and materials."<sup>16</sup>

Using taxpayer dollars to buy American made goods is a vital commitment to our manufacturers. We need to tighten our procurement rules to ensure American content is put into the goods our Government buys. We've seen dramatic successes in our foundries for example with the expansion of Buy America into our Drinking and Clean Water State Revolving loan fund programs. It's time to expand on these successes into other major Federal infrastructure programs and close loopholes in the application of existing Buy America laws.

But more can be done. Expanding our Manufacturing USA network is another one of those investments. The 14 Manufacturing USA Institutes, for example, conducted nearly 500 major applied research and development projects of high priority to broad industry. These efforts, two thirds of which aided manufacturing firms should be expanded. Legislation like the LEADS act by Senator Schumer and Menendez contains these sorts of expanded investments.

<sup>11</sup> <https://www.forbes.com/sites/lorenthompson/2019/06/05/philly-shipyards-struggle-sig-nals-jones-act-isnt-enough-to-secure-u-s-sealift/#33060ea64b30>

<sup>12</sup> <https://www.transportation.gov/testimony/state-us-flag-maritime-industry>

<sup>13</sup> <http://global.chinadaily.com.cn/a/201904/28/WS5cc507a2a3104842260b8d78.html>

<sup>14</sup> <https://www.bloomberg.com/news/features/2019-05-13/offshore-wind-will-need-bigger-boats-much-bigger-boats?sref=HEwoTbCT>

<sup>15</sup> <https://www.bluegreenalliance.org/resources/manufacturing-agenda-a-national-blueprint-for-clean-technology-manufacturing-leadership-and-industrial-transformation/>

<sup>16</sup> "National Survey of 1,200 Likely 2020 Voters General Election", The Mellman Group & Public Opinion Strategies. Conducted Mar. 20–28, 2019 for AAM.

We should also expand the Manufacturing Extension Partnership (MEP) program. A network made up of the 51 MEP Centers has led to American firms creating or retaining 114,650 manufacturing jobs, generating \$15.7 billion in new and retained sales and realizing \$1.5 billion in cost savings in fiscal year 2019.<sup>17</sup> We should build on this success with not just continued investment but expansions in Federal spending.

We will also need to invest in the critical minerals and materials that our country and allies need to press against market monopoly and ensure equal competition. The dramatic rise in China's industrial capacity in steel, aluminum, and other metals has had a dramatic impact on American workers. American aluminum smelting capacity has decreased from 23 smelters in 1998 to 6 today. While China's rise in aluminum production is a factor so is the lack of domestic investment in these plants. We have to create the right incentives to upgrade these facilities. For example, a 2017 Department of Energy Study found that there could be 34 percent energy savings opportunity in the U.S. Aluminum manufacturing sector using current technologies.<sup>18</sup>

Titanium is another prime example; titanium sponge is an unwrought form of titanium and the U.S. saw the last plant capable of titanium sponge production close this year. The plant based in Henderson, Nevada, needs at least a \$150 million investment to update processes and ensure long term competitiveness. While there are continued efforts to study approaches to increase titanium sponge investments right now the country faces the prospect that they are completely beholden to overseas production for a product that is vital to our military.

Finally, workers and their employers benefit from a mutual respect that collective bargaining can provide. This means updating our labor laws to reflect the value that an organized labor force can bring to the table. The Economic Policy Institute has highlighted that unions increase productivity through a variety of channels. They reduce turnover and, hence, firm-specific skills are retained. Moreover, the lower turnover makes it economically rational for employers to provide more training to union-represented employees, increasing employee skills and productivity further.<sup>19</sup>

Unlocking this potential requires an update to our labor laws to ensure workers do not face unnecessary hurdles to collective bargaining with their employer. That is why the USW supports comprehensive labor law reform.

Unions provide a significant role in training in the manufacturing workforce. United States Steel and USW have contract language which incorporates training coordinators. These training coordinators work with management to ensure workers "receive sufficient training to allow for all reasonable opportunities to progress within the workforce and maximize their skills to the greatest extent possible."<sup>20</sup> For manufacturing employers who often have specialized equipment that require hands-on experience, the Federal Government should provide resources to foster hands-on training coordinators, which would provide new hires with the tools and experience necessary for specialized training at manufacturing facilities.

Finally, the U.S. is sorely lacking in allocating adult worker training resources. When compared to other countries in the Organization for Economic Cooperation and Development (OECD) the U.S. is among the worst of all 37 countries in job training programs in comparison to the size of our economy. Public spending is less than half the spending levels of Australia, Canada, and the U.K., and one-sixth the level of spending compared to Germany.

## Trade

Winning the economic competition with China requires a thoughtful and meaningful approach to trade policy as well. The union has long raised the alarm regarding China's rise since our opposition to the U.S. permanently normalizing trade relations with the country in 2000. Since that time the growth of the U.S. trade deficit with China between 2001 and 2018 was responsible for the loss of 3.7 million U.S. jobs, including 2.8 million manufacturing jobs lost due to the growth in the trade deficit with China.<sup>21</sup>

As a union which has supported a large number of the 205 antidumping and countervailing duty remedies slapped against firms in China for illegal trade practices we have to find additional ways to contain these illegal trade practices.<sup>22</sup> Each

<sup>17</sup> <https://www.nist.gov/system/files/documents/2020/08/23/MEP-Annual%20Report-FY19-v8-19-FINAL-WEBv2.pdf>

<sup>18</sup> <https://www.energy.gov/sites/prod/files/2019/05/f62/Aluminum-bandwidth-study-2017.pdf>

<sup>19</sup> <https://www.epi.org/publication/how-unions-can-help-restore-the-middle-class/>

<sup>20</sup> <https://uswlocals.org/system/files/2018-uss-usw-pm-bla-printer.pdf>

<sup>21</sup> <https://www.epi.org/publication/growing-china-trade-deficits-costs-us-jobs/>

<sup>22</sup> [https://usitc.gov/sites/default/files/trade\\_remedy/documents/orders.xls](https://usitc.gov/sites/default/files/trade_remedy/documents/orders.xls) (excel sheet).

of those orders represent not just a recognition that China is committing illegal trading practices but also a recognition that over a 3 year period of time a domestic industry lost jobs, had to cut benefits and lost market share in an uncompetitive way. Ensuring our trade laws are responsive to domestic industry and catch illegal efforts sooner will ensure workers and their employers do not face 3 years of decline before the Government will act.

This also means addressing issues like global industrial overcapacity and participating in a trading regime that empowers workers and does not inadvertently allow China to set the rules.

The union sees a growing creep by academics and policy experts to encourage the incoming Administration to join the Trans-Pacific Partnership (TPP). Often “experts” try to highlight the agreement as containing China but our union has taken a close look at this effort to contain China and the TPP was an abject failure. Setting aside the fact that six of the countries in the TPP already have trade agreements with China, the rules of origin that the TPP contained were a barn door sized access for China’s manufactured goods. The Ways and Means committee minority report on the TPP in 2014 highlighted that depending on the rules, 35 percent of a vehicle would had to originate in the TPP zone, meaning up to 65 percent of a vehicle’s components could come from outside the party countries like China.<sup>23</sup> When compared to the USMCA rules which are set for 75 percent, American manufacturing workers stand a fighting chance at competing for market share in auto parts.

We also need to engage in an honest conversation about labor and environmental rules in our trade agreements. The final USMCA agreement recognized the need for rapid response to plant level labor violations with our trading partners but more must be done. Wages, hours, and working conditions are the most important day to day for workers in the U.S. and they need to be respected internationally. We need to see our trade agreements not be a downward spiral on working people here in the U.S. or wherever a multinational corporation starts production.

The same goes for environmental standards. Future trade agreements need to contain China’s pollution with the recognition that those improved environmental standards isolate leakage of pollution like carbon. We also cannot continue down a path that permits foreign countries to poison their land, air, and people for economic gain.

### **Conclusion**

The economic competition between the U.S. and China will be a generational rivalry. The United Steelworkers believes our country with the proper investments, planning, and commitment to our most powerful asset—the American worker—will be how we succeed in that rivalry.

Thank you and I look forward to answering any questions.

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<sup>23</sup> <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/TPP%20Issue%20Analysis%20-%20Autos.pdf>