COMBATTING THE ECONOMIC THREAT FROM CHINA

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

FEBRUARY 7, 2023

Printed for the use of the Committee on Financial Services

Serial No. 118–1

U.S. GOVERNMENT PUBLISHING OFFICE
52–357 PDF WASHINGTON : 2023

CONTENTS

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Tuesday, February 7, 2023

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Patrick McHenry [chairman of the committee] presiding.

Members present: Representatives McHenry, Lucas, Sessions, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Loudermilk, Mooney, Davidson, Rose, Steil, Timmons, Norman, Meuser, Fitzgerald, Garbarino, Kim, Donalds, Flood, Lawler, Nunn, De La Cruz, Houchin, Ogles; Waters, Velazquez, Sherman, Meeks, Scott, Lynch, Green, Cleaver, Foster, Beatty, Vargas, Gottheimer, Casten, Pressley, Horsford, Tlaib, Torres, Garcia, Nickel, and Pettersen.

Chairman MCHENRY. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Combatting the Economic Threat from China."

I want to thank our panel for being here.

I now recognize myself for 3 minutes to give an opening statement.

The actions of the Chinese Communist Party (CCP) last week serve as a clarifying moment that China is not an ally or a strategic partner. They are our competitor and pose the single greatest threat to America's global standing. This committee is holding our first hearing of the Congress on combatting the economic threat from China. This is a priority for the Congress, and our committee's jurisdiction is central to this discussion.

The economic strength and vibrancy produced by our system of free market capitalism directly fuels America's military strength and cultural power, whether it is through sanctions, export financing, international financial institutions, or our capital markets, all of which fall under this committee's jurisdiction. This committee will lead this Congress' economic agenda and response to China. This agenda must maintain trust and confidence that our system will continue to grow capital resources, industrial capabilities, and new technologies. In other words, we must double down on our commitment to free people in free markets.

The juxtaposition between the United States and China could not be more clear. They are centralized. We are decentralized. They are closed. We are open. They suppress free speech and human dignity. We embrace it. These are the American values that produce the economic strength that has led to the highest living standard and greatest military power in human history.

Last Congress, Committee Republicans laid out principles for how we should attack the economic parasite of China without sacrificing the host, which is our free market system. First, we must walk the walk. For the U.S. to compete with China, we cannot become more like the Chinese Communist Party. We need to carefully evaluate if a policy proposal could jeopardize America's ability to innovate, grow, and allocate capital, or if it would cause our allies to question our commitment to free people and free markets.

Second, the United States and its allies must prevent China from rewriting the international rules of the road. We should reject policies that allow China to ignore debt transparency and multilateral standards with impunity, or allow them to exert a malign influence on the international financial institutions.

Finally, the United States must lead by example. Our national security requires the U.S. financial sector to remain open, vibrant, and resilient, even as we prevent Chinese companies from advancing Beijing's strategic ambitions. If we stick to these principles, and reinforce American values rather than undermine them, we can outcompete China on the global stage. I yield back.

The Chair now recognizes the ranking member of the committee, the gentlewoman from California, Ms. Waters, for 4 minutes for an opening statement.

Ms. WATERS. Thank you, Mr. Chairman. As we discuss how to bolster our economy and to counter threats from China, I would like to start by saying that if House Republicans continue their brinkmanship over the debt ceiling, it will result in even more severe interest rates hikes, a plunging stock market, major job losses, and a recession of epic proportions. Such a global financial crisis would hand the Chinese Communist Party a massive win by boosting the Chinese government's standing in the world.

We have been down this road before, and there have been real harms to our economy in the past just by coming close to a default. This committee should be doing everything that it can to avoid a calamitous outcome. I believe this is what our committee should be focused on.

And so, I would like to submit for the record a letter that I have sent to you, Mr. Chairman, requesting a hearing on the economic harm that will be caused by nearing or triggering a national debt default.

Chairman MCHENRY. Without objection, it is so ordered.

Ms. WATERS. Thank you. I also want to point out the fact that anti-Asian-American violence has skyrocketed in the wake of the COVID-19 pandemic, fueled significantly by former President Donald Trump's dangerous and xenophobic language. While we must hold the Chinese government accountable for its harmful actions, we have a responsibility to avoid language that stokes hatred and fuels xenophobia and violence against the Asian-American community. I am proud that last Congress, House Democrats led the legislative effort to put an end to this violence by passing the COVID-19 Hate Crimes Act.

Right now, the authoritarian regime of the Chinese Communist Party is trying to reshape the international order to supplant U.S. leadership. We must confront this challenge by defending our values and securing our interests globally, and that is exactly what Democrats, particularly Committee Democrats have done.

We have taken critical steps to protect our nation's security and to ensure that U.S. businesses and our economy can successfully compete with China by passing critical legislation including: the America COMPETES Act, which has provisions to counter the Chinese Communist Party's growing economic influence; the longest reauthorization of the Export-Import Bank, to preserve and create millions of jobs right here in America, and to support American businesses as they compete with China; the Anti-Money Laundering Act of 2020, which included a government-wide strategy to combat illicit finance; the Corporate Transparency Act, to prevent the use of shell companies to hide dirty money in the U.S.; the CHIPS and Science Act of 2022, to ensure we win the technology race for the 21st Century; the Infrastructure Investment and Jobs Act, which, for the first time in decades, poured significant funds into our aging infrastructure to not only support businesses here, but to attract investment from around the world; and the Inflation Reduction Act, to finally reassert American leadership and displace China as the key supplier of critical equipment for the technologies that are needed to fight climate change.

Still, there is more work to do, including making sure U.S. companies, like hedge funds, private equity funds, and Wall Street, are not investing in ways that hurt our economy or funding the adversarial actions of the Chinese government. I look forward to hearing from our witnesses about what more this committee can do to support our economy. Thank you, Mr. Chairman, and I yield back.

Chairman MCHENRY. The gentlelady yields back. The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, who is also the Chair of our Subcommittee on National Security, Illicit Finance, and International Financial Institutions, for 2 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. For decades, China has employed a military-civil fusion national strategy to develop the People's Liberation Army into a world-class military. This strategy involves the comingling of private industry in China and the Chinese military-industrial complex. Recognizing this threat, in 2020 President Trump issued an Executive Order aimed at curbing U.S. investment into the Chinese military-industrial complex, stating, "The People's Republic of China (PRC) is increasingly exploiting the United States' capital to resource and to enable the development and modernization of its military intelligence and other security apparatuses."

In addition to funding its military, China continues to use their economy to oppress their own people. This oppression includes speech suppression of all citizens and the persecution of religious and ethnic minorities, including arbitrary imprisonment, forced labor, and genocide. In 2021, President Biden added to the Trump Executive Order stating, "The use of Chinese surveillance technology to facilitate repression or serious human rights abuses constitute unusual and extraordinary threats to the national security, foreign policy, and the economy of United States."

The United States Government seemingly acknowledges the national security and economic threat China poses, but we lack meaningful action, as we have just witnessed again this past weekend with the balloon fiasco.

As of January 9, 2023, there were 252 Chinese companies listed on U.S. exchanges, with a total market capitalization over $1 trillion. In 2021, the U.S. trade deficit with China was $355 billion. It is hard to put a dollar sign on China's theft of intellectual property. Certain estimates put it as much as $600 billion a year. It is our committee's job to examine all of the interconnections between the Chinese and U.S. economies, specifically connections supporting China's military and human rights abuses, and to pursue options to eliminate U.S. capital flowing into those areas.

I look forward to today's hearings and the witnesses' discussions, and with that, Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. The Chair now recognizes the gentlewoman from Ohio, Mrs. Beatty, who is also the ranking member of our Subcommittee on National Security, Illicit Finance, and International Financial Institutions, for 1 minute.

Mrs. BEATTY. Thank you, Mr. Chairman. I concur with Ranking Member Waters' points on the importance of avoiding a debt default that would deliver a decisive victory to the People's Republic of China.

As we see through the world, for example, in Africa and in the Caribbean, China is making deep inroads into our allies' economies and cultures, partly in an effort to pull our friends away from the United States. We must counter this with the tools at our disposal through our voices and our vote in the international financial institutions, as well as through other activities, such as improving access to the United States-led financial system. Thankfully, under the leadership of former Chairwoman Waters, Democrats had already made significant strides to protect our nation's security and competitiveness by passing landmark legislation. I am looking forward to continuing this critical work as we look at the international issues, and national security, and financial institutions. I yield back.

Chairman MCHENRY. The gentlelady yields back.

We now welcome the testimony of our witnesses.

First, Mr. Rich Ashooh. Mr. Ashooh is a former Assistant Secretary of Commerce for Export Administration. He led our dual use export control efforts and managed Commerce's national security, nonproliferation foreign policy, and strategic industrial resources functions within the Bureau of Industry and Security.

Second, Mr. Tom Feddo. Mr. Feddo served as the first Assistant Secretary for Investment Security at the Department of the Treasury, where he led the drafting of regulations implementing the Foreign Investment Risk Review Modernization Act (FIRRMA). Mr. Feddo also served as Assistant Director for Enforcement at the Office of Foreign Assets Control (OFAC), and was an officer in the U.S. Navy's Nuclear Submarine Service. We thank you for your service.

Third, Mr. Eric Lorber. Mr. Lorber served as a Senior Advisor to the Undersecretary for Treasury's Terrorism and Financial Intelligence Division. Mr. Lorber also has testified multiple times before both Chambers of Congress, and we value his deep knowledge.

Fourth, Mr. Clete Willems. Mr. Willems is a trade lawyer who understands the landscape of international economic policy and the available tools. He previously served as the Deputy National Security Advisor and Deputy National Economic Advisor in the previous Administration and can provide unique insights into the challenges posed by the Chinese Communist Party (CCP).

And finally, Mr. Peter Harrell. Mr. Harrell was, until recently, the Senior Director for International Economic Policy with the Biden Administration, and I am sure he will be able to provide insights into how the current Administration views these matters.

We thank you all for taking time to be here. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. As you all know, red means stop, yellow means hurry up, in general parlances, and green obviously means go.

So with that, now that we have discovered colors, the colors have action that we should take around them. Mr. Ashooh, we will now recognize you for 5 minutes.

STATEMENT OF RICHARD ASHOOH, CORPORATE VICE PRESIDENT, GLOBAL TRADE AND GOVERNMENT AFFAIRS, LAM RESEARCH CORPORATION

Mr. ASHOOH. Thank you for the ground rules, Mr. Chairman, and thank you also for the opportunity to be here. And my appreciation to Ranking Member Waters and the committee for having this very important discussion. Having served as the Assistant Secretary of Commerce for Export Administration at the Bureau of Industry and Security, I had both the honor and the challenge of weighing many of the same issues that we are confronting today in this committee, and it is in that capacity that I am testifying here.

It should be stated at the outset that the concerns at the heart of this hearing are well-founded. While great strides have been made in addressing these concerns, national security and economic threats are never static and must be constantly addressed. It is also important to stress early on that U.S. global technology leadership remains strong, and that the American culture of innovation is the envy of the world. I stress this because it is essential for policymakers as you consider the challenge of promoting U.S. technology advancement while regulating it in the face of potential threats to cause no harm to the very thing you are trying to promote and protect.

Much of what has been accomplished in recent years in this area has been the result of legislation. This committee had a key role in enacting the Export Control Reform Act (ECRA), and the Foreign Investment Risk Review Modernization Act (FIRRMA). There are lessons from that debate which are still relevant as Congress considers new measures, such as an outbound investment regime or dramatic changes to FIRRMA or ECRA. While the issues associated with regulating financial behaviors or technology development are many, I will confine my comments to four recommendations that are drawn from the lessons in the effort to regulate in this area.

First, clearly define the national security threat to be addressed. The temptation to address a broad panoply of legitimate concerns which do not necessarily rise to the level of a national security threat is alluring. National security, as currently understood in the United States, is already very broad, taking into consideration factors such as infrastructure, supply chain, and data protection. The best tools are well-aimed, and potentially harsh steps taken by policymakers should ensure that the target of such action is clearly defined.

Second, regulate horizontally. What do I mean by that? National security threats are rarely stove-piped. Solutions to address them should not be either. National security threats are commonly carried out by individuals or groups funded by government with the help of or pursuit of technology. Therefore, multiple U.S. agencies and departments must collaborate. One of the most critical updates to FIRRMA and ECRA was to dovetail their definitions and authorities, establishing a unique definition, for instance, of critical technologies, and grounding that definition in well-defined export control lists. This synchronization is a model for enhancing the power and effectiveness of U.S. Government policy implementation.

Third, gaps do exist. Leverage what works to address them. For all of the enhancements in recent years to protect U.S. technology, gaps do remain. For instance, it is currently possible that export control technology could be the beneficiary of U.S. financing, intentionally or not. This disconnect is one which could be addressed through alterations to current authorities. A recent enhancement in the Export Administration Regulations defines the term, "support by U.S. persons," to include, among other things, financing. While further study must be conducted, this feature of the law creates a regulatory hook to limit financial activities already tied to restrictions based on export controls.

And finally, just as synchronization among relevant agencies and authorities is critical, a high priority must be given to alignment with partner nations. Many like-minded countries have in place national security views similar to those of the U.S., such as the foreign direct investment screening and export controls. It is clear from the behavior of our allies that the U.S. has led in these areas, resulting in a more comprehensive and, therefore, effective approach, and the U.S. should continue this leadership. Specifically, the U.S., along with key allies, should consider a new method for multilateral controls in targeted technology areas that can work with, but is separate from the existing multilateral regime construct that has served the U.S. and partner nations well in the past, but which is ill-suited for complex technology supply chains.

The ad hoc approach currently utilized in the area of semiconductors, for example, should be replaced with an agreed-upon system among a smaller group of stakeholder nations that can act in concert, as the need arises, with a full understanding of the nature of the technology involved. Without such alignment, unilateral policy will ultimately fail in combatting both national security and economic threats from China. U.S. global technology leadership is indisputable, but it is perishable. Hearings like this are essential to maintaining it. I am happy to answer your questions.

[The prepared statement of Mr. Ashooh can be found on page 88 of the appendix.]

Chairman MCHENRY. The gentleman yields back. At this time, we will now recognize Mr. Feddo for 5 minutes.

STATEMENT OF THOMAS P. FEDDO, FOUNDER/PRINCIPAL, THE RUBICON ADVISORS LLC

Mr. FEDDO. Chairman McHenry, Ranking Member Waters, and distinguished members of the committee, I am honored to appear today for your first Full Committee hearing of the 118th Congress. This is your first hearing that makes clear the priorities of the committee and the significance of the current geopolitical climate and its impact on our economic security, and by relation, our national security. As the chairman mentioned, I oversaw the Committee on Foreign Investment in the United States, and led the successful implementation of FIRRMA, enacted in 2018.

By virtue of that experience, and roughly 27 years in government service, much of it in national security-related roles, I hope to contribute to your consideration of how we can mitigate the risks to U.S. interests posed by the People's Republic of China (PRC), while maintaining strong free-market principles. I believe we are engaged in one of history's most consequential great power competitions, and that technology plays a vital role in that contest. As the chairman also mentioned, I was on a Los Angeles class submarine, an engineering and technological marvel, a byproduct of our innovation ecosystem. That experience has made crystal clear the imperative for maintaining America's tech advantage and, thus, its lethality on the battlefield.

The PRC poses grave threats to the United States and its allies in the global world order, including its strategy to exploit technology, raw materials, market power, and energy resources to achieve its ends. Key supply chains, such as semiconductors and critical minerals, are vulnerable to these same goals. Enactment of FIRRMA and ECRA 5 years ago was a response to the potential risks arising from foreign actors' activities involving high-tech U.S. businesses. Now, both Congress and the Biden Administration are considering a new agency with potentially sweeping powers to oversee American firms' allocation of resources and capital outside the United States.

A version of this new interagency panel was considered while drafting the CHIPS and Science Act. This committee on national critical capabilities would have had sweeping power. Key terms were broad and undefined, leaving substantial latitude to the Executive Branch. Later proposals were somewhat narrowed, but I believe more homework is necessary. Similarly, media reports indicate the Biden Administration intends to establish outbound screening through Executive Order this spring. I strongly believe that doing so would be a mistake. Rather, Congress is best suited to assess and respond to an issue of this complexity, and potential scope and impact.

There should be no dispute that to ensure America's future security, the PRC's theft and misappropriation of tech must be prevented. The question is whether a new and potentially far-reaching bureaucracy is the answer. The debate has taken on a presumption that outbound screening is necessary, but decision-makers would benefit greatly by not rushing into a solution. Additional hearings should be held to define objectives and determine costs and benefits.

When a bipartisan Congress and the Trump Administration collaborated to make the most extensive changes to the Committee on Foreign Investment in the United States (CFIUS) in its history, those efforts included roughly a half dozen hearings with foreign policy and national security experts, the intelligence community, the private sector, and former and current Administration officials. Congress and the President were, thus, well-informed regarding the gaps they intended to fill, the law's reach, and the attendant increases in capacity and cost. Afterwards, it took 2 intensive years within an existing CFIUS bureaucracy to effectively implement the law.

Here, outbound screening would be created out of whole cloth. FIRRMA decision-makers would be best served by building a comprehensive record, exploring whether existing or other types of authorities could be less bureaucratic, and costly, and more impactful. Existing authorities may in fact offer a better cost-benefit solution.

My written testimony includes a foundational laundry list of issues for fulsome congressional examination of outbound screening. From my CFIUS experience, a new interagency committee would be extremely time- and resource-intensive and require substantial effort to build a clear regulatory framework. It is in the best interests of national security, a strong open economy, and accountable government to get this right. The alternative could be an unrestrained bureaucracy, wasted time and resources, and an inadequate response to the PRC's ominous goals.

Again, it is my privilege to appear before you today and contribute to your consideration of these consequential issues. I would be happy to answer any questions. Thank you.

[The prepared statement of Mr. Feddo can be found on page 92 of the appendix.]

Chairman MCHENRY. Thank you for your testimony. The Chair now recognizes Mr. Lorber for 5 minutes.

STATEMENT OF ERIC LORBER, FORMER SENIOR ADVISOR TO THE UNDERSECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, U.S. DEPARTMENT OF THE TREASURY

Mr. LORBER. Chairman McHenry, Ranking Member Waters, and distinguished members of the committee, I am honored to appear before you today to discuss economic sanctions in the U.S.-China competition. I come before this committee as an expert on sanctions. I have served at the United States Department of the Treasury as a Senior Advisor to the Undersecretary for Terrorism and Financial Intelligence, and in the private sector advising clients on sanctions compliance. These positions have afforded me perspective on how sanctions policy is made and implemented, as well as how companies around the world adjust their business models, strategies, and compliance programs to ensure they are meeting their obligations under the law.

The testimony I am giving today is my personal testimony, and not on behalf of any organization or client.

Over the last 2 decades, sanctions have become a core tool of American foreign policy and national security. When properly calibrated and judiciously used, they can impact U.S. adversaries' behavior and reduce their ability to harm U.S. interests around the world. Nevertheless, they are not a silver bullet and have real limits.

In recent years, policymakers in the United States have begun employing targeted sanctions against China as part of the broader U.S.-China competition. These sanctions have focused on control over Hong Kong, human rights in Xinjiang, and limiting certain Chinese military-industrial complex companies from accessing U.S. capital, among other areas. While the United States' use of sanctions against China has so far been limited, policymakers have increasingly focused on them as a key foreign policy tool in this competition. As Congress and the Administration think through the use of sanctions to achieve national security and foreign policy objectives in the competition, a number of key lessons gleaned from U.S. sanctions programs over the last few decades stand out.

First, defining the objective of sanctions is an important first step in any campaign, and the use of sanctions should be preceded by an understanding of what sanctions are meant to achieve. Then, policymakers can choose the appropriate types and scope of sanctions to achieve that objective.

Second, targeted list-based sanctions can be impactful at disrupting particular threatening activity and making it harder, costlier, and riskier for our adversaries to access U.S. markets. While such targeted sanctions may not change an adversary's desire to threaten U.S. national security, they can impact the adversaries' ability to do so.

Third, impactful list-based sanctions require constant vigilance by regulators, law enforcement, the intelligence community, and the private sector to ensure that the targets are unable to evade them. While such efforts to disrupt evasion are not always successful, forcing sanctioned parties to engage in such surreptitious activity often imposes significant costs and increases the risks they face.

Fourth, expansive programs can have substantial macroeconomic impact and make it harder for countries to engage in activity that threatens the U.S. and its allies and partners. For example, the recent sanctions on Russia have reportedly limited Russia's ability to continue to produce advanced military equipment in a way that has made it more difficult for Russia on the battlefield.

Fifth, more expansive programs, including comprehensive programs, can fail to achieve lofty objectives in certain instances, such as the failure to convince North Korea to give up its nuclear weapons program.

Sixth, sanctions are more likely to be impactful when access to U.S. markets is more important than access to the sanctioned target's markets. For example, in the case of Iran, the incentive for potential partners to forsake connections with U.S. markets in favor of Iranian markets was very low. This dynamic may not hold in the context of China, however. China's economy is roughly comparable in size to the U.S. economy, and the United States has never waged an aggressive sanctions campaign against a country with such an economy.

Seventh, and finally, sanctions are likely to be more impactful when the target country's leadership cares more about the negative economic effects than their policy objectives. For example, the U.S. Government's efforts to deter Russia from invading Ukraine with, in part, the threat of crippling sanctions did not change that Russian decision. That is likely because Russian leadership did not believe we would impose crippling sanctions, thought they could weather them, or were willing to pay the cost of sanctions in order to achieve their objectives in Ukraine.

These are important lessons gleaned over the last 20 years of the aggressive use of sanctions against U.S. adversaries, and relevant when considering the use of sanctions in any context, including for the purposes of our discussion today. I look forward to answer your questions, and thank you again for the opportunity to testify.

[The prepared statement of Mr. Lorber can be found on page 104 of the appendix.]

Chairman MCHENRY. Thank you, Mr. Lorber.

Mr. Willems, you are now recognized for 5 minutes.

STATEMENT OF CLETE R. WILLEMS, PARTNER, AKIN GUMP STRAUSS HAUER & FELD

Mr. WILLEMS. Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for the opportunity to testify on the U.S.-China strategic competition.

The China national security threat has been on full display in recent days with the PRC's brazen decision to fly a spy balloon over the United States, but the threat from China is not confined only to national security. China also seeks to challenge U.S. economic and geopolitical leadership and to remake the international order with priorities and values that differ significantly from our own. Accordingly, the outcome of this competition will affect the future of our country and the world we live in, and Congress is right to make it a top priority.

In my testimony today, I hope to facilitate the committee's development of a strategic China agenda. To maximize our chances of success, we should clearly define our objectives, consider the broader economic consequences, and coordinate our action with allies. Our approach should also be comprehensive and not only defensive in nature. We should crack down on problematic capital and technology flows, but we should also prioritize competitive tax and regulatory policies and double down on our comparative advantages, which include a free-market economy, democratic values, and a deep network of partners and allies in the most vibrant financial system in the world.

To that end, my testimony will cover the defensive measures needed to protect U.S. national security, the need for multilateral coordination to ensure these measures are effective and do not harm U.S. economic competitiveness, the importance of pairing defensive action with offensive measures to maintain U.S. economic strength, and the appropriate role of bilateral engagement.

One key defensive tool Congress is considering is whether to restrict certain types of outbound investment. On this issue, we should assess whether there are gaps in existing tools like export controls. If we determine that technology is so sensitive that it cannot be exported to China, we should ensure U.S. companies are not financing China's indigenous development of the exact same technology. But we should stay focused on national security and avoid a bureaucratic supply chain mechanism like the National Critical Capabilities Defense Act.

We should also expand restrictions on investment and Chinese military-industrial complex companies to block private as well as public investment that can contribute to China's military investment, and enact export control measures on advanced technology with military applications. These defensive measures are important, but we must realize that they impose a cost on the U.S. economy by cutting off a critical market, and are only effective if U.S. allies take similar actions, since they can provide much of the same capital and same technology that we can.

Given the importance of multilateral coordination, we should seek all available avenues to achieve it. Unfortunately, the Administration's track record has been mixed, especially with respect to recent export control actions on semiconductors. Congress should push the Administration to rectify the situation as soon as possible. One key upcoming opportunity is Japan's G7 host year, which can be used to advance coordination on export controls, outbound investment, and a range of China-related policy.

We should also work with allies at the World Bank and the IMF to ensure that China is a responsible international stakeholder. Enacting defensive measures is a necessary part of a successful China strategy, but it is not sufficient. As we cut off capital and technology flows to China, we must also be creating new opportunities for U.S. companies that are affected by these measures. One way to do this is to pursue market access trade agreements that cut down barriers to U.S. exports in third-country markets to help make up for the lost revenue. These agreements are also key for our supply chain objectives, including reducing our reliance on China for critical goods.

In particular, if we want companies to move supply chains out of China, we need to provide them with meaningful incentives to do so. This is all the more pressing in light of China's aggressive pursuit of trade deals, including the Regional Comprehensive Economic Partnership (RCEP), which is now the largest trade agreement in the world. As a result of this deal, it is now easier for 14 other countries in the Indo-Pacific to link their supply chains with China and with each other than with the United States. This is unacceptable. If we are serious about competing with China on supply chain issues, we need a serious trade policy to match. Congress should pressure the Administration to move forward with bilateral trade agreements with the United Kingdom, Kenya, and Taiwan, as well as to renegotiate the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Finally, any winning China strategy requires bilateral engagement. While we should crack down on national security-sensitive trade, we must also realize that China's market provides a massive opportunity for our farmers, energy producers, and financial services firms, all of whom need to sell to China to be globally competitive. Therefore, we should engage with China through the Phase One Deal to ensure it is playing by the rules and not discriminating against U.S. companies.

Thank you. I look forward to your questions.

[The prepared statement of Mr. Willems can be found on page 113 of the appendix.]

Chairman MCHENRY. Thank you. Mr. Harrell, you are now recognized for 5 minutes.

STATEMENT OF PETER E. HARRELL, FORMER SENIOR DIRECTOR FOR INTERNATIONAL ECONOMICS AND COMPETITIVENESS, NATIONAL SECURITY COUNCIL AND NATIONAL ECONOMIC COUNCIL

Mr. HARRELL. Chairman McHenry, Ranking Member Waters, and members of the committee, it is an honor to be here alongside so many distinguished colleagues.

Chairman McHenry and Ranking Member Waters, as you said in your opening remarks, America's diplomatic, economic, and military competition with the People's Republic of China represents an overarching challenge for this decade. The current government in Beijing is a competitor that seeks to undercut the political, economic, and security interests of the U.S. and our partners. We have to outcompete China in the economic domain and maintain our technological edge. And yet, even as we compete with the PRC, we must also find ways to keep lines of communication open, cooperate on shared challenges, like reducing greenhouse gas emissions, continue outreach to the Chinese people, and keep the door open to ties that benefit citizens in both countries.

In my written testimony, I recommend a three-pillar strategy to manage our economic competition. First, the U.S. and our allies should continue to promote our technological leadership and economic strength. With the CHIPS and Science Act, the Inflation Reduction Act, and the Bipartisan Infrastructure Law, as well as other pieces of legislation, Congress has enacted policies to make transformational investments in U.S. technology, in the clean energy economy, and in renewing U.S. infrastructure that are critical to maintaining our leadership. We need to build on this foundation, while encouraging our allies and partners to make parallel investments in their technology and industrial bases. We need to cooperate with our allies and partners on resilient supply chains as well.

It is equally important that we avoid self-inflicted wounds. If the U.S. fails to raise the debt limit this spring and we default on our obligations, we risk harm to both our domestic economy and our global position. A default would undermine global confidence in the dollar and speed up the development of alternatives. It would undercut the confidence of our allies and partners, and it would give Beijing a priceless talking point about the irresponsibility of the United States. Congress must ensure that the U.S. does not default on our national debts.

Second, we should protect our technological and economic advantages while limiting Beijing's ability to weaponize the leverage it has over the U.S. and our partners. We need to ensure that U.S. and allied companies and experts do not inadvertently provide Beijing an edge in key technologies, give the PRC access to our critical data, or create dependencies for essential goods and products that the Chinese Communist Party could weaponize to its advantage.

Third, we should deepen our partnerships with existing allies while working to strengthen new ones. The U.S. should galvanize like-minded multilateral organizations, like the G7, and work with distinct groupings of countries to tackle specific risks, like semiconductor issues. We should pursue multilateral economic deals, including the Indo-Pacific Economic Framework, and we need to expand bilateral outreach to key emerging markets and swing countries such as India and Indonesia to deepen ties as we face a period of long-term competition with Beijing.

In my written statement, I have offered detailed policy recommendations across these three pillars. I am going to highlight just two. First, we need a comprehensive approach to managing the data risks we face from Beijing. The simple reality is that the U.S. does not currently have an effective legal regime to address and mitigate the data security risks we see from the PRC. While we have taken steps to reduce specific risks, such as targeting the presence of Huawei and 5G telecoms networks, and as we see with the current debate over TikTok in the CFIUS process, we need a strategy and new legislation to more effectively address data security risks across-the-board, as well as a new domestic data privacy law to reduce the volume of data collected in the first place.

Second, I urge members of this committee to examine investment flows between the U.S. and China, an issue which my colleagues have also discussed. FIRRMA, which Congress passed in 2018, established important updates to the CFIUS process, and the Chinese military company sanctions list provides a valuable tool to limit U.S. investments in the securities of specific Chinese companies. But it is time for this committee to look at continuing weaknesses in the CFIUS regime, such as limits on CFIUS' ability to review certain high-risk greenfield investments by Chinese companies here in the United States. I also urge both Congress and the Biden Administration to work together to establish a narrowly-targeted mechanism to review a small number of U.S. investments in China that could facilitate Chinese technological capabilities and undermine U.S. national security.

In closing, I want to say that I am optimistic about our future. The American people remain innovative and entrepreneurial, and with smart policies and hard work, will succeed in this era of geopolitical competition. Thank you, and I look forward to your questions.

[The prepared statement of Mr. Harrell can be found on page 96 of the appendix.]

Chairman MCHENRY. I want to thank the panel for their testimony, and we will now turn to Member questions. The Chair now recognizes himself for 5 minutes for questioning.

Mr. Willems, the Chinese spy balloon that our Air Force shot down this past weekend is just the latest incident involving China, and it demonstrates that there is a threat to the world that China poses, not just to the United States, but to our allies. And to that end, Committee Republicans have developed principles on how we approach China, given the fact that we have a different world now than the Soviet Communists. This is a different regime, with a different set of challenges, but central to that premise is that to beat China, the U.S. should not become China. So, I just want to ask you a few questions along those lines. What would you describe as the type of economic policies that could jeopardize our commitment to free markets and free people?

Mr. WILLEMS. Thank you, Mr. Chairman. Let me just say, I completely agree with you. There is a reason that China is the one chasing to catch up to the United States. We are the envy of the world because of the policies we have historically held, which value a free market, which value democracy, and all of those kinds of principles. I have been concerned about some of the policies that have been advocated for, and, in particular, if you look at the National Critical Capabilities Defense Act, that is the kind of bureaucratic mechanism that we often see out of Beijing. I think we need to be surgical and crack down on the kinds of capital flows that could contribute to their military, but we shouldn't be telling every single private sector company what they can and cannot do, and we should not be overly broad in the way that we handle that issue.

Chairman MCHENRY. Yes. And relatedly, the second principle that we put forward is that China must abide by the international rules of the road. Can you speak to an area where China is diverging from that path of the widely-accepted rules of the international economic engagement that we have seen over the last 50, 60 years?

Mr. WILLEMS. There are almost too many to offer in the 2 minutes and 45 seconds that I have left, but let me just highlight a couple in the international institutions. First, you look at the World Trade Organization (WTO), where China's command-and-control economy is totally inconsistent with those principles. I look at the World Bank, where China, who is the largest bilateral lender in the world, is also receiving a significant amount of loans there. And I look at the International Monetary Fund (IMF), where China has refused to restructure debt for developing countries. Those are just three examples in international institutions where China is an outlier.

Chairman MCHENRY. What are the policies available to Congress to ensure that China does not continue to undermine international institutions? What can we do to counter them?

Mr. WILLEMS. I think it is a combination of things, and in my testimony, I tried to make the point that you need to be comprehensive, and there are defensive measures you should use. I think there are offensive measures where we need to be creating new markets. And then, we need to really be working with our allies and partners through the existing mechanisms, the G7, and then at the IMF, the WTO, and the World Bank to try to pressure China to change its behavior.

Chairman MCHENRY. Thanks. Pivoting to you, Mr. Feddo, we just rewrote the rules of foreign investment in the United States. FIRRMA, that was passed just over 4 years ago, was an update to the CFIUS process, but that is an inbound flow of capital into the United States, and we have a process for that. There is now a discussion about expanding that authority to an outbound regime of taking U.S. dollars and their investment decisions internationally. What risks does an outbound regime pose to protecting our national security?

Mr. FEDDO. To our national security or more broadly?

Chairman MCHENRY. More broadly. Frankly, it's national security, but more broadly than that, our economic capacity.

Mr. FEDDO. Mr. Chairman, the problem is ill-defined at the moment, so it is hard to really scope a solution that precisely tackles an undefined problem. As Mr. Willems suggested, it would be a major economic policy and foreign policy change to impose these types of capital controls and may impact global capital flows in an unpredictable way, including the extent to which foreign investors want to invest in the United States and how that potentially subjects them to U.S. jurisdiction.

The way this was first drafted was incredibly broad, and its extraterritorial nature would have been almost unbounded, and in that respect, it could have really impacted our relationship with our allies and partners. Certainly, as Mr. Ashooh has mentioned, doing these types of tools in a multilateral way is very important. There are only two countries in the world that I am aware of that have outbound screening mechanisms—Taiwan and South Korea—and as you are well aware, the size of the U.S. economy dwarfs those. So, we really have to think through imposing this type of or creating this type of mechanism, not to mention the bureaucracy that would come with it, and I have deep concerns about how that would affect us economically.

Chairman MCHENRY. My time has expired, but we can further expand on this in written form.

I now recognize the ranking member of the committee, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman. I am focused on making sure that our economy is strong and that we are all united in ways that would put us in a position to deal with China or anyone else who interferes with our ability to carry out our democratic commission methods. When Democrats last engaged in brinkmanship around whether or not to default on U.S. debt, interest rates on U.S. Treasury bonds skyrocketed, there was havoc in the stock markets, and government, companies, and consumers faced increased borrowing costs. The nation's long-term credit rating failed, resulting in an unprecedented restriction on the Federal Reserve's ability to use its monetary policy tools to define the U.S. dollar and stabilize the economy.

Even though an agreement was reached, and we didn't default, Republicans are yet again actively working to risk unleashing the same devastation or worse as they did just over a decade ago. This time some projections on what would happen if the U.S. defaulted on its debt indicate that the global economy itself could freeze if the United States' Treasury market collapse. Can you explain how allowing the U.S. to default on its debt would benefit the Chinese government by causing irreversible damage to the U.S. dollar status as a global reserve currency? Also, please explain how a default would affect American's standard of living and our nation's economic standard and political influence across the globe. And I am directing this question to Mr. Harrell.

Mr. HARRELL. Thank you very much, Congresswoman. I think that a default on the national debt would be catastrophic for Americans, and it would be a gift for Beijing. Congresswoman, you cited a number of the risks we run domestically with a major hit to our economy and to our financial markets, which would obviously undermine our economic position vis-a-vis Beijing, as well as harming Americans here at home. I think it would also undercut our view with our allies and partners who count on us for all kinds of things and would take the view that if we can't even honor our debts, how can they count on us for their security and to uphold our alliances? And I think it would give Beijing a kind of priceless talking point about how irresponsible the United States is that it can't even pay its basic obligations.

I guess a final point I would make is I do think and I know there is legislation in front of this committee to deal with kind of the role of the dollar. I am a huge believer that it is important for the dollar to remain the world's reserve currency and the global kind of medium of finance. That whole agenda would be massively undermined as well if we defaulted on our debt.

Ms. WATERS. Thank you very much. Several years ago, I worked with my Republican colleagues to reform the Committee on Foreign Investment in the United States (CFIUS) to strengthen our tools to prevent adversaries from purchasing key assets in the United States. Last November, this committee held a hearing that examined outbound capital flows of U.S. dollars flowing to foreign adversaries, particularly China, and the impact of those investments on our national interest. Several of the witnesses argued for our Federal panel to review and, if necessary, restrain certain types of outbound investments, like the controls we impose through CFIUS. The witnesses testified, as have others, that while national security considerations should be paramount in such a review, it should not be strictly limited to national security. Could you discuss the merits of creating an outbound investment review panel? What are some of the key elements of such a process?

Mr. HARRELL. Thank you very much. As several of my colleagues and I have testified, I do think it is important that the U.S. have the authority to review a very narrowly-targeted set of U.S. investments in China. The reality is, for example, when we are investing in semiconductors here and we are limiting exports of semiconductor companies to China, U.S. companies can still invest in a Chinese semiconductor company to help that company develop its own technology. There is clearly a gap in the regime, and I think we need a narrowly-targeted regime with the authority to close those kinds of gaps that we have in our national security apparatus currently.

Ms. WATERS. Thank you very much. I yield back.

Chairman MCHENRY. I now recognize for 5 minutes the dean of the committee, Mr. Lucas, who is also the Chair of the House Science, Space, and Technology Committee.

Mr. LUCAS. Absolutely, Mr. Chairman, and I want to thank our witnesses for offering their expertise, and I thank you for holding this important hearing.

It has been nearly a year since the invasion of Ukraine, and the ongoing war has brought the U.S. and our allies together in a series of unprecedented economic sanctions against Russia. This offers a glimpse at what the international response might be in case of Chinese aggression against Taiwan.

Mr. Lorber, could you describe the lessons the Chinese have learned from the Russian invasion of Ukraine and how China is responding to protect itself from potential sanctions?

Mr. LORBER. Thank you, sir. I appreciate the question. I can't describe the specific Chinese response to what the Russia sanctions campaign looked like, but I can say that a few lessons that came out of the Russian invasion and the associated U.S. response are particularly noteworthy. One is that to the Biden Administration's credit, they did put together a very expansive multilateral campaign that has, over time, done significant damage, I think, to the Russian economy, maybe not as much as folks wanted it to for a variety of reasons, but has done significant damage, and degraded its military capability.

At the same time, however, I think it is fairly widely understood and fairly obvious that the threat of Russia sanctions in the lead-up to the Russian invasion were insufficient to deter the Russian decision. So I think, at least in terms of when thinking about an aggressive, massive sanctions campaign in any scenario, that those two principles need to be kept in mind. One, yes, they can be impactful in terms of hurting an adversary's economy, but two, they may not change that adversary's decision-making.

Mr. LUCAS. Fair point. Chinese state-owned banks are used to expand China's One Belt One Road Initiative and regularly saddle unsustainable debts on developing countries. For example, the Export-Import Bank of China and the China Development Bank have lent billions of dollars to Sri Lanka, which faces, of course, a debt crisis with no end in sight. African nations, such as Ethiopia, Zambia, and Kenya, also face uncertainty with massive debts from China.

Mr. Willems, could you speak to the global economic challenge that Chinese debts place on developing nations?

Mr. WILLEMS. Thank you for the question, and I agree with your premise that this is a major concern and a major threat. And while I was on the National Security Council, we saw numerous instances where China would get a country knee-deep in debt, and then in exchange for debt relief, would seize a strategic asset, and that is a national security threat to the United States.

One of the responses that we had in the Trump Administration was the BUILD Act, which was intended to make the Development Finance Corporation (DFC) much more robust in its ability to provide a meaningful alternative to China's investments. And I think so far, the track record on that agency in carrying out that strategic mission has been a little bit mixed.

One of the things I talked about in my testimony is improvements that we can make at the DFC, ensuring that it has equity authority that can be used to make investments to countries instead of China, as well as looking at creating a program there similar to what we have at EXIM, which is the China & Transformational Exports Program (CTEP), which cuts through some red tape and makes it easier for us to be strategic. So, I think we need to look at DFC, we need to look at Ex-Im, and use both of those tools to provide an alternative. And then in the meantime, I talk a little bit about at the IMF and other places where we need to pressure China to restructure those debts for developing nations.

Mr. LUCAS. Continuing along on the discussion about the imperative of the U.S. being able to displace Chinese financing, would you expand a little bit more on the importance of the U.S. having a dependable Export-Import Bank as an alternative to Chinese? We have had major discussion in recent years in this body over that very topic.

Mr. WILLEMS. Absolutely. I think EXIM needs to play an increased role here. And if you look at the landscape internationally, and if you look at what China provides for its companies, and let's take telecom infrastructure as a good example, if you look at Huawei and companies like that, they are usually being sold at about a 30-percent discount to Western competitors. And it is very difficult for countries to basically say, I am going to pay 30 percent more. I hear you on the national security threat, but I am still going to say we need to have an alternative to that. The China & Transformational Exports Program (CTEP) is a good step forward, and I think the committee was right on with creating that, and I think that we need to further bolster EXIM to be an effective tool in that regard.

Mr. LUCAS. Thank you, Mr. Willems. I yield back, Mr. Chairman.

Chairman MCHENRY. Thank you. I will now recognize the gentlewoman from New York, Ms. Velazquez, who is also the ranking member of the House Small Business Committee, for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Mr. Harrell, building on what Ranking Member Waters was saying, Chinese government bonds are, on issue, $3.3 trillion less than half the value of U.S. Treasuries held by foreigners. But do you believe playing around with the debt ceiling as the Republicans are doing will cause foreign governments to move away from Treasuries and possibly into Chinese bonds?

Mr. HARRELL. Thank you, Congresswoman, for the question. I do think that a debt default and even sort of serious brinksmanship does undermine confidence by investors, whether sovereign investors or private investors in Europe and elsewhere in the U.S. Treasury market, and I do think that will have long-term adverse consequences to our Treasury market. I am not sure that investors would go into China as they exit U.S. bonds. China obviously has a bunch of capital controls, and there are reasons why, in the markets, they may not do that. But I do think it will undermine the kind of preeminence of the U.S. financial system if we have serious brinksmanship here.

Ms. VELAZQUEZ. And, Mr. Harrell, the Chinese economy faces several challenges that predate the pandemic, including significant levels of corporate debt, which reached $29 trillion in the first quarter of 2022, the highest in the world. There have also been concerns with the debt levels of its real estate sector, wealth management products, and local governments, as well as its off-balance lending activities. Do you see China's high level of debt, particularly corporate debt, as a significant problem for the world's economy? What impact could China's debt levels have on American companies invested in China?

Mr. HARRELL. I think it is important that as we think about China's policies, we all recognize that China, although a serious competitor, and by far our most significant economic competitor, is not

10 feet tall. It is not some sort of mythical beast that we cannot outcompete. I think you have highlighted a couple of the reasons, Congresswoman, why that is the case. They do have high levels of debt. They also have serious long-term demographic problems, to having a shrinking working-age population. I do think that it will be interesting to see as China comes out of COVID, if they are able, in fact, to hit the growth targets they are trying to hit this year without further increasing their debt problem. And I think we should be keenly aware of the potential financial risks that could come from an unwinding of Chinese debt.

Ms. VELAZQUEZ. Mr. Harrell, repeated lockdowns slashed China's growth rate to 3.0 percent in 2022, a pace below the global average for the first time in more than 40 years. While the IMF is predicting that China's economy will expand by 5.2 percent in 2023, it will slow again in 2024. Some have argued that China's uneven economic performance since the pandemic enhances our leverage over China, and now is an opportune moment to further address many of the trade imbalances and systemic issues American business face in China. Can you explain whether this is a view you share?

Mr. HARRELL. I think the last couple of years have been a real wake-up call for businesses, both in the U.S. and in Western allies that have been doing business in China. I think they have seen how China's mishandled response to COVID disrupted supply chains. I think they have seen a long-term trend of slowing growth in China. I do think this year, China is going to probably have a reasonably high rate of growth as it bounces back from COVID, but we are not going to see a return to many years of 6, 7 percent growth in China. And, of course, I think people have seen the geopolitical risks that we see with China, and the recent balloon incident only highlights those. So I think you are beginning to see a very significant corporate rethinking of the role companies want to have in China and the risks they face there.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I yield back.

Chairman MCHENRY. The gentlewoman yields back. The Chair now recognizes Mr. Sessions for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. Mr. Chairman, your opening statement, I think, outlined very clearly not only the role of America, but how we see our divisions with China. In my opinion, and I would like to ask your opinion, I believe that evidence abounds that China has a plan that we saw, or at least I saw, as early as 1996 with Johnny Chung, and that was to come and disrupt not only American commerce, but to influence policymakers, meaning the White House. I think that China's views abound and that we already see exactly that they not only have a plan, but they intend to counter and compromise the United States of America.

Mr. Willems, or Mr. Lorber, what about us looking at this on a comprehensive basis as opposed to seeing the 50 or 60 different points that China is countering not just the United States, but freedom and capitalism? How do we go and develop this, because we saw what President Trump did: he took on the Chinese. Successful or not, I think it highlighted that we have a problem. Could either one of you begin that discussion about what kind of comprehensive viewpoint we really need to take because it is militarily, intelligence, economic, and their own plans?

Mr. WILLEMS. Thank you, Congressman, and it is a great question. And I agree with you 100 percent that China does pose an existential threat that requires our attention and that our response has to be comprehensive, and we have to look at all facets of what we are doing in the United States. And that does include some of the things that this committee is focused on in terms of cracking down on problematic capital and technology flows, but it also requires us to be offensive, and when we close down markets for our companies, we need to open up other markets for them. And then, we need to work with our allies and partners to make sure that they are taking similar action, that they view the threat in the same way, so that the things we do are actually effective and don't just hurt us without hurting China. That is really important. And I think this committee needs to look holistically at all of the different things that we need to do, both offensive, defensive, and internationally.

Mr. SESSIONS. Okay. Let's suppose this committee does have a position at least in capitalism and the markets and the opportunity to view those. I think I am talking about within Article II, an Administration that has intel, military, certainly Treasury, those economic viewpoints. Does this fit at the National Security Agency (NSA)? Does that exist today? Do we actually have a plan?

Mr. WILLEMS. It is the role of the National Security Council (NSC) to try to coordinate policy across the U.S. Government on behalf of the President and to make sure that it is effectively addressing these problems. I think that we have tried very hard to come up with a strategic plan here, and I think that the Trump Administration and then the Biden Administration as well has been focused on China. I don't believe that the current Administration's plan is comprehensive enough, and one of the areas where I do think that they are falling short is with respect to trade.

And I talk in my testimony about China's assertiveness in going around the world and collecting trading partners to make it easier to link supply chains with China, and we don't have a response to that. I do think that the Administration is trying, but I think they have fallen short in that respect, and that if we want to reduce our supply chain resilience in China, if we want to provide a meaningful economic alternative to China, that requires trade agreements, and we haven't seen that.

Mr. SESSIONS. I think what you said is very interesting. I watched over the last few years the Millennium Challenge Corporation as it placed economic advantages to countries that we wanted to help build their economy, the free market and the rule of law, and the Chinese simply glommed on around them with their own plan. So, I hope that we push this committee appropriately to push the Administration to push this Congress to do exactly what we talked about: a comprehensive plan. I want to thank each of you. And Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. Mr. Sherman of California is now recognized for 5 minutes.

Mr. SHERMAN. Thank you. I want to associate myself with the comments of the ranking member, first, that we have to watch for xenophobic attacks on Asian-Americans. We are here to talk about the Chinese Communist Party. And second, that the most important thing we can do is manage our own economy well, and that starts by paying our debts. Our economy is already being hurt by this talk of default and not raising the debt limit. I want to thank Mr. Harrell for pointing out how important it is that the U.S. dollar play this major reserve currency role and point out that all of the proponents of cryptocurrency have announced that their purpose, if they achieve it, is to partially displace the U.S. dollar from that role.

The Chinese Communist Party obviously believes they can invade America's airspace deliberately and notoriously without serious consequences. They believe the two parties will simply shout at each other, maybe shout a few things at Beijing, maybe even adopt some sort of pinprick answer, and then go on. What China cares about is Taiwan, trade, and tariffs, the three T's, and I think they are confident that we will do little or nothing, not only in response to the balloon—it is just a balloon—but the much bigger things. Even China's defenders have to admit that their obfuscation of the sources and initial effects of COVID have cost hundreds of thousands of lives around the world, and that their trade policies toward the United States have created a new term, or at least it was new a few decades ago, "rust belt," to describe what they did to the industrial Midwest.

The problem began in the year 2000 when the United States Congress granted Most Favored Nation status to China and entry into the WTO. Before that, China was an annoyance, was referred to as a slumbering giant. Now, of course, things are much different, so we have to look at Taiwan, trade, and tariffs. Congress should act to allow Taiwan to buy defense items that are still stalled in the Administration. And we should provide that immediately and without an executive waiver, and deprive China of Most Favored Nation status if it invades or blockades Taiwan.

More to the focus of this committee, we have to require every major corporation to set out as a risk factor, what would happen to that company if there was a breakdown in the U.S.-China economic relationship? I am not saying that will happen, but it might. It is more likely than some of the other things that they talk about and the risk factors. By doing that, American companies will compete for capital by creating resiliency toward what China might do, and in doing that, they become less desperate to tell us not to do anything to China. And if we do anything serious at all, we have an automatic, say, 20 percent tariff on all Chinese goods if they retaliate against us for anything we are doing. Of course, that would be necessary only if we did anything significant. We probably won't.

One thing that concerns me is China's ability to control the behavior of American corporations by handing out access to their market the way I hand out dog treats to my pet. Morgan Stanley was told, you better tell your investors to put 15 percent of their money in China or you won't be able to do business in China. More specifically, Hollywood, which I represent, is told that you can get only 40 movies into China in any one year. What does that mean? That means that if you make a movie about Tibet, it is not going to show in China. That means if you make a movie about Tibet, none of your movies are going to go to China, and the CEO's bonus goes to zero if he doesn't lose his job or her job. So, China controls what American corporations do. They also, therefore, control what their lobbyists do, so they have a control over what Congress does.

And, Mr. Harrell, one proposal, and this would be rather extreme, would be to say that we impose a tariff on Chinese goods, collect the fund, and award that fund to those companies that can show that they have been unfairly treated by China so that if you can't get your movie into China because you made movies about Tibet, or you won't recommend to your investors this or that that China wants, instead of making profits in Beijing, you make your profits here in Washington by going to this board and getting an award. Comment, please?

Mr. HARRELL. Thank you very much, and I realize I have just a couple of seconds. First, Congressman, I think you have started in exactly the right place, that we need to be putting pressure on companies to better understand their own China risks. Some are doing that, but not all of them, and more of them need to step up and do it.

And then second, I do think we need to give our allies and partners a solution to these growing instances of Chinese economic coercion. We are seeing it is the American companies, Canadian companies, European companies, Asia, all over the world. I think that has to include a threat of retaliation on China if they keep doing that, as well as some ways to help impacted companies dodge or sort of compensate for what they are losing.

Chairman MCHENRY. The gentleman's time has expired. We will now go to Mr. Posey of Florida for 5 minutes.

Mr. POSEY. Thank you, Mr. Chairman, for holding this hearing on the economic challenges with China. I assume we all agree that clearly, through economic dominance, China hopes to achieve military superiority.

Mr. Ashooh, how much of the U.S. debt is owned by China?

Mr. ASHOOH. I don't know the recent number. I do know it is a substantial amount, and it is one that we should be taking steps on.

Mr. POSEY. Does anybody on the panel know?

[No response.]

Mr. POSEY. Okay. So I would assume we wouldn't know how much is China debt. Let's try land ownership. Does anyone know the amount of land ownership in the United States held by China or Chinese companies?

[No response.]

Mr. POSEY. Do we own any land or control companies that we wholly own in China?

[No response.]

Mr. POSEY. Okay. Mr. Willems, when running for President, Mr. Biden famously said, "They are not bad folks. Guess what? They are not competition for us." What are the most important ways that China is competition for us?

Mr. WILLEMS. I think it is across-the-board. China wants to remake the international order to its advantage and to our detriment, and if you look at what they are doing from a national security standpoint, that is a threat, and if you look at what they are doing from an economic standpoint, that is a threat as well. And so, I think they are all major threats to U.S. leadership and that we need to address them all comprehensively.

Mr. POSEY. Thank you.

Mr. Feddo, in your experience with CFIUS—I had a crazy experience with them not too long ago when a foreign country was contracting with a local port to arrange a long-term lease agreement, and this port is the second-busiest cruise capital in the world. It is beside a nuclear submarine base, and it is adjacent to the Cape Kennedy missile range. There were some concerns by some citizens that the company who was pursuing the lease was from a country not friendly to the United States, and some principals in the company had ties to individuals who were not looked upon favorably by the United States.

I told them not to worry, CFIUS will check them out, and make sure everything was okay. I contacted CFIUS to make sure I wasn't telling a story, and CFIUS said, "What are you talking about? You know we don't check them out." And I noticed, in your written testimony, it is important for them to especially check out companies near sensitive government facilities or ports. And so, I asked CFIUS, "Who checked him out?" And the response was, "I don't know. Why don't you ask DOD or the Navy or the Coast Guard who has the base?" We ran the traps, and we never could clearly ascertain that anyone did check them out. What would be your suggestion going forward to appeal their decision not to look at that issue?

Mr. FEDDO. Congressman, thank you for the question. Without thinking through the facts a little bit more, it is hard to say. The way FIRRMA was drafted, a lease, or a concession, or a land purchase near a military installation that is designated expressly in a list published in the regulations is within the scope of CFIUS jurisdiction, and specifically with respect to ports. Then, there is a question of who would, within the nine voting member agencies, have the lead, the subject matter expertise to look at that more closely and consider—

Mr. POSEY. I only have 2 seconds left, and I wanted to ask you about—

Chairman MCHENRY. The gentleman's time has expired.

Mr. POSEY. —Chinese purchases near military bases. Thank you.

Chairman MCHENRY. We will submit that for the record.

The Chair now recognizes the gentleman from New York, Mr. Meeks, who is also the former chairman and current ranking member of the House Foreign Affairs Committee.

Mr. MEEKS. Thank you, Mr. Chairman. Let me start with Mr. Harrell. You have commented on the ongoing debate here in Congress in regard to our national debt limit. What I want to ask you is, if Congress does not move to raise the debt limit, what impact would that have specifically on our global position relative to China?

Mr. HARRELL. Thank you, Congressman. I think it would have at least three. First, it would clearly harm our own economic potential and weaken our economic growth this year, in a year when China will probably have reasonably strong economic growth as they come out of COVID.

Second, it is going to undermine the confidence of our allies and partners. Our allies are going to say to us, how can we count on the United States to defend our security if you can't even guarantee you are going to pay your bills?

And third, it is going to undermine our economy over the long term as international investors and others look at whether they really think they have the security here in the United States that they want as they make investments internationally.

Mr. MEEKS. Thank you. Now, I absolutely recognize the threat that China poses to the United States from an economic and a national security lens. For us to combat these threats, I believe we need to focus on how we compete with China. I believe in the United States. We are the greatest country this planet has ever seen and we have the innovative capacity to challenge China across various sectors, from financial services and fintech to medical technologies, but we will lose that advantage if we are not vigilant. For example, as we look at our technological and economic position, I am particularly concerned with the speed in which China is developing its central bank digital currency (CBDC) and how that could impact the future of the U.S. dollar and the security of our global financial system.

So let me ask you again, Mr. Harrell, can you identify those sectors in which the United States does have the competitive advantage over China, and in what ways can we continue to strengthen that?

Mr. HARRELL. Congressman, I agree with you 100 percent that the core foundation of our strategy to compete with China is to continue to promote our own leadership. That is why it is so important that Congress enacted things like the CHIPS Act in order to restore our leadership in semiconductor manufacturing as well as R&D. And I think that this Congress should look at continued investments in critical technologies, whether it is semiconductors, or quantum, or the clean energy economy, or biosciences.

Also, looking at investments in maintaining our leadership in areas like financial services. I think it is important that the Treasury Department have an actual plan and agenda to defend the role of the dollar in international finance and to defend the role of U.S. financial institutions and the kind of stable role they play in maintaining international finance at a time when China is aggressively trying to push out the Chinese RMB and the Chinese Central Bank digital currency as mechanisms of payment and investments internationally.

Mr. MEEKS. Let me also then follow that up, because in competition, I believe you have to have a level playing field, and I think that a central part of our strategy with China should include the mechanisms to hold them accountable when they are not playing by the rules. So what should the United States do, along with our global partners, to make sure that China is playing by the same rules?

I often worry that we sometimes let China off the hook by isolating ourselves because there are too many places where we are not present. China is present, we are not there, and, thereby, we end up isolating ourselves. I know when we have some controversial policies, whether in gun trade and other things here, so that if we are not there, China then goes, and they work with other countries to get things done. And they are trading, and we are left by ourselves, and we are isolating ourselves. So what strategy do you think that we should utilize? And if there is time, I would also ask the same question to Mr. Willems.

Mr. HARRELL. I think we need to be out in front building alliances with our economic partners. I think there are a couple of things we should be pursuing, starting with the Indo-Pacific Economic Framework in Asia, and with the Americas Partnership for Economic Prosperity here in the Americas. I also think we should be looking at a critical minerals agreement to help ensure a clean minerals supply chain. Maybe I will leave it there and give Mr. Willems a couple of seconds.

Mr. WILLEMS. Thank you. I agree with very much of what you said. We need to be in the game, and I know Mr. Harrell has endorsed the Indo-Pacific Economic Framework, but I think we need to go further. I think we need to look at whether we can renegotiate the Trans-Pacific Partnership (TPP), whether we can make it work for U.S. interests. I think we need to do a trade agreement with Taiwan that will help Taiwan reduce its dependency on China. That is the way that we will provide a meaningful alternative, and I hope we can work on those issues together.

Chairman MCHENRY. I thank the gentleman. We will now go to the Chair of our Subcommittee on National Security, Illicit Finance, and International Financial Institutions, the gentleman from Missouri, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. The chairman started out the discussion today talking about the threat to our global standing, both militarily and economically, by China, and I thoroughly agree with that statement. I think if we look at what we are doing, and I think this is what this committee hearing is about today, and how much funding we are doing to the Chinese government to be able to compete with us on those fronts, whether it is militarily, whether it is economically, whether it is with regards to oppressing their own people. Our argument here today is not with the Chinese people. It is with the Chinese Communist Party, who has slashed their government. And I think you can see, we have bipartisan support today for this kind of argument about going after the Chinese government and trying to get a level playing field for our manufacturers and to protect us in the future.

So along that line, we need to be able to, I think, cut off this financing. How do we do it? We are open to all your ideas. One of the things that we have done is, in 2020, Congress passed the Holding Foreign Companies Accountable Act, to require foreign companies that wish to be included on the U.S. Stock Exchange to open up their books and ensure that they are properly audited.

And basically what has happened is in 2020, there were 1,000 Chinese companies on our stock exchange, and as of January the 9th, it is down to 252. They are required to have an audit every 2 years. Many of our United States companies have to be audited every year. Would you go along with increasing that, or, I guess, increasing it to an annual audit on the Chinese companies like you do ours, or is there a reason that we should keep it at 2 years? Who wants to take the question?

Mr. WILLEMS. Let me first say, thank you for Congress' leadership on the Holding Foreign Companies Accountable Act, as well as the Accelerating Holding Foreign Companies Accountable Act. There is no question that China would not have opened up its books and records had Congress not acted, and that was really important to make sure that they are playing by the same rules and that we protect the sanctity of our markets. Now, I do think we need to be vigilant in making sure that we are reviewing them on an annual basis, and my understanding is that is how the law will be implemented. And it is really important to make sure that the access they provided in December was not just a one-time act to prevent mass de-listings, but that we hold them to account.

Mr. LUETKEMEYER. Over a 2-year period, you can play a lot of games, so I think it is important that we go to an annual audit, and I appreciate your comments. The Chinese government has also gotten into the digital currency business, and I have a bill to prevent money services businesses from conducting transactions in digital yuan. I don't know if any of you looked at the bill or you have any concerns at all about American businesses, American individuals investing in it or being able to do business in that. Do you have any comments on it? Nobody? Yes?

Mr. LORBER. Sure, I have a take. I think the general concern with the digital yuan, digital renminbi, in particular, is related to transparency, and the question about what type of data or information the Chinese could have access to given widespread implementation and usage of the digital renminbi. So, I think legislation—and I apologize, I have not reviewed that bill.

Mr. LUETKEMEYER. I am going to leave it to my good friend, Mr. Hill, who is the Chair of our Digital Assets, Financial Technology and Inclusion Subcommittee, but it would seem to me that the Chinese use it to be able to control and monitor their people. And why would we want to allow our people to be in that same predicament? This is one of my concerns.

I know that a couple of my predecessors here on the dais asked questions with regards to what we should do, what your actions should be. How should we control China with regards to an invasion of Taiwan? And I think we need to be looking at this very quickly, and very thoroughly, because over the weekend, I guess about a week ago now, the leading general for the Air Force indicated that he thought that China was going to invade Taiwan by 2025. If that is the case, how should we react?

I think, Mr. Willems, you made a comment a while ago with regards to that. I asked the question when the Fed and Treasury were here, are you thinking now in terms of what is going to happen, how we should be sanctioning China when that happens, when they invade Taiwan, and it was like a deer-in-the-headlights look. They had no idea what we are doing, which is really concerning, knowing that this is inevitable.

Mr. Willems, would you like to go back over that a little bit? What would be some things that you think we should do? And I think we need to stress that if they are going to invade Taiwan, and we are going to play footsies with everybody because, well, we don't want to upset the applecart with our allies, and we don't want to hurt the Chinese government, the Chinese are going to take us over. They are weaponizing the economy against us today. At some point, we have to cut bait and say, you know what? You are bad people. We have to stop playing games with you. What would you say?

Mr. WILLEMS. I have three suggestions on Taiwan. The first is, as you articulated, we need to be thinking now about what a sanctions package should look like. We need to be working with allies to make sure that they will have resolved that as well, and I hope that that is already happening at the NSC. The second thing is, as you mentioned, I do think we need to look at helping Taiwan militarily, making sure that they have those tools. And then third, I also think we need to be helping them economically, and one of the things that I would advocate for is a free trade agreement with Taiwan. Right now, 50 percent of Taiwan's trade is with China, and that gives China a tool to coerce them economically by cutting that down and shifting that around. And we can't let them be vulnerable in that way.

Chairman MCHENRY. The gentleman's time has expired. We will now go to the gentleman from Georgia, Mr. Scott, who is also the former chairman and current ranking member of the House Agriculture Committee, for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Harrell, I am deeply concerned with the fast-growing possibility of a China-led world order. That includes the Chinese military controlling the South Pacific trade routes because the South Pacific trade route is now the lifeline of the entire global economy. And that is why I was concerned, deeply concerned about this balloon business, and why the President allowed this balloon to go all over our country and not blow it down. So all I am saying is that with this technology, with this military information going deep into the abilities of our national defense system, our national security of the number-one nation, economy, and military in the world, sends a powerful message, not only to our enemies, but to our partners in this nation. What gives with this?

And also, under what circumstances do you see the Indo-Pacific nations accepting an economic and military order in which China sets trade and investment rules for that region, particularly if they are seen to be applying agenda-setting dominance over any new technology, the availability of new data and standards? This is why they sent that balloon, to get an assessment of the technology, of the information, of the data, and this is why I want you to answer this question for me, how do you see this? And do you not see my point? I love the President, I support him, but this move not to blow down their balloon sends a powerful message to both our enemies and our friends, because it is all about data. It is all about intelligence. It is all about knowledge, and they got us on this one. What do you say about that?

Mr. HARRELL. Thank you very much, Congressman, for the question. I should begin by saying, I am not a military expert; I am an economic expert. So, I am going to have to defer to the Department of Defense for their decision to wait to shoot down the balloon and take at their word their reasons for waiting. I agree with you very much, Congressman, that we need a very firm and very resolute response to what China did. And I think that we should view Secretary Blinken's decision to postpone his trip to China and the decision to shoot down the balloon off the coast of South Carolina as the start of a response, not the end of a response. And I think we should be looking at other tools, whether it is sanctions on the Chinese companies involved in the balloon, whether it is looking at ways to increase our military and sort of surveillance presence in the Indo-Pacific to see future balloons coming in, and other tools, but recognize that we need to continue to show a resolute response.

On your question about countries in the Indo-Pacific and are they going to come into China's orbit, they will if we are not there. That is why I think it is so important that we be out in the Indo-Pacific economically, that we be out there diplomatically, that we be looking to build our technological ties with key countries in the region, and that we continue to shore up our defense relationships with key countries across the region, because if we are not there, that is when they are going to be turning to China.

Mr. SCOTT. And I agree with you 100 percent. Thank you.

Chairman MCHENRY. The gentleman's time has expired. We will now go to Mr. Huizenga of Michigan, who is also the Chair of our Oversight and Investigations Subcommittee, for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I actually jump off on that point. I am not sure I agree that the strongest response that the U.S. could have had to the balloon incident—let's call it that—was to not go to Beijing. It might have been an even stronger response to get there and confront the Chinese on their own territory about what has been happening here. And there are a lot of details that are emerging and coming out.

Here is what I do know, and I hope everyone is hearing this on more or less a bipartisan basis, but whether it is CFIUS, FIRRMA, the Export Control Reform Act, the Holding Foreign Companies Accountable Act—there has been a fair amount of work that has been done. I have been very critical, frankly, of the Public Company Accounting Oversight Board (PCAOB). And it is agreements with Beijing that allow U.S. investors to scrutinize really a small subset of audit firms and even a smaller sampling of the transactions and audits. What I am concerned about is whether China can ever provide an actual safe, stable business climate for U.S. investors. And I am curious, quickly, if you can comment, and we will go right down the row here, how can and should our regulators ensure investors have some modicum of protection of what they are investing in? Mr. Ashooh?

Mr. ASHOOH. Yes, it starts with information. I think, as a former regulator, we took—

Mr. HUIZENGA. Transparency.

Mr. ASHOOH. Yes, transparency, but really I consider it direct communication.

Mr. HUIZENGA. Okay.

Mr. ASHOOH. I think the government has a responsibility to share with affected industries what it can about the particular environment, in this case, China.

Mr. HUIZENGA. Okay.

Mr. ASHOOH. And gathering that information in the first place is also quite critical.

Mr. HUIZENGA. Great. Mr. Feddo?

Mr. FEDDO. I completely agree with Mr. Ashooh. The transparency is paramount.

Mr. HUIZENGA. Okay. Mr. Lorber?

Mr. LORBER. Thank you, sir. I can't speak to the specific issue, but transparency as a general matter, both for investor protection and for financial crimes, is incredibly important.

Mr. HUIZENGA. Okay. Mr. Willems, do you have anything to add?

Mr. WILLEMS. It sounds good to me.

Mr. HUIZENGA. Mr. Harrell?

Mr. HARRELL. I will join my colleagues on transparency.

Mr. HUIZENGA. Okay. The PCAOB has been tasked with negotiating this out. I am not sure that we have really seen it be as tough as it is because it seems like it is being controlled more by Beijing, and many others have been critical of Russian companies that were listed on the U.S. exchanges as well. And how long are we going to let the PCAOB take this same posture with the Chinese government before we take a more strong, robust posture with China as we have tried to do with Russia And some others?

Mr. Willems, the IMF Reform Act and Integrity Act, which I have introduced in the last two consecutive Congresses, would place greater restrictions on major shareholders of the fund, notably China and Russia. Specifically, the legislation would ensure that any quota increases by the IMF would be done with consideration as to whether a country is following certain principles of the fund, most notably currency manipulation. The bill is complementary to my colleague, Mr. Hill's, Special Drawing Rights Oversight Act, which again draws attention to Russia's lack of adherence to international lending standards.

Mr. Willems, you noted in your testimony that, "The United States should seek to change the way China does business," and the need for it to be, "a responsible international stakeholder." Can you help the committee understand how important it is for the IMF to hold China and other major shareholders responsible for their actions?

Mr. WILLEMS. Let me just say that I think your legislation makes a lot of sense, and, in particular, this concept that we need to create standards within these institutions that hold China to account. I think it is difficult for us, whether it is the World Bank or the IMF, to come in and simply say we want China to do this or we want China to do that. That can make it, I think, sometimes difficult to gain broader support for it. But if we create a standard that we know China can't meet and use that as an objective standard, I think that can be more effective within those institutions.

Mr. HUIZENGA. Okay. U.S. companies often face a considerable disadvantage to their Chinese counterparts, which often receive large state subsidies and those kinds of things, So I am curious, what is the most effective tool, in your opinion, that we in Congress can wield to level that playing field without harming or impacting open and fair domestic markets as well?

Mr. WILLEMS. On the subsidies question, there are a couple of things we can do, and I see I only have about 3 seconds, but quickly, I would say defense and offense. On the defense side, where there are Chinese subsidies, we have trade tools to countervail that. On the offensive side, we need to provide alternatives.

Mr. HUIZENGA. And maybe it would be helpful, Mr. Chairman, if we could get a response back in writing.

Chairman MCHENRY. The gentleman's time has expired. We can take a written response.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, who is also the ranking member of our Digital Assets, Financial Technology and Inclusion Subcommittee, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and I want to thank Ranking Member Waters as well for her work in putting this hearing together.

Members on both sides of the aisle have been keenly interested in the development of a retail central bank digital currency. And China's domestic retail Central Bank Digital Currency Pilot, known as the e-CNY, or the digital yuan, has received a lot of focus from Congress recently as a challenge to the primacy of the United States' dollar and also as a full spectrum surveillance tool for the Chinese government. However, usage of the digital yuan has so far remained very low as consumers seem to be sticking with private payments ecosystems, including Alipay and WeChat Pay. There has been little focus, however, on mBridge, which is the cross-border bank-to-bank wholesale CBDC pilot that is being conducted by four countries, including China,—which is the lead, I guess—Hong Kong, Thailand, and one of the countries in the Middle East. I am blanking on it right now, but there are seven more countries that have received offers to join. And mBridge, as you know, operates outside of SWIFT and the existent correspondent banking system, and could be a tool for sanctions evasion and other financial crimes.

Mr. Harrell, how concerned should we be in Congress about China's Central Bank Digital Currency Pilot Project and why?

Mr. HARRELL. Thank you, Congressman, for the question. I agree with you that it has been interesting to see how little interest there is in the domestic uptake in China of the e-CNY. Now, Chinese consumers, probably because they don't actually want the Chinese Central Bank seeing everything they buy, are trying to stay outside of the e-CNY. We obviously have a limited ability to affect the domestic deployment of a digital RMB in China.

I think you are right to focus on the cross-border payments. I don't think that China and RMB-denominated payment rails displacing the dollar is going to be a challenge in the next 6 to 12 months, but I do think it is a mid-term challenge. We have seen Russia, with the Mir payment system, try to create rails outside of Russia, as we have put sanctions on Russia. And you see China trying to do exactly the same thing with its cross-border payment strategy.

I think it is essential that we as the U.S. Government and this committee, with jurisdiction on this issue, promote a strategy to maintain the preeminence of the U.S. dollar as the primary currency for reserve purposes and for international payments. And I think that is going to require us to both be competitive on our end, what can we do to make the dollar attractive, and it is going to require us to throw some sand in the gears of efforts by China and other countries like Russia to try to build out these alternative payment rails.

Mr. LYNCH. I appreciate your response, but when we think of this as a global problem, the idea that we could ally with other countries that have the integrity of the SWIFT system and operate within that system, how could we partner with them? What could we do here to strengthen the SWIFT system? If not, I don't know if we could get buy-in from many of our allies to increase the strength of the U.S. dollar. But I do think we could get buy-in to increase the integrity and the affinity for operating within the SWIFT system, which would push back on this attempt by the Chinese and the Russians to adopt a different set of rails. What could we do to encourage or strengthen the SWIFT system?

Mr. HARRELL. I will make two comments: one on the SWIFT system; and one outside of or parallel to the SWIFT system. First, the Federal Reserve has an active program underway to try to speed up U.S. dollar payments that are currently going through the existing Federal Reserve's organized payment rails. And I think that is really important, because payments internationally can be slow, and we need to make sure that they are working faster so that people want to continue to use the existing system, so I think what the Fed is doing is important. And then, also putting friendly pressure on SWIFT, and on the banks, and our correspondent sort of relationships to make sure payments are sped up there, too, is another important area of work.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman MCHENRY. The gentleman's time has expired. I now recognize the Vice Chair of the committee, Mr. Hill of Arkansas, for 5 minutes.

Mr. HILL. Thank you, Chairman McHenry, and what a pleasure it is to say those words, "Chairman McHenry." The Members have been a part of your leadership team for many years, and we are ready to work on the committee's agenda and deliver on our commitment to America.

As we go into today's hearing, we should all remember the basic things that we take for granted here. The Chinese Communist Party maintains a surveillance state with a great firewall and no freedom of speech, no freely-exchangeable currency and no rule of law. But they can never compete with a free and open society that allows for free enterprise and prosperity like in the United States where we encourage innovation, entrepreneurship, small businesses, and a thriving marketplace of ideas. It is the same reason America was able to develop the internet as well as the deepest and most-liquid capital markets in the world. China tries to replicate that. It is tough, but they are working to catch up, and it is through that lens that I hope we can work in a bipartisan way in this Congress to create a framework for digital assets that allows for innovation, provides for clarity, and protects investors in a way that they can understand.

Mr. Chairman, America cannot win this strategic competition with China by trying to be more like China and being focused on passing more industrial policy measures. We have to protect American workers and businesses by fighting for a level playing field, while standing up for our values of freedom and free enterprise, both here and abroad. That includes doing the hard work of oversight on the multilateral organizations in our jurisdiction, like the International Monetary Fund and the World Bank. I thank Chair McHenry for noticing several of my legislative initiatives that advance U.S. strategic interest at these international financial institutions, securing America's medical supply chain, deterring war in the Taiwan Strait, and protecting the dollar's position as the global reserve currency.

Mr. Willems, I was glad to hear your testimony about the multilateral coordination and how that is critical to ensure that U.S. measures on China are effective, and that we should be active at the World Bank and the IMF to pressure China to act like the responsible international stakeholder that they claim to be. I couldn't agree with you more, especially as China continues to refuse consistently to provide debt relief to developing countries it has saddled with loans that they can't pay back. Beijing blatantly ignores international lending rules, like the Paris Club, and yet, in my view, the Biden Treasury has not been strong enough.

Your written testimony mentions that G20 has been less effective and that we need to be realistic about how much we can achieve in that forum. In my view, using the G20 is a feeble place to try to achieve anything significant. So let me ask you, very few countries have taken the G20 up on this debt restructuring framework that Treasury Secretary Yellen co-authored last year, and very few non-Paris Club creditors like China are remotely in compliance. What can we do in the international fora by the U.S. to pressure China to restructure their predatory loans and fully participate in the Paris Club?

Mr. WILLEMS. Thank you for a very good question, and let me just first say, I agree with almost everything you said. You made a lot of great comments about how we shouldn't become China to beat China. We need to double down on our strengths. Now, with respect to the international institutions, you hit the nail on the head. China made a commitment at the G20 that it is not following through on, and we have had challenges in enforcing that. I think some of the legislation that you have discussed here can help at the IMF. I think we need to look at a broader package of reforms that calls out specific behaviors, and I am not sure how you can put an enforcement mechanism into the IMF.

Mr. HILL. That is the challenge.

Mr. WILLEMS. It really has to be collectively. We work with allies maybe through the G7 to coordinate approach. We call them out. We embarrass them politically, internationally.

Mr. HILL. Thank you. I agree with you, and I think you have hit the nail on the head. We need to be working where we have influence and shareholder votes at the Board of the World Bank, at the IMF, and through the G7, and not off in the talk fest at the G20.

Let me turn to Mr. Lorber. Mr. Lorber, this Congress, I will be serving on the Intelligence Committee. I look forward to working with my good friend from Connecticut, Jim Himes, also a member of this committee, to serve as the ranking member of Intel. You were at the Treasury. Can you help me understand where the gaps, from your point of view, are on economic intelligence and data gathering related to China and China's economic success and failure, transparency on the data that we get about China?

Mr. LORBER. Thanks. It is a great question, and I realize I only have a few seconds.

Mr. HILL. You can submit your answer in writing.

Mr. LORBER. Okay. Thank you.

Mr. HILL. And, Mr. Chairman, before I yield back, may I ask unanimous consent to enter in the record an opinion piece I wrote in The Hill in 2021 entitled, "Build back nuclear."

Chairman MCHENRY. Without objection, it is so ordered.

And thank you for working with me on that nuclear bill, and continuing to work with me on that nuclear bill.

With that, I now recognize the gentleman from Texas, Mr. Green, who is also the ranking member of our Oversight and Investigations Subcommittee, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I thank the ranking member as well, and I would like to pose a question related to a bill emanating from the Texas Senate, SB 147. This bill has language in it that indicates the following may not purchase or otherwise acquire title to real property in this state, and it goes on to set out individuals who cannot purchase or acquire real property. A person who is a citizen of China is listed, as well as Iran, North Korea, and Russia. This has caused a good deal of consternation among many of my constituents. I think that it is difficult for some people who are not of color or from a minority, occupy minority status, to understand how legislation as well as language can impact what they perceive as their safety. People are legitimately concerned, in my opinion, about their safety because of this legislation, which singles out persons from China. The bill doesn't make an exception for a green card holder, although the person who has crafted this now says that such an exception will be available. This legislation doesn't mention the sensitive sites or critical infrastructure, just says if you are a citizen of China, you can't buy property.

Let me start with Mr. Harrell. Sir, do you understand how this can, first, impact people in the social setting, and then, I would like your comments about the Pandora's box we may be opening if we allow every State to decide that it will make rules or promulgate laws that will impact the purchase of property based upon citizenship of persons.

Mr. HARRELL. Thank you very much, Congressman, for both of those questions. I should begin by saying I think it is essential that as we compete with China and with the Chinese government, we as Americans never slide down the road of discriminating against people based on their race or their ethnic or national origin. I think we want to make clear that we continue to welcome talented Chinese engineers and talented Chinese people of all backgrounds to come to the U.S. to set up businesses and take advantage of the opportunities here, and we should not be discriminating against people based on their national origin.

I think there are legitimate concerns around certain purchases of real estate by companies and certain individuals connected to China. That is why, in 2018, CFIUS got jurisdiction to review purchases of land or leases of land near sensitive military sites. If there are ways in which that statute is inadequate, if there are other kinds of sites or infrastructure where we are concerned about or the defense and intelligence community are concerned about espionage risks, this committee should look at CFIUS and see if CFIUS needs a little bit more jurisdiction over other kinds of real estate purchases.

I don't think we want to see a patchwork of State laws prohibiting ownership of property based on national origin. That is just not the right way to tackle this kind of a problem. This is a Federal problem, and it also comes off as hostile to the many legitimate, sort of perfectly fair kinds of purchases that are out there.

Mr. GREEN. Thank you so much. Let me quickly move on, because I have 39 seconds left. If you believe that we absolutely must raise the debt ceiling, would you kindly extend a hand into the air? Only one person believes that we must raise the debt ceiling? Now, three. Okay.

Chairman MCHENRY. Are you asking the committee as well?

Mr. GREEN. I am going to make an exception for the Chair.

Chairman MCHENRY. Thank you.

Mr. GREEN. Would you give me 10 seconds now? Raise your hands again, please. I am going to have a picture of this in my office. So, everybody believes we should. Okay. We should raise it. We must. It is easy. Okay. Do you believe that we must cut the budget to raise it?

Chairman MCHENRY. The gentleman's time has expired.

Mr. GREEN. Mr. Chairman, can I get my 10 seconds that you borrowed from me for that answer please?

Chairman MCHENRY. Without objection, I give the gentleman an additional 7 seconds that I took from him.

Mr. GREEN. Okay. Thank you. Would you raise your hand if you think we must cut the budget to raise it? Three. Thank you. I will make sure that we properly photograph you. Thank you. I yield back.

Chairman MCHENRY. We will reset the time. I don't want to take anyone else's time. I thank the experts on China for your opinions about domestic American politics and for complying with the oddness of hand-raising in a congressional format. From time to time, we all do it. It happens.

The Chair now recognizes the gentlewoman from Missouri, Mrs. Wagner, who is also the Chair of our Capital Markets Subcommittee.

Mrs. WAGNER. Thank you, Chairman McHenry, for organizing this, I think, critical and very timely hearing, and I want to thank our witnesses today for their expertise, and we will have no raising of hands in my questioning.

I spent the weekend tracking the progress of the Chinese spy balloon as it flew unimpeded over the U.S. sky, surveilling sensitive military sites, including my own Whiteman Air Force Base, and civilian centers across the country, including all across the second congressional district of Missouri. My children and I, along with countless families across St. Louis, watched in real time from our porches, our backyard, outside of our businesses, as a foreign aircraft, equipped with spyware, navigated over our neighborhoods, again, our infrastructure, our nuclear plants in Callaway, our military bases, and such. China's decision to send a spy balloon into

U.S. airspace was a profound and deliberate provocation. It should have been met with strength from the get-go and shot down before it even entered our skies or U.S. airspace. President Biden's decision to let the CCP spy balloon transit the length and breadth of the United States of America was an unpardonable show of weakness on the world stage. As Vice Chair of the House Committee on Foreign Affairs, I am calling on the Administration to restore America's ability to deter these reckless provocations.

The stakes of strategic competition with China are exceedingly high, and if the CCP's influence continues to spread and grow unchallenged, American communities will pay the price. The world will be less open, less prosperous, less fair, and much more insecure. We cannot allow the U.S.-led world to remain vulnerable to the whims of communist dictators, and the dictatorship in Beijing. That is why I have championed legislation to hold China accountable at all levels of engagement.

My bill, the Compensation for Americans Act, would insulate America's vulnerable supply chains from overreliance on China, allow U.S. companies that have been attacked by Chinese hackers to strike back, and prevent China from manipulating developing country designations to obtain preferential treatment in international organizations. And importantly, it would also tighten U.S. export controls to choke off the CCP's ability to disseminate propaganda and further develop its surveillance capabilities. I believe we have a duty to stand up to the nations that refuse to play by the rules, and when we demonstrate strength and resolve in the face of China's bullying and brinkmanship, we make the world a safer and more prosperous place.

Mr. Ashooh, the export control system is a powerful tool that restricts the resources available to our enemies. However, implementation is extremely challenging, especially considering that China cannot be trusted to adhere to licensing agreements. What are the major gaps in the U.S. export control system? And how should the United States approach especially the dual use exports?

Mr. ASHOOH. Thank you, Congresswoman. I actually mentioned in my opening comments that we need a different approach when it comes to things like complex supply chains because there are methods for multilateral control that exist right now, but I don't believe they are adequate. I believe that for export controls to work, anything done unilaterally out of the gate probably is going to be limited in its effectiveness. And you need to work with allied nations, especially those that have similar capabilities to deliver similar technology.

Mrs. WAGNER. I appreciate your perspective, and I agree. Mr. Ashooh, the Bureau of Industry and Security (BIS) waited until after Russia attacked before applying strict export controls on its military end users. Yet, the buildup of Russian forces on the Ukrainian border, which no doubt poses a significant threat to the U.S. interests, certainly met BIS' criteria for aggressive controls. Clearly, waiting until after the invasion to apply export controls neither prevented nor deterred Russian aggression in Ukraine. What were the failures of BIS strategy in the run-up to the invasion of Ukraine, and how should the U.S. incorporate lessons learned to deter aggression against, for example, Taiwan?

Mr. ASHOOH. I might say BIS is responsible for the dual-use export controls, which, by their nature, contain a lot of commercial technology. I am not exactly sure where BIS was failing in restricting dual-use controls in the lead-up. The military—there should have been zero to nothing in terms of military shipments. So, I would like to know more about the question you are asking because that would be a very sobering—

Chairman MCHENRY. The gentlewoman's time has expired.

Mrs. WAGNER. My time has expired, and I yield back, Mr. Chairman.

Mr. HILL. [presiding]. I thank the gentlewoman. Mr. Cleaver is now recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman. I think this hearing is quite appropriate and extremely important.

I am not going to talk about the balloon. In fact, I am going to wait until our intelligence community provides us with some data. We don't even know what is going on so far, but I am concerned about something when I was looking at what we are doing here. The world's two biggest economies, the United States and China—we are in a battle with a nation that is using the government of the nation to propel its development around the world, and, of course, we deal with the private sector.

The trade relationship between the U.S. and China, as my little granddaughter says, is ginormous, and then we import more goods from China than we import from any other nation on the globe. There are some benefits: lower prices for consumers; and also some behemoth profits for the corporate sector. And my issue is, we have a schizophrenic relationship, don't we, with China? Any of you? Is, "schizophrenia," a bad word in terms of describing the relationship?

Mr. HARRELL. We are obviously at a pivot point in our relationship to China where there is a growing, I think, strong bipartisan consensus that we need a different set of policies. Now, I think in certain ways, the trading relationship and some of the structures in the trading relationship is lagging behind the geopolitical realities we now face, and we could have a long discussion about how to better balance the trade and tariffs. Personally, I think what we need to move to at a conceptual level with China is a much more managed trading and investment relationship. They are heavily managed on their side of the economy. They have all kinds of distortive subsidies. They have all kinds of unfair IP theft and things like that, and we are just going to have to manage the trading relationship with them so that they don't undercut our economy and our prosperity with all the things they are doing over there in China.

Mr. CLEAVER. Mr. Lorber?

Mr. LORBER. Yes, and if I could just add to that, I don't know if I would use the word, "schizophrenic," but I do think we should have somewhat of a bifurcated approach, and that there are areas where clearly certain types of trade could pose a national security threat and we need to crack down on those. Where there are areas where China is clearly cheating, we need to deploy tools to counteract that. On the other hand, I think it is critical to realize that the Chinese market is really important for a lot of our companies, and that if we are going to be globally competitive, we want to be selling into China.

And think about it this way: If we are selling a bunch of stuff to China, essentially Chinese consumers are subsidizing our continued innovation, and that is a good thing. So I think what we want to do is try to be bifurcated, as I described it, crack down where it is unfair or there is a national security concern, but try to open up China where it can benefit the United States.

Mr. CLEAVER. Yes, I wanted to move to the 1970 Bank Secrecy Act, and then you just raised another issue. I maybe want to go into that a little bit more. Well, I won't. Let me get to the Bank Secrecy Act. I think there are rules being formulated now, but I would like to find out from you, Mr. Lorber, the real estate industry, in my estimation, is vulnerable to money laundering because at this moment, they are not required to comply with this rather old but very important Bank Secrecy Act. Do you agree that real estate transactions ought to also be reported just as banks are required to report suspicious—oh, my goodness. Thank you, Mr. Chairman.

Mr. HILL. The gentleman's time has expired. Mr. Barr from Kentucky is recognized for 5 minutes.

Mr. BARR. Thank you. I thank Chairman McHenry for putting together this outstanding panel and I thank our witnesses for addressing what I believe to be the most consequential national security and economic security challenge of our generation, our strategic competition with the People's Republic of China and countering the threat from the CCP. I want to specifically compliment Mr. Feddo for his testimony that as we look at investment screening, outbound investment in this important dimension of our economic competition with the PRC, that this is an issue that Congress needs to deal with, and that creating an investment screening mechanism by Executive Order would be a major mistake.

Now, I will compliment the Trump Administration for the Executive Order that banned U.S. investments in certain Chinese military-industrial companies, and I would also compliment the Biden Administration for expanding on that Executive Order with its own to expand it to surveillance companies, but this is an issue that Congress needs to set the parameters for and direct the Executive Branch to implement.

And I would like the witnesses to comment on my legislation that seeks to do that, H.R. 760, the Chinese Military and Surveillance Company Sanctions Act, which would expand on those Executive Orders and extend the full weight of Treasury sanctions against these Chinese military-industrial complex and surveillance companies, while allowing U.S. investors to continue to invest in benign companies in emerging growth markets.

Mr. Willems, let me start with you. Is this approach, my bill, is it a good way, is it the best way to ensure that capital flows don't fund the Chinese military-industrial complex? And when you answer that question, I want you to address the two gaps that you talked about in your prepared testimony. Does my bill get at those two gaps, specifically, the private equity and venture capital piece, and also international, the multilateral impact, the other international non-U.S. investors?

Mr. WILLEMS. Thank you, Congressman, and I think you are absolutely right that we need to have a statutory basis for these actions and that Congress should work on that in a very studied and thorough way. I also agree with you that we want to expand on the existing restrictions. And what I described in my testimony, and I believe your bill addresses it, but we can work on the technical aspects of it, is that first, the current Executive Order only applies to investment in public securities, and that should also be expanded to private investment. And second, the bill, or the current EO, only applies to a limited subset of sectors within China. There may be national security threats in other sectors, and we need to be able to look at those as well. So, I look forward to working with you on your legislation.

Mr. BARR. Yes, I want to expand it also to technology-related companies, dual-use technology, AI, and other things that implicate national security. And I agree, the Executive Orders don't address that. My bill though, Mr. Willems, would address using OFAC sanctions. It would address that private equity venture capital piece, right?

Mr. WILLEMS. That is my understanding.

Mr. BARR. And then, Mr. Feddo, to your point about the Casey-Cornyn approach and the Committee on National Critical Capabilities similar to reverse CFIUS, I appreciated your point that creating a bureaucracy that ensnares a lot of benign outbound investment is maybe not the targeted approach we need. Can you expand on that testimony? And why would the OFAC approach, a simple clear message, signal to the private sector, green light, red light, be better than a bureaucratic approach such as this Committee on National Critical Capabilities?

Mr. FEDDO. In the first instance, it would be far more nimble, and with a committee, you have inefficiencies. I will just say, one of the deficiencies I see with a committee setup is you can't unring the bell once you do this. For example, I am a big fan of CFIUS, and I think it is a great tool when appropriately used and focused on national security, but it has been around for 50 years, okay? So if we create a new bureaucracy to screen outbound, it is going to be here. I do agree that the OFAC approach seems to me to be an approach that hasn't been adequately explored.

Mr. BARR. Thank you.

Mr. FEDDO. And in a prohibition context, making these like SDNs, prohibits all dealings. So, private equity and venture capital would be in the mix.

Mr. BARR. Thank you. And, Mr. Willems, in my remaining time, I appreciate your focus on pairing defensive actions with offensive actions to maintain U.S. economic strength. In response to Mr. Harrell's testimony about the debt limit, can you speak to the overspending in Washington and how that compromises the dominance of the dollar, and how we need to pair avoiding default with reform?

Mr. HILL. The gentleman's time has expired.

Mr. WILLEMS. I will respond to that in writing.

Mr. BARR. Thank you. I yield back.

Mr. HILL. Thank you for responding in writing. We now turn to Mr. Foster for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman, and thank you to our witnesses. I would like to say that I am speaking as a manufacturer, as someone who started a company that has provided over a thousand jobs and kept those manufacturing jobs in the Midwest for decades. We have competed against cloned Chinese products, and we have become increasingly dependent on Chinese components of our supply chain, and that is the commercial reality.

I would also like to echo Mr. Ashooh's comments that we should be thinking in terms of reducing, if not the defensive perimeter, at least the stronghold from the G20 to the G7. The free democracies of the world are the group of countries through which we should have absolutely free markets, as free as our politics allow. And then, the G20 will be a more contested area, but we have to make common cause with the G7. And I would also like to say it is not just the G7; when you say G7, please include Korea; Korea's economy is larger than Russia's. It is the Koreans, not the Taiwanese, who lead the world in leading-edge semiconductor production. Samsung, not TSMC, is in production at the three nanometer design node.

So, what I would like to focus my questions on are really one of the demographic trends, and I am sure many of you, if not all of you, may remember the essay, "The Japan That Can Say No." And I guess the subtitle was, "Why Japan Will Be First Among Equals." It was published in 1989, and got a lot of attention. It made the point that Japan had taken over the semiconductor supply chain. They had taken over it. They led the world in semiconductors. Japan was on the same sort of exponential economic growth curve that China has been on for the last decade or more, and there was a lot of handwringing over Japanese threats of intellectual property. And what happened?

First off, Japan, like China, suffered a massive real estate bust. That limited their ability to continue to invest in leading-edge technologies, and as a result, they lost the lead in semiconductors. They also faced an aging society, which, really, demographics is destiny, and we have to understand that, and they also lost the wage competition. Japan lost the wage competition with other low-cost providers, exactly what China is going through now, and we will be going through for the next decade, and we have to have that clearly in mind.

I am most worried that China is going to misbehave because it will have the behavior of an oppressed rat rather than the behavior of a conquering hero. They are in deep trouble because of the collapse of the real estate bubble, which dwarfs the Japanese real estate collapse. Their regional governments are basically insolvent because of the gravy train from developers. It is a long story, the regional governments are basically bankrupt, and the central government is unwilling to bail them out, and the demographic projections are really daunting.

The estimates are that sometime at the end of 2060 and the end of the century, China's population will be half of what it is today. There is never going to be this giant, $1.4-billion prosperous middle class in China. Their educational levels do not support it. Their forays into chip production have collapsed in a blaze of corruption, and they are just a complete failure.

And the companies see this too, that there isn't going to be this massive middle-class market in China, and they've started to pull out. The Korean companies pulled out, tried pulling out starting several years ago and are finding what other companies find, that it is pretty much impossible to get your money back out of China, that when they build a shipyard or a port and they want to get their money back out from that investment, pretty much they have to just turn over the keys and walk away, and that is not a unique experience. And so, the attractiveness of China as a place for foreign investment is going way down as companies around the world understand this.

I was just wondering if any of you have comments on the demographics of China and how that should affect our thinking? We will just start from the left. Mr. Ashooh, do you want to give it a shot?

Mr. ASHOOH. It is indisputable that that is a meaningful trend. It is outside my area of expertise, but what I would like to commend you for is the fact that so much of what we do with respect to adversary countries is in the near term. We need to be paying attention to long-term threats and their implications as well.

Mr. FOSTER. Okay. Any other comments on that?

Mr. WILLEMS. Sure. I will go ahead and comment, and I think your comments are right-on. I do believe China is an existential threat to our leadership, but I don't think China is 10-feet tall. I think it is about 6'5", 6'6," and we need to keep that perspective as we are addressing it. And in many ways, Xi Jinping is the country's worst enemy because his policies are inferior to ours.

Mr. FOSTER. Agreed.

Mr. HILL. The gentleman's time has expired.

Mr. FOSTER. I yield back.

Mr. HILL. It is now time to recognize the distinguished Chair of the House Small Business Committee, and a longtime member of this committee, Mr. Williams, for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman. And thank you to the witnesses for being here today. We need to be very clear. China is a hostile nation looking up to upend the United States' standing in the world. And as we saw with the spy balloon this weekend and that they brazenly flew over our airspace last week to send in fentanyl across our porous Southern border, China is attempting to weaken our country in any way possible.

An important piece of this equation that we must take a serious look at is foreign purchases of farmland that is threatening our country's national scrutiny. In my home State of Texas, foreign entities control more than 4.7 million acres of land. We talked about that earlier, and I am also a rancher. So should any hostile nation like China want to cause permanent harm to our food security and domestic supply chain, this is how they would do it.

Mr. Feddo, can you expand upon the threat that foreign agriculture purchases pose to our country's national security, and do you think Treasury is currently equipped to tackle this threat?

Mr. FEDDO. Sir, thank you for the question. I do think they are equipped. I know there have been a number of occasions where Congress has considered adding the Secretary of Agriculture to the voting members of the committee. The way the committee has been constructed by Congress, Treasury has the ability to bring in any department head at any time to participate in the analysis of an issue like food security, agricultural infrastructure security. And so, I do think they are equipped to do so.

As to the bigger issue, I think my understanding is that the GAO currently is conducting a survey and a study of the extent to which foreign investors acquire agricultural land in the United States, and I would encourage Congress to hold its feet to the fire, so to speak, until it sees the results of that. My understanding is that at this moment, Chinese ownership of agricultural land in the United States is somewhere around 340,000 acres, and that is compared to almost 900 million acres of farmland. So I just would suggest that before we move forward with our response from a national security perspective, that we make sure that we are not taking a baseball bat to something that needs a more precise scalpel to tackle.

Mr. WILLIAMS OF TEXAS. Okay. Thank you. The only thing they may understand is the baseball bat, though, at the end of the day, but our Southern border has been an absolute disaster over the last 2 years. Like I say, I live in Texas, and there are 2.7 million people who illegally crossed the border in Fiscal Year 2022, 98 of whom were on the terrorist list. We have all seen these numbers, and the massive influx of people straining border towns is not the only problem. Drug smuggling has been on the rise. There have been 356 million lethal doses of fentanyl confiscated in Texas alone. This drug has been destroying communities across the country, and claimed the lives of 100,000 Americans last year. We are seeing future generations dying down there. So, we must get serious about stopping the border crisis—this Administration is not—so we can slow the spread of this deadly drug flooding our streets.

Mr. Lorber, can you discuss China's role in the fentanyl crisis, and what sanctions could be effective, in your mind, in mitigating this problem?

Mr. LORBER. It is a great question, and obviously a very terrible problem. To date, Treasury has taken a number of actions against Chinese entities involved in illicit fentanyl production and trade, coming over the border in particular. In, I think it was December of 2021, the Biden Administration put out an Executive Order focused on a certain range of topics, but focused specifically on Chinese entities involved in that activity. And likewise, I think just about a week ago, maybe a little bit more, there were a number of Chinese individuals and entities that were designated from a sanctions perspective for that activity. With that being said, I think there is a lot more that needs to be done and that should be a major focus of both law enforcement and intelligence as well as the Treasury Department.

Mr. WILLIAMS OF TEXAS. Okay. My last question is, over the last few years, the United States has faced significant supply chain disruptions. I am in the car business, so I can tell you all about supply chain. This exposed our reliance on China for trade and manufacturing. The United States needs to diversify. I think all of us understand our domestic manufacturing base, and that to be able to insulate ourselves from this global supply chain instability is critical. As we come out of this pandemic year, it is critical that we focus on creating more domestic supply chains, to prevent this from happening. Quickly, Mr. Willems, how can we increase our supply chain resilience, and what can we do to incentivize companies to move out of China?

Mr. WILLEMS. So, two quick ideas. First, in terms of trying to get them to move to the United States, we need competitive tax and regulatory policies. Second, in terms of diversification, I would look at a friend shoring strategy, and I would look at trade agreements as a positive incentive for companies to move out of China.

Mr. HILL. The gentleman's time has expired.

Mr. WILLIAMS OF TEXAS. I yield back.

Mr. HILL. I thank the gentleman from Texas. The Chair now recognizes the gentlewoman from Ohio, Mrs. Beatty, who is also the distinguished ranking member of our National Security, Illicit Finance, and International Financial Institutions Subcommittee, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman. This question is for Mr. Harrell. I have a few questions I will try to get through. In 2019, led by this committee, Congress passed the longest-term reauthorization of the United States Export-Import Bank, and now we have a new Chair who has been very clear that she wants to advance competitiveness. She also wants to take a look at targeting and expanding and diversifying. And we have heard from our financial services planning meeting that we are going to look at diversity and inclusion. So, I just wanted to put that in the record in my opening.

But my question for you is, when we look at that reauthorization bill, which included the China & Transformational Exports Program, are there any ideas or things that you would want to share that EXIM uses, authority and other trade authorities to improve American competitiveness, especially in regard to what we are hearing about with China? What can we do through that authorization or through EXIM to help us? Any ideas?

Mr. HARRELL. Thank you very much for the question. I think both the EXIM Bank and the International Development Finance Corporation are a very important set of tools in our toolkit to compete with China. And I think the 2019 authorization you spoke about and the ability to create the Transformational Exports Program is a key piece of making EXIM competitive.

I know that over the last year or so that Chair Lewis has been at EXIM, she has been working diligently to implement the Transformational Exports Program. I think it is important. The reality is if we are going to provide financing for a U.S. telecom maker to compete with a Chinese telecom maker in Argentina or somewhere like that, there has to be the kind of flexibility that is allowed under the 2019 authorization to recognize how the U.S. companies can actually put that deal together, and I think it is now there. I think that what we need are less additional changes to the statute of EXIM—I think you did that in 2019—and just some more time for Chair Lewis and all of the great staff at EXIM to go out and source the deals, because that takes time. So, I think that work is happening. It just takes some time to go find the deals.

Mrs. BEATTY. Thank you for that. And let me also put on the record that Chair Reta Jo Lewis has also created a new office, to have a bigger global footprint with the Office of Global Finance Development, so I think she has done an amazing job in a short period.

Mr. Harrell, China has been taking advantage of America's lack of investments or presence everywhere from the Caribbean to Latin America to Africa to the Asia-Pacific region. Short of significant dollar increases in grants to these partner neighbors, and especially if my colleagues on the other side keep their promises to decrease the budget despite the many national security challenges, what can America do to offer alternatives to Chinese investments and trade to otherwise compete with China everywhere?

Mr. HARRELL. In a world where we may not be spending more Federal dollars going forward to build those relationships, we are going to have to be more creative in building private-sector ties, potentially around supply chain resilience and potentially around technology. I look at the announcement 2 weeks ago now between the U.S. and India, it was a government announcement, and what you are essentially seeing is a partnership between companies to work on AI, to work on space, to work on those kinds of things. I think that is an interesting model. I think you could take a similar approach in Central America or in the Caribbean where we can pull together manufacturers, for example, that are looking to diversify away from China, that are maybe currently making things in China, and encourage them to relocate into the Caribbean or into Latin America. So, we are just going to have to leverage the private sector better for those kinds of things.

Mrs. BEATTY. Thank you. And in my last few seconds, would you agree that it would be a good idea for us to promote American entrepreneurship? And the reason I say that is with CHIPS, we are saying that we need to have more small businesses, more entrepreneurs when we look at our national security. And my time is up, so I yield back.

Mr. HILL. I thank the gentlewoman from Ohio. You can answer that question in writing.

And now, we turn to the gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman. I appreciate everyone being here. It is interesting that the Bank Secrecy Act was brought up earlier, and while I don't necessarily disagree with the sentiment, I just don't know that the Bank Secrecy Act is the place to report real estate purchases. However, I believe the Bank Secrecy Act needs to be revised because we are dealing with reporting thresholds that were developed in the 1970s at $10,000, to where it should be around $65,000 to $70,000 today.

One of the reasons that I think it is important for us to update those is because at these low thresholds, the government is forcing financial institutions to report significant information to the government of which the government is holding information about individual citizens and businesses that they are not utilizing. When I was in the intelligence arena in the Air Force, we had one principle, which was, if you don't need something, don't keep it, because you don't have to protect what you don't have.

I know that the United States is a huge target for cybercrimes and for data breaches, and even U.S. law enforcement agencies have repeatedly called China the most significant state actor of threat to our country in cyberspace, which we know the government would be a target. Now, I bring up the Bank Secrecy Act because while we are trying to reform that so the government isn't keeping a lot of PII on citizens that could be breached to a foreign actor, U.S. regulators are implementing a consolidated audit trail which would also capture a lot of information and does capture information about investors.

Mr. Lorber, we have worked to kind of minimize some of the information that is collected by the consolidated audit trail. But under the current iteration, the consolidated audit trail, the customer accounts and information systems would include names, addresses, and dates of birth for most U.S. investors. What risk would this information pose to U.S. investors if a foreign adversary, specifically the Chinese, were to gain that information?

Mr. LORBER. Thank you, Congressman. It is a good question. I am not specifically familiar with the consolidated information audit trail that you are mentioning. However, I will say that any situation in which there is consolidated personal information about individuals, there is a risk that if that information is secured, or captured, or breached, that it could be used to develop information that could be used to compromise those persons or otherwise exploit information about them.

Mr. LOUDERMILK. Yes. Mr. Willems, do you have any thoughts on the consolidated audit trail or the information, if it was divulged to China, that could be used against U.S. citizens or our economic stability?

Mr. WILLEMS. I think you are right to ask questions about it, but it is not my specific area of expertise.

Mr. LOUDERMILK. Okay. Let me move on to another area of this. And as I said, there has been some progress in limiting the types of PII in the consolidated audit trail. For anybody, what type of retention policy do you believe would be appropriate to prevent any information, whether it is from consolidated audit trail, tax return information? What type of data retention policy do you believe would be appropriate to prevent information from falling into the hands of China or any foreign adversary? Anybody?

[No response.]

Mr. LOUDERMILK. I think this illustrates that we have some areas that we are still not really thinking about because a lot of times we are focused on China, as China versus the United States Government, when in reality it is China versus the individual citizen of the United States as well. And so, I think this is something that we need to invest time and effort looking into as far as protecting data and information from cyber actors.

And part of that, and I will conclude with this, that I have said all along, the government is our biggest security risk because as it is mandating massive amounts of data to be collected from financial institutions, from individuals that is not used by the government. When you look at the currency transaction reports, over 90 percent of them are never looked at. I would imagine a near-same statistic on the other reports that have come in, suspicious activity reports. If we are not using the data, why are we collecting it? Why are we keeping it? Why are we mandating other institutions to provide it? With that, Mr. Chairman, I yield back.

Mr. HILL. I thank the gentleman. Mr. Vargas from California is now recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. I would like to thank Chairman McHenry and Ranking Member Waters for convening this hearing on such a pertinent topic. It is very, very important. Mr. Willems, did I hear you correctly or hear about you correctly that you were on the NSC for the previous Administration?

Mr. WILLEMS. That is correct.

Mr. VARGAS. Okay. During the time of the Trump Administration, did we have any Chinese incursions of these spy balloons?

Mr. WILLEMS. Like Mr. Harrell, I was part of the Econ office, not the defense or national security part of the NSA.

Mr. VARGAS. So, do you know or do not know, then?

Mr. WILLEMS. I am not aware. That is not my expertise to speak.

Mr. VARGAS. Right, not your expertise. It is not my expertise either, but I have heard one is flying around, right? Obviously. And we shut it down. So during the time that you were there, were you told that there was a Chinese spy balloon flying all around the United States?

Mr. WILLEMS. That is not the kind of thing I would have been briefed on.

Mr. VARGAS. Okay. So you didn't hear about that?

Mr. WILLEMS. That is not the kind of thing I would have been briefed on.

Mr. VARGAS. Okay. The reason I ask is it seems that there were a number of Chinese spy balloons that were flying around, and nobody shot them down. In fact, it seems like we didn't even know about them, sadly, talking about strength. They didn't even know they were there. This President gets criticized because he shot it down. The other President didn't even see the damn things. Anyway, I think it is a little bit like the hypocrisy of this debt limit when President Trump raised it 3 times, added $7 trillion to the deficit, and I didn't hear a peep out of my colleagues on the other side other than, raise it more, raise it more, and all of a sudden, now they are fiscal hawks. We have to do something about that damn deficit. Yes, after you guys raised it so much by giving all that money to the wealthy guys, great.

But anyway, we are here about the CCP. I do want to ask this, and I want to acknowledge the comment that was made by some of my colleagues on the other side, and that was that we are really here to talk about the Chinese Communist Party, not the Chinese people, and make that distinction. The Chinese people are good people, like good people everywhere, and we do have a problem in this country with Asian hate and we don't want to flame that. But at the same time, we do want to go after our adversaries, our competitors, and that is the Chinese Communist Party, so I think it is very appropriate that we look at how we can fight back.

And I was also very pleased to hear from some of my colleagues that they believe in the preeminence of the U.S. dollar and the dollar as the world's reserve currency. I think that is very, very important. I hope we keep that, but I would say this. We have done a lot. The Administration has done a lot to combat what the Chinese have been doing, the Chinese Communist Party. When China deployed its Belt and Road Initiative to increase its economic coercion across the globe, the Biden Administration launched the Partnership for Global Infrastructure and Investment with our G7 partners. When China threatened trading norms and international agreements in the Indo-Pacific, the Biden Administration launched the Indo-Pacific Economic Framework (IPEF) with 13 partner countries that together with the U.S. represent over 40 percent of global GDP.

When the CCP decided to detain and oppress the Uyghur, we passed the Uyghur Forced Labor Prevention Act, to ensure that our companies do not source products using forced labor in their production. When the CCP attempted to become the new manufacturing capital of critical computing components, we worked together on a bipartisan basis to pass the CHIPS and Science Act. When we needed to modernize our domestic infrastructure to ensure our companies can compete globally, we passed the Bipartisan Infrastructure Investment and Jobs Act.

So yes, the CCP is a great threat, but when we work together across the aisle especially, and put people over politics, we can mount a focused response to increase our economic competitiveness and produce good clean jobs right here at home and protect our national security. And that is why I always find it interesting when we have some of my colleagues complaining about the Chinese. And I ask them, where is your suit made, and they say, I don't know. Why don't you take a look, and you find out it is made in China. So, where is your tie made? Made in China. Where are your shoes made? They look them up because they don't know they are made in China. So if we really do believe that we are competing, we should start buying American, and from some of our allies, instead of just buying the cheapest thing that you can find that looks good. With that, I yield back.

Mr. HILL. The gentleman yields back. The gentleman from West Virginia, Mr. Mooney, is now recognized for 5 minutes.

Mr. MOONEY. Thank you, Mr. Chairman, and I do appreciate the comments from my colleague from California: distinguish between the people and the government. That is true of a lot of despotic governments around the world, in Iran and other places. My mother fled Communist Cuba where that country still oppresses their people every day. I also agree with his comments about buying American. When I go shopping with my three children for Christmas, it drives them crazy because I won't buy anything made in China, and they have a hard time finding stuff, presents for my wife and stuff that is not made in China. But it is true that we need to be more patriotic when it comes to that in this country.

The Chinese government is moving rapidly toward implementing its digital currency, the digital yuan controlled by its central bank. Mr. Lorber, China is an authoritarian state and violator of human rights. Can you walk us through how the Chinese Communist Party can use its digital yuan to further crack down on dissent and the freedoms of its people?

Mr. LORBER. Thank you, Congressman. I appreciate the question. I think the concern that has been identified here is essentially that by using the digital renminbi domestically, China would be able to secure more information about the transactional history, the transactional preferences, and other personal information about individuals and entities who are using that, who are using the digital renminbi. So essentially, it would give them additional visibility into what is happening within the country.

Mr. MOONEY. Thank you. That makes sense. The Chinese government spies on everybody, and its own people are not free of that. Many advocates of this central bank digital currency (CBDC) here claim that the U.S., in not moving forward with a CBDC, risks losing the U.S. dollar's status as a reserve currency.

Mr. Lorber, if the U.S. does not move forward with this central bank digital currency and instead allows private-sector digital currencies to thrive, does that actually risk the U.S. dollar's reserve currency status?

Mr. LORBER. I can't speak to the sort of broader macroeconomic questions about the adoption of a Federal CBDC. What I will say, and going back to an earlier conversation we had on this, is that I don't necessarily think that the rise of the Chinese digital renminbi for cross-border payments poses a major national security challenge to the dollar in the short term. I think it is something which is very warranted to look at in the medium term. But at least in terms of the next, I think Mr. Harrell used the timeframe of 12 months, I would say for the next few years, it is not something which would displace the dollar or create a risk of the displacement of the dollar.

Mr. MOONEY. Okay. Thank you for that answer, but we all know that President Richard Nixon finally took us off the gold standard when he was President, and now the U.S. dollar is simply the full faith and credit of the United States of America. It is not tied to anything. I have a bill to go back to the gold standard. I have invited my colleagues on the other side of the aisle, if they are really serious about the dollar, to tie it back to the gold standard, make it a superior product that way, but they won't do it. They refuse because they want to play all the games they want to play with the Fed. And so, you have the rise of digital currency, also not tied to anything specific, not much different than the U.S. dollar. So, let's go back to the gold standard if we are serious about this.

I appreciate that we are having this important hearing. There is no doubt that China is our top competitor and adversary. The Chinese Communist Party, their government, likes to cheat and impress their own people. We have a lot of work to do to hold China accountable, and just because China is doing something doesn't mean the U.S. has to follow. They are a communist government, and we are a free-market economy here. We don't have to follow them. In fact, we should be very skeptical of following them. The United States has the best free market system in the world, and that is precisely why we do not run our country the way China does and why we are the greatest superpower the world has ever seen. So, let's not make a mistake here.

With that, Mr. Chairman, I will yield back the balance of my time.

Mr. HILL. The gentleman yields back, and we now turn to Mr. Casten for 5 minutes.

Mr. CASTEN. Thank you, Mr. Chairman, especially to our witnesses, and I want to start by answering the question that Mr.

Posey asked because I think it is worth having this on the record. He asked how much U.S. debt is held by the Chinese. The answer is, just over a trillion dollars. Interestingly enough, that is actually down from the peak in 2011, when it was $1.3 trillion. It is now down to $1 trillion, and that is in spite of total foreign holdings of U.S. Treasuries being up about 80 percent during that period. And I mention that because, yes, we should be very concerned about our competitors, but numbers matter, right?

Mr. Harrell, I would love to get some sense, because that broader narrative, if you go beyond just debt and look at total foreign investments in U.S. securities, China is declining and declining in terms of its importance in the U.S. economy. In 2010, they held $1.6 trillion total U.S. securities, about 15 percent of foreign investments in U.S. securities. They are now down to less than 6 percent of the total holdings in U.S. securities.

And so my question, Mr. Harrell, from as far as how it had sort of fallen in Mr. Foster's question is, should we see China as a country that is pivoting away from investments in the U.S. to invest in other places, or should we see them as a country that is having a harder time attracting investment revenue more broadly? And I don't have the data on national trends, but I am wondering if you have a sense of that?

Mr. HARRELL. Thank you for coming back to this topic. It is interesting. In addition to seeing this decline in kind of Chinese sovereign holdings of U.S. debt, we have, over the last couple of years, generally seen a decline in Chinese private investment in the U.S., driven in part by the 2018 pharma law toughening up standards for Chinese investment in the United States.

I think we are seeing a couple of things from a Chinese macroeconomic perspective. First, we have seen China's overall balance of payment surplus come down a bit over the last couple of years, obviously 2020, in particular, and the last couple of years where they had a bunch of lockdowns, and that threw off their trade flows. That has brought their balance payments surplus down, so I think they have less money to park abroad than they used to. I think they have been trying to park more of it outside the U.S. for two reasons. First, they do see it, as we see with BRI and things like that, as a way of trying to build their own friendships and alliances away from the U.S., with developing countries. So, I think they are looking to put it elsewhere.

And then, I think they do look at the risk of confrontation with the U.S. and wonder if they are overexposed from their perspective to U.S. securities. We saw Russia essentially exit the U.S. dollar as a reserve currency back in 2018; they essentially got out of it. China can't, for various reasons, and I don't think wants to take that extreme of a step, but I do think they are looking from their kind of sovereign holdings to diversify their holdings and not be, from their perspective, overexposed.

Mr. CASTEN. Okay. I have two more questions, and I apologize if I cut you off on the first one because I want to be quick. But we have seen China invest in things like buildings that don't get occupied, ever grand that they have to bail out, and there are political reasons to invest in that. But obviously, long term it is not healthy in terms of their domestic investments. Have you seen any good analysis of what kind of return China earns on their domestic investments? To what degree are they investing in growth versus staving off short-term political problems?

Mr. HARRELL. As I think Mr. Willems said a couple of minutes ago, it is important that we not overestimate the strength of China. It is a fierce competitor. It is not, as I think you said, 10-feet tall. And I think we have to be clear-eyed about their own domestic weaknesses and the fact they don't have an indefinitely bright future. In fact, they have a bunch of bleak things in their economic future. For the last couple of years, they have been propping up their economy domestically by subsidizing a real estate boom, by subsidizing manufacturing. At some point, that gets harder and harder for them to do, and I think that is why you are seeing this long-term downward trend in growth. This year, it probably will come up. They are coming out of COVID. There will be a rebound, but they are not getting back to the 7, 8 percent growth rates they had for many years past.

Mr. CASTEN. We are tight on time, so I may have to just end with a statement here, but the one exception to all that is that Chinese investments in U.S. equities have gone up, even as their investments in debt have gone down, and that is a broad sectoral trend from foreign investments in the United States. In 2010, total foreign investments in U.S. equities was $2.8 trillion. That was 26 percent of total investments in equities, securities.

In 2021, more than half of foreign investments in the United States were in equities. And I mention that because if your goal, as a Member of Congress, was to transfer wealth from U.S. taxpayers to foreigners, 10 years ago the way to do that was to raise interest rates.

Mr. HILL. The gentleman's time has expired.

Mr. CASTEN. Today, the way to do that is to cut corporate tax rates. I yield back.

Mr. HILL. The gentleman's time has expired. I now recognize the distinguished gentleman from Ohio, Mr. Davidson, who is also the Chair of our Housing and Insurance Subcommittee, for 5 minutes.

Mr. DAVIDSON. Thank you. And thank you to our witnesses. I appreciate this hearing and the importance of it. China is an important strategic rival. Frankly, I would like to keep them as economic rivals. As a former military guy, I didn't think we would ever visit China in friendly terms and conditions, and I hope that we can keep it friendly competition. We are concerned about recent events and kind of what does that signal for the relationship.

But as we look at how has China risen, and part of it was under Deng Xiaoping, China broke from what had failed, cultural revolution, Mao's various forms of Marxist ideology that produced a communist state that was not working. And under Deng Xiaoping, he kind of said, well, we will have communism with Chinese principles, which is really state-controlled capitalism, and on balance, it has worked pretty well for the Chinese people, but part of that has come at the expense of the American people. I am happy for the average Chinese person, and we certainly understand why they want a better future for themselves and for their kids, but we should want the same for our families.

In recent history, we have seen this generation say that they are not confident that their kids are going to have a better future than them. That is the first time in American history that has been true, and why is that? Part of it is policy decisions that have overwhelmingly benefited the Chinese Communist Party, and the influence of China. So as we talk about the role of financial services in that, in 2019, China was designated as a currency manipulator. Would one of you care to highlight briefly for the people watching at home, the dozens or so, how does China control their exchange rate with the United States? Mr. Lorber?

Mr. LORBER. I am not a macroeconomist, so I can't really speak to that in an effective way. I apologize.

Mr. DAVIDSON. That's okay. It trades in about a 2-percent band. The U.S. dollar is one of the currencies that is in there, and it is a peg, so they set it at an artificial rate. So when they decide that they are not getting enough exports out of China into America, or, in particular, they will change the peg to the U.S. dollar. And that makes everything cheaper. So in 2019, when they did that, they moved it by about 16.8 percent, and for that, the Secretary of the Treasury rightly designated them a currency manipulator, that is able to overcome all sorts of things, tariffs at the time. Fine, we will just manipulate our currency and make everything different.

The other thing that I am interested in talking about in this space is kind of the link to the Belt and Road Initiative. Of course, it creates big trade consequences, and that creates consequences on the flow of cash, the balance of payments. When you look at the role of the International Monetary Fund and liquidity globally, Special Drawing Rights are one of those things. It is not really money, but it represents an asset, and the mix was recently changed. It went from about 10 percent RMB to almost 13 percent RMB.

And the bill that I have, H.R. 510, the Chinese Currency Accountability Act, requires the Secretary of the Treasury to oppose an increase in the weight of China's RMB in the basket of currencies that make up the IMF Special Drawing Rights unless China meets certain international standards, and we know China doesn't meet them. They promised to be part of the World Trade Organization, that they would be a market economy. They said that as part of being a market economy, they wouldn't do things like manipulate their currency.

Mr. Willems, could you please talk about those dynamics, particularly in relation to the IMF?

Mr. WILLEMS. Sure. Let me first say, I think you have put your finger on a really important issue, and from a broad standpoint, we want to promote the supremacy of the U.S. dollar, and we should be concerned about China trying to put forward the RMB as an alternative to that and including it in the IMF. So, I would want to work with you on the specifics of the bill. I think the concept is correct, and we should do what we can to prevent them from increasing the role of the RMB.

One of the problems with the IMF that we often run into is our ability to unilaterally achieve things as opposed to having to work and develop broader coalitions. So, I would want to think about the right criteria to build that coalition of allies to get the job done.

Mr. DAVIDSON. Thank you, and my time has expired. I yield back.

Chairman MCHENRY. The gentleman's time has expired.

We will now recognize the gentleman from New Jersey, Mr. Gottheimer, for 5 minutes.

Mr. GOTTHEIMER. Thank you, Mr. Chairman, and congratulations again on your new role.

The Chinese Communist Party, or CCP, embodies one of the most significant international threats the United States has faced in recent decades. Among other strategies, the authoritarian CCP hopes to dominate the global economy, as you know, through thefts of intellectual property, investments in foreign economies through their Belt and Road Initiative, and through the promotion of alternative financial networks that undermine the U.S. dollar's role in the global economy. Congress has written strong bipartisan legislation to take on China, and I am confident that we can do it again here in the 118th Congress.

I guess I will start with Mr. Harrell. The Bipartisan Infrastructure bill, and the CHIPS and Science Act directly support our strategic competition with China by investing in our supply chains, our workforce, and emerging technologies. In your opinion, what should a CHIPS 2.0 bill look like? What are the best next steps for us to be working on now? Mr. Harrell?

Mr. HARRELL. Thank you very much, and I 100-percent agree with you that the bills that Congress passed over the last several years to foster investments in chips and scientific innovation, in clean energy technology, and in infrastructure generally, are absolutely essential to our success.

I would break future investments into two pieces: one is a technology piece; and one is a supply chain resilience piece. On the technology piece, and I think there really is a lot that is going on there not just with CHIPS but with the and Science part of that bill and the NSF sort of reform agenda there, I think there is a lot going on there, but I do think we need to be focused at a research perspective in quantum and in biotechnology. These, I think, are foundational that we need to do. On the supply chain resilience piece, we have done a lot on chips. We have actually been doing a fair amount on critical minerals, it is going to take years for that to bear fruit, but there is a lot going on with critical minerals, and we are doing a lot on clean technology.

I think pharmaceuticals and pharmaceutical ingredients, not necessarily high-end things, but we have supply chain vulnerabilities there. I also think there are a set of supply chain vulnerabilities that we don't know we have. And I think that the Administration should undertake a kind of comprehensive review of what we are importing and supply chain vulnerabilities to get ahead of the things we don't know that we don't know.

Mr. GOTTHEIMER. That is very helpful. I appreciate it. The CCP has made it clear that it will leverage technology to breach U.S. institutions and steal our intellectual property, and collect data on our citizens and access the systems that control our critical infrastructure. I worked in a large technology company before I was in Congress, and it was no secret that China was stealing our work all the time.

I guess, Mr. Lorber, if I can ask you if it is appropriate, what can we do to better protect our intellectual property from cybercrime and the coercive tactics the CCP is using to steal from companies operating in China?

Mr. LORBER. Thanks. It is a great question. The objective is, I think, rightly, to protect U.S. data. There are multiple steps you can take, to borrow one of Mr. Willems' ideas, both on the offensive and the defensive side. Certainly on the offensive side, I do think that if that is your goal, targeted economic sanctions to focus on specific entities that have been identified as stealing U.S. intellectual property makes sense. And to date, I think there is authority that was recently passed on the books to be able to do that, although I don't know if there is actually any designations that have taken place. And then, on the defensive side, certainly the hardening of U.S. Governmental systems, but also proper incentive structure to make sure that the U.S. private sector is also properly incentivized to harden their systems as well.

Mr. GOTTHEIMER. That is right, and I appreciate that. Shifting just a little bit to the subject that I am very concerned about, of course, during the pandemic, we had a lot of fake N95 masks with fake FDA approval labels. We read about adulterated diabetes treatments and seizures of fentanyl-laced pills that have been traced back to China. And I am concerned we are not doing enough to crack down on sustained efforts from foreign actors to flood our markets with counterfeit and adulterated medical products.

Mr. Harrell, if I can ask you, do you think it makes sense to increase collaboration between the Office of Foreign Assets Control and the FDA to crack down and place sanctions on foreign producers of counterfeit and adulterated medical products?

Mr. HARRELL. I think there are a number of tools we can use to go after counterfeit product imports. I think that where there is sort of a nexus to organized crime, there are existing sanctions authorities that can be used to target sort of organized criminal counterfeiting, and I think we should be looking to do that. I also think, obviously, there are things we can do with Customs and Border Protection (CBP) and with other tools that we have to crack down on imports of counterfeits. May I make one point on the data issue?

Mr. GOTTHEIMER. Please.

Mr. HARRELL. There are many things we need to do to protect our data security. One of them has to be a comprehensive national data privacy law because if all of the data is getting collected and aggregated, the Chinese are going to get at it. They have lots of ways to get at it, so we have to actually start with a data security law.

Mr. GOTTHEIMER. Thank you. I yield back.

Chairman MCHENRY. We are glad you are before the committee that actually does have a data security law for financial firms, which we intend to update. Thank you. Hopefully, we can have you back for that, too.

With that, the gentleman from Tennessee, Mr. Rose, is recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman McHenry and Ranking Member Waters, for holding this hearing, and thank you to our witnesses for taking the time to be here with us today.

I want to dive right in. About $1.7 trillion in securities of China-based issuers are listed on exchanges in the United States. Mr. Willems, as China continues to bolster its efforts to compete with the U.S. for capital, do you think U.S. investors have adequate information to understand their exposure to Chinese capital markets and the risks associated with them?

Mr. WILLEMS. Let me first say that I don't think inherently we don't want any Chinese companies listed on U.S. exchanges. As long as they play by the rules, it is good for us because it bolsters the importance of our markets. That said, I don't think U.S. citizens generally understand what they are getting into with some of those investments and more transparency could be helpful.

Mr. ROSE. Some managers offer single-country funds that only invest in Chinese-related issuers. Among the risks listed in these funds or these types of funds are more frequent trading suspensions and government intervention, currency exchange rate fluctuations or blockages, price volatility, and considerable degrees of social, legal, regulatory, political and economic uncertainty.

Mr. Willems, are you concerned about the risks associated with offering an investment product with that much exposure to China?

Mr. WILLEMS. I do think that having disclosure about that is important so investors can make the decision.

Mr. ROSE. And I want to open this up to the rest of the panel. Would it make sense to require all funds, including broader international and regional funds, to disclose and aggregate their exposure to Chinese-related risks and investments? Anybody who wants to speak up. I'll start with you, Mr. Willems, since I have already.

Mr. WILLEMS. I think in concept, having transparency is important. In terms of the specifics of what you are proposing, I would want to think about that.

Mr. ROSE. Would anyone else care to comment on that?

Mr. LORBER. Yes, I will echo Mr. Willems' comment. I do think transparency is very important, but I think there is obviously a balance between wanting to provide for that transparency and not creating a regime where there are overly-onerous disclosure requirements.

Mr. ROSE. And I think about my own posture as an investor, so I will ask a question this way to kind of press this further. Do current disclosure regimes adequately alert U.S. retail investors and retirees to their Chinese exposure, yes or no? We will start over here.

Mr. ASHOOH. I think, based on the response you are getting, it is a question that needs to be addressed.

Mr. ROSE. As an investor, I think the answer is no. I have been pressing my own investment advisor about that. And then, what can or should be done to improve the level of visibility that individual investors, U.S. investors have to the exposure that they have to China, that they may or may not be aware of? Does anyone have any thoughts?

Mr. WILLEMS. I think I have already offered the idea of greater transparency, how you do that is important, and I think that is a subject that we should delve into further.

Mr. ROSE. Okay. Thank you. I think it is insightful. I want to shift gears in the remaining minute-and-a-half here.

Mr. Feddo, if a foreign investor takes control of a U.S. business in the agricultural sector, does CFIUS have the authority to review that deal?

Mr. FEDDO. It certainly does.

Mr. ROSE. And if a foreign investor were to take a non-controlling stake in an agricultural business, but gain influence over critical technologies or critical infrastructure, as specified in rule-making, would CFIUS have the authority to review that deal?

Mr. FEDDO. I imagine so. Based on what you have described, yes.

Mr. ROSE. And so, when CFIUS reviews agricultural-related transactions, does CFIUS involve the U.S. Department of Agriculture in those reviews?

Mr. FEDDO. Yes, sir, it does. I mentioned earlier that that they have the latitude under the law to bring in other Cabinet Member officials and their departments to provide the subject matter expertise to tackle the national security analysis, and they do that frequently with the Department of Health and Human Services (HHS), NASA, and the Department of Agriculture.

Mr. ROSE. And do you think that CFIUS has adequate motivation to aggressively review those kinds of transactions?

Mr. FEDDO. They absolutely do, and that is part of the role of congressional oversight, to make sure that they are adequately focused on those issues. I would caution, I am not entirely sold on the idea of making the Agriculture Department a permanent voting member of the committee.

Mr. ROSE. Thank you. I appreciate your responses. I yield back.

Mr. STEIL. [presiding]. The Chair now recognizes Ms. Garcia for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you to all of the witnesses today. And I, too, want to associate my remarks with the ranking member and add my additional remarks as follows. I am concerned by the rhetoric that I am hearing today. While I take the economic threat that China may pose very, very seriously, I worry that the Republican Majority is not committed to taking some essential steps to combat this issue. The Republicans are set on decreasing the Federal budget, but it appears to me that significant investments might be necessary, particularly in the global south, to ensure that China's presence does not grow stronger.

I would like to begin by focusing on China's strong financial presence in Latin America. As a Representative from Texas, this issue is too close to home, literally. China has a large financial presence in Venezuela, Ecuador, Brazil, and many other Latin American nations, and I worry about the impact it has on U.S. influence and trade relations, particularly as it impacts us in the Texas region.

Mr. Harrell, can you please speak about China's presence in Latin America, and can you explain what the United States can do to offer alternatives to Chinese investments, in particular in that region?

Mr. HARRELL. We have definitely seen an increase in China's economic presence in Latin America over the last decade. Recent events disclose perhaps also an increase in surveillance presence and other kinds of presence down there as well. Part of the reason for that increased presence is, frankly, sort of basic economics. China is buying a lot of commodities, Latin America exports, and with a lot of commodities, you are going to see the trade ties increase there. There is also obviously a strategic overlay that China is taking to this where they are deliberately investing in Latin America as a region that is near to the U.S., but frankly, a swing region, where our diplomatic relationships have not always been the warmest and our economic ties have not always been the strongest. You see them doing that with Ecuador. And you see them doing it with Venezuela and places like that.

I think what we need to do to respond is to, first, relentlessly highlight the downsides and costs of this kind of low quality, high-debt, high-default kind of Chinese investment we are seeing down there; and second, be forward in the region ourselves. We have to get DFC down there. We have to get EXIM down there. We have to make the Americas Partnership for Economic Prosperity a real thing. We have to get USAID active down there. So, it is highlighting both the costs and the challenges of what China is doing down there, while also offering concrete and tangible alternatives ourselves.

Ms. GARCIA. Right, because we are seeing that they are lending, they are investing, they are building, and they are developing. They are doing, in my view, a lot of things that we as a good neighbor in the Western Hemisphere should be doing with the Americas, and we have failed to do, frankly, for a really long time. And it worries me that that China will get a better strategic position to not only threaten us economically, but strategically in terms of our security. What else can we do to make sure that the United States maintains good relations with the Americas?

Mr. HARRELL. I laid out a couple of ideas. I also think, frankly, having continued strong cultural exchange programs often gets overlooked in these discussions. But as a former diplomat of the State Department who then spent a number of years at the White House, the number of times we were able to build a relationship with, whether it was a European official or an Argentinian official or an Indonesian official, because that person had come here for school, because that person had family here, those are sort of the soft power kind of things that can really pay off over time in terms of deepening relationships.

Ms. GARCIA. Right, because otherwise, China just continues to use these countries for their own political purposes, but also to build in what I consider the anti-USA sentiment. And it doesn't help, again, to listen to some of the rhetoric of beating up on everything south of the border. Rather than criticizing, we should be helping and being true partners and true neighbors. So, thank you for that. I yield back.

Mr. STEIL. Thank you very much. The Chair now recognizes Mr. Norman for 5 minutes.

Mr. NORMAN. I want to thank each of you for taking the time to come here today and testify. Each of you have a critical role in highlighting the problems we have with China. And, Mr. Feddo, you made an analogy about the 355,000 acres as it relates to the total United States. The problem that I see is, it is not the volume; it is where they are buying it. In South Carolina, we have Duke Energy. We have Shaw Air Force Base. They are buying property in downtown areas strategically in relationship to where our headquarters are, so that is the problem we have with them.

I think it was interesting that my other colleagues were asking you, Mr. Willems, about the balloon. First of all, they went immediately to President Trump with balloons flying. And the only way this Administration knew the balloon was flying was when a citizen took a picture. And either he was sleeping or whomever didn't notify him, if they were allowed to go across this country for 8 days before they shot him down, which is a tragedy for this country, and is a security risk for this country. Not to mention what they are doing in plants. In my State, they are going in plants, and they are going through third parties in buying the property. But they are sending Americans in to buy patents on different military things that others don't make, and stealing the patents, so they are a huge threat. So, thank you all for what you are doing to highlight this. This isn't political. This is un-American, particularly with what this Administration is letting happen.

And this goes back to what Mr. Rose was saying, that the PCAOB has been tasked with scrutinizing the U.S. companies traded in U.S. Exchanges, and the Chinese companies. And after 3 years, if they failed to provide the audits, then they are taken off the Exchange. Do you believe the PCAOB has successfully implemented this and are putting the safeguards in place so that those individuals who are putting their trust in companies that they know little about—is this getting the job done, or is there something else we need to be doing to put some teeth into this, because this, again, like the security breach, is a tragedy. And I will let anybody answer who wants to.

Mr. WILLEMS. I can start and just say I think at this point we should take the PCAOB's word for it that they were able to access Chinese papers, Chinese audit papers in December, and my understanding on that was that the checks that they did were random. The Chinese didn't know in advance that they were given access. Now, I think you are right to wonder, was this a one-time thing where China wanted to avoid mass de-listings, or is this actually China finally saying, we are going to open up and play by the rules that everyone else has to follow? I think Congress' role is to conduct rigorous oversight over this, to make sure that the PCAOB is continuing to check and that China is continuing to provide access.

Mr. NORMAN. Would anybody else care to comment on that? What about the Foreign Investment Risk Review Modernization Act (FIRRMA), which has expanded the jurisdiction of Committee on Foreign Investment in the United States (CFIUS)? Are they using the tools at their disposal to put teeth in there, and what they can do at the proper time?

Mr. FEDDO. Sir, I am probably the right person to answer that.

Mr. NORMAN. Yes, sir.

Mr. FEDDO. But can you clarify the question?

Mr. NORMAN. The role FIRRMA—are they doing everything they can they have been tasked with, in your opinion, in your expertise, to monitor real estate transactions and—

Mr. FEDDO. I believe so. I don't have any visibility internally. I implemented the law, and we were very diligent about how we scoped real estate jurisdiction per the direction of the statute per

FIRRMA. And remember that the jurisdiction that the committee was given with respect to real estate was a voluntary disclosure. So, there is not a required filing, but the committee still has the power to bring something in if it needs to or it is alerted to a national security risk that warrants review. Frequently, a purchase relates to a U.S. business and it falls into another part of jurisdiction, so real estate may not always be leveraged, but it may not need to be.

Mr. NORMAN. Thank you so much.

Mr. STEIL. The Chair now recognizes the gentleman from North Carolina, Mr. Nickel, for 5 minutes.

Mr. NICKEL. Thank you very much. And thank you to our witnesses for being here with us today. This is certainly going to be a memorable committee hearing for me, not necessarily because of the subject, as much as it is my first committee hearing as a Member of Congress, and you will be the first witnesses that I get to question, so thank you again for being here today.

Mr. Harrell, you said in your testimony that to address the economic risks we face from China we must expand our cooperation with friends. Mr. Willems, you said in your testimony that to reduce supply chain reliance on China, we should implement proactive trade policies with third countries. I agree with both of you. The U.S. should establish and reinforce meaningful trade relationships with other partners in the Indo-Pacific region. The U.S. should also form and strengthen partnerships in law enforcement and regulatory spaces on issues central to this committee, like countering trafficking, improving transparency, and securing markets. So, Mr. Harrell and Mr. Willems, how can the U.S. leverage the tools that are at our disposal, like the World Bank, the IMF, and the Export-Import Bank to help America's friends better-compete against China and their CCP-backed economy?

Mr. WILLEMS. Sure. I am happy to start, and I think this is actually a really good segue from the questions Ms. Garcia was asking, which were about Latin America, and I thought Mr. Harrell answered them very well. But one area I would have elaborated further on that you have touched on is trade agreements. If we want to build those relationships, if we want to build those partnerships, we need to have trade agreements. And the reason that is important for supply chains is that China is going around the world and they are cutting trade agreements, where they are cutting tariffs with other countries, that makes it easier for them to facilitate trade between them.

We aren't doing the same thing, and so we are at a cost disadvantage when companies are making decisions about supply chains, and that is why we need market access trade agreements. Building on that, the other tools that Mr. Harrell touched on that I would elaborate on again include the Development Finance Corporation (DFC), and one of the things I recommend is employing a program at the DFC similar to the China & Transformational Exports Program (CTEP) at EXIM, which will allow DFC to cut through red tape, and be more strategic in working with our partners and allies.

On EXIM, one thing that we haven't gotten into yet, but I think is worth considering, is do we want EXIM to be able to take more risk in certain circumstances? EXIM has something called the default cap, in which about 2 percent is the maximum amount of defaults that they are allowed to have or they totally lose their authority to make investments. And I think we need to look at that and say, look, if we are going to provide an alternative to China, we need to take a little more risk, and it may be a controversial policy, but I think it is worth looking at if we are serious about providing a real alternative.

Mr. HARRELL. I think another area that we could look at is better integrating our development tools with our trade tools, because if you are a company, that is, say, looking to get out of China to do light manufacturing, and you are looking at Latin America, what do you need to put a facility down in the Caribbean or somewhere in Central America or in Mexico? You need local skilled labor, right? You need a bunch of things on the ground. You need transport and physical infrastructure for the goods you are manufacturing, and then you need access to the United States so you can actually sell it here in your market.

I don't think we currently do a good job of kind of integrating those three tools. And I think we could do a better job of saying, if we want to see supply chain friend shoring, how are we going to use our foreign assistance, our development finances, and other kinds of tools to create the enabling environment for that to happen, as we pursue these kind of more trade initiatives whether it is the Americas Partnership for Economic Prosperity (APEP), or the Indo-Pacific Economic Framework (IPEF), or other things like that?

Mr. NICKEL. Thank you very much. I yield back.

Mr. STEIL. Thank you very much. The Chair now recognizes himself for 5 minutes.

Mr. Willems, today we have had a lot of conversation focused on China, about their malicious actions. We have heard references to invasions of our airspace most recently. We have seen them engage in unfair trade practices. You were just engaged in a conversation with Mr. Nickel, I think appropriately so, about how we can go on offense. I think we have seen a real shift in Administrations, from a shift in Administration, or the Trump Administration, with engagement in countries looking for areas where the U.S. can export. In particular I am thinking from Wisconsin's perspective, agricultural goods, thinking about opportunities we may have in countries like Kenya, countries like the United Kingdom, maybe the country of Laos, et cetera. Can you tell me where we could go on offense?

Mr. WILLEMS. It is a fantastic question, and you mentioned two already. The Trump Administration had started FTA negotiations with both the U.K. and Kenya, which have been discontinued by this Administration, and I think it is in Congress' interest to push them to get back in the game with those two countries. Another place I would look is Taiwan, where there is significant interest in linking our high-tech supply chains with Taiwan and creating more market access for farmers, including those from Wisconsin, which I know we both hold near and dear to our heart.

And then, I would look at the Trans-Pacific Partnership (TPP), and I was part of an Administration that pulled out of the TPP, but that was, I think, a reflection of the fact that there were problems with the agreement. But the answer is not to stay out of it; the answer is to renegotiate it. And I would look at this question, can we do to TPP what we did to the North American Free Trade Agreement (NAFTA)? Can we take an agreement that wasn't working for us, renegotiate it, and make it work for the United States? And I will remind everyone here, I am sure there are a lot of Members here who voted for the United States-Mexico-Canada Agreement (USMCA). That got the strongest bipartisan support of any trade agreement in years, and I think we can do the same thing with the TPP, and I think that will benefit Wisconsin farmers.

Mr. STEIL. Thank you very much, and thank you for your comments. Let me shift gears to another area where I have significant concerns, and that is our multilateral development banks, like the World Bank, still providing billions of dollars in new loans to China. And at the same time, China is providing extensive funding to developing countries around the world through its Belt and Road Initiative. Should China continue to receive funds from these development banks, and how should we approach this strategically?

Mr. WILLEMS. The answer is no, and I will agree with you, it is absurd, right? China is the world's largest bilateral lender, yet, at the same time, they are one of the top five recipients of World Bank loans. That is an inconsistency that should not be allowed to stand.

The challenge we have with the World Bank, and the IMF, and all of these institutions is that we are just one member. We have a lot of votes, but we don't have all of the votes. We can't wave a magic wand. So, I really think what you want to do is think about how to put together a comprehensive reform package with other allies that can change that behavior, while also thinking about other things that will get other countries to come on board. If this just becomes U.S. versus China, I think that is difficult, but if we can paint China's international outlier and build a broader coalition, I think we have a chance for success.

Mr. STEIL. I think that is right. I think it is working with our allies to actually counter the actions that China is engaged in, in particular as it relates to unfair trade practices. But we also see it through their loan programs such as the Belt and Road Initiative, which is a real risk to many developing countries around the world.

I want to go back to what Mr. Barr was talking about earlier, in particular, Chinese military-industrial companies and the firms associated with China's military. I think we can all agree that Americans should not be financing these businesses, which have a clear role in China's human rights abuses. Can you give a little more explanation as to how we close these gaps?

Mr. WILLEMS. Sure. Right now, there have been two Executive Orders that were issued, one by the Trump Administration, and then a subsequent one by the Biden Administration. And what they do is they say that the U.S. Government should identify companies that are affiliated with China's military, and then put prohibitions on investment. The problem with them and the gaps that are there is that those prohibitions only apply to publicly-traded securities. It does not apply to venture capital, private equity, debt, and other kinds of financing, and so I think Congress can step in to fill that gap.

The other gap is that it only names two sectors within China, the technology surveillance sector and the defense material sector, and I think that there are probably other Chinese companies that pose a national security threat outside of those sectors that we need to look at, so that is the second gap I would look at filling.

Mr. STEIL. Thank you very much. I think we covered a lot here today. I think we looked at the opportunity to go on offense, which I think is absolutely essential. I think we need to return to the previous Administration's policies on that rather than some of the policies we are seeing coming out of this Administration. I think it is important we look at development banks like the World Bank, and, in particular, that we are not finding the United States of America in a position supporting the military of China. I yield back.

I will pause. Ms. Garcia is recognized.

Ms. GARCIA. Yes, Mr. Chairman. I wanted to ask for unanimous consent to enter a document for the record, "China's Engagement in Latin America: Views from the Region," by the United States Institute of Peace.

Mr. STEIL. Without objection, it is so ordered.

Ms. GARCIA. Thank you, Mr. Chairman.

Mr. STEIL. The Chair now recognizes the gentlewoman from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you, Mr. Chairman. I would like to focus on the ways that foreign oligarchs can invest in U.S.-based assets to hide or launder illicit funds. I think the majority of foreign nationals investing in the U.S. are legitimate, and there is no national concern whatsoever in that regard. However, we know that there has been an incredibly, I think, easy way to establish anonymous trusts, shell companies in the United States which has made it easier for sanctioned citizens, and we saw it recently actually, and entities to hide their assets in the United States. I know the Administration, both the current one and the previous one, has supported, and I am sure you familiar with the Corporate Transparency Act of 2020, which is intended to prevent that kind of abuse of the shell companies, like the one used to hide ownership and control of U.S.-based real estate purchases that are sanctioned by folks who are Iranian, Chinese nationals, Russian nationals, a number of folks. So, this is something for the whole witness panel here.

How important is it for the U.S. and allied nations to adopt transparency measures, like beneficial ownership registries, to prevent bad actors from abusing our open financial systems, because it is really about those resources and the money, as you all know. I can start with whomever would like to begin. I think, Eric, you had your hand up?

Mr. LORBER. I am happy to take this one. I appreciate the question. The short answer is it is incredibly important. You have seen recently in publicly-announced actions, instances where sanctioned Russian oligarchs, for example, were able to park billions of dollars in trusts that were registered in Delaware for a period of, I think, 5 or 6 years. So, the Corporate Transparency Act and the related legislation were great work done by this Congress, and are important steps—

Ms. TLAIB. Eric, for my residents, explain why, because this is the danger that I think they are not understanding. It is like, oh, they are just moving money for their own benefit, but it is actually a huge concern because this is how they can fund.

Mr. LORBER. Sure. Yes, exactly. For example, pre-Corporate Transparency Act, an individual could go to a State, form a corporation, and then not be required to submit the natural persons who were the owners or the controllers of that corporation. So in theory, a Russian oligarch could go to a U.S. State, and form a corporation in somebody else's name. There would be no verification component, and they could subsequently funnel money through that shell company into U.S. assets, and it may be very, very difficult to detect. That was the issue that the Corporate Transparency Act, at a high level, was trying to solve. It is being implemented as we speak. Treasury is rolling out a series of rules to implement it, but that is sort of the core challenge.

Ms. TLAIB. Anybody else? Mr. Harrell?

Mr. HARRELL. I agree very much with Eric that the Corporate Transparency Act was a huge first step. And the Treasury Department is in the process of getting IT and rolling out rules to uncover the beneficial owners of millions of companies. That is a big endeavor, and they need to make sure they have the resources to do it. I do think if Congress wants to continue looking at this issue, and I would encourage Congress to do so, looking at greater transparency around some of the enablers of corporate secrecy, the lawyers and the accountants, I think that is another good area to push on. And then the other thing, I would say—

Ms. TLAIB. I was just thinking of that. I completely agree, because there are firms that are actually helping them do it, correct?

Mr. HARRELL. Yes.

Ms. TLAIB. Yes.

Mr. HARRELL. The other thing I would say is, I think we have to get much more serious about transparency in some of the small tax havens. A few years ago, when this Congress was worried about the fact that overseas banks were helping wealthy Americans hide their taxes, there was a very meaningful effort to force banks in Switzerland and the Caymans and places like that to provide tax reporting information to the United States. There is not really a parallel requirement or serious effort to get places like the British Virgin Islands and the Cayman Islands to clean up their corporate ownership structures, and I think it is time to look at what can be done there.

Ms. TLAIB. Thank you. And for many of my colleagues here, especially my Democratic colleagues who know that I have spoken about recently, just the impact of seeing somebody like Vincent Chin in our community in Detroit beaten to death after anti-Asian hate rhetoric was increasing during that time, and we are seeing that again. So I just hope this committee can do this important work without fueling that rhetoric, being very, I think, thoughtful, so that we can do meaningful work, again, without jeopardizing our Asian neighbors across the country. But with that, I yield back.

Mr. STEIL. Thank you very much. Votes have been called on the House Floor. The Chair anticipates recognizing one more Member before we stand in recess for the votes.

The Chair now recognizes the gentleman from South Carolina, Mr. Timmons, for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman. This hearing is long overdue. I think we can all agree that China is a problem and that we need to figure out a solution utilizing all of our allies. This is not something that we can take on, on our own, but I will say that I have been pleased with a lot of the bipartisan agreement on a number of things today. One of them is that defaulting on our Federal debt is bad, and I think we all agree that we are not going to default. The question is, what steps do we take to regain some fiscal solvency?

As the speaker says, if your kid runs up the credit card, you do pay it off, but you don't let him do it again. We have spent $7 trillion with the excuse of COVID, and that has increased our debt, but not only has it increased our debt, it has driven inflation, which is going to have long-term damage to our debt as well. So, we have to take steps to address that and to regain our fiscal solvency. It is a national security issue. It is perhaps the most preeminent national security issue, so I am hopeful that we will address our debt ceiling responsibly, reasonably, and sensibly, and I am confident that we are going to find our path forward. So, again, there is some bipartisan agreement we are not going to default.

Another issue where I was actually surprised by some bipartisan agreement was that the Biden Administration handled the balloon poorly. I think the entire world was shocked, as we have talked about, a balloon for the last 4 days, and the disagreement has been largely partisan. But one of my colleagues across the aisle said that is why I was concerned, deeply concerned by this balloon business, and why the President allowed this balloon to go all over our country and not shoot it down. He did caveat it: "I love the President. I support him, but this move not to blow down the balloon sends a powerful message to both enemies and friends because it is all about data intelligence and China got us on this one." So, we agree. China got us on this one. And the question is, what are we going to do to get China to reform their behavior, and compete in the global economy, and be good actors in the global economy? That is the question. And I am going to go to an issue that I think is a good case study on how to do that, and that is with 5G.

Just a few years ago, Huawei, using the Belt and Road Initiative, was giving away next generation wireless infrastructure. They were going to our allies all over the world, and the FBI said, well, hold on now, that is not a good idea, and we didn't really want to explain why, but, ultimately, we did, and all of our allies now have either banned Huawei, stopped purchasing from Huawei, or required 5G to be secure. We have utilized the IMF and the World Bank through a bill that I sponsored 2 years ago to make it not possible for anyone to use the World Bank, the IMF, and it doesn't even address China. It just says if you are investing in unsecure 5G, you are not eligible for IMF or World Bank. So, I think that is a great example of a way that we can use our allies abroad to facilitate behavior change from China. Huawei has since taken steps to show that they are secure. They have not done a very good job. People do not believe them yet, but they are trying. They are trying to change their behavior.

And I guess, Mr. Willems, I would just like to say that the type of situation where we can reform China's behavior because, again, China—I do not want them to be our enemy. I want them to be an equitable partner in the global economy, and they have to play by the rules. So, is this a good example of how we can accomplish that?

Mr. WILLEMS. I think it is a good example to talk about the importance of a comprehensive approach, because if you think about the way that we handled Huawei, it was the legislation that you talked about. But we also had export controls, we had investment restrictions, and now through the EXIM Bank, we are trying to provide 5G alternatives, and I think that shows what you need to do to successfully deal with China threats. You need to crack down, but then you also need to get on the offense and provide another alternative, and that is an approach I think we should apply to other areas as well.

Mr. TIMMONS. Absolutely. Thank you. I am very concerned about our government's inability to adapt to the challenges that we are facing. And China has the ability to do whatever they want, whenever they want, and that is an advantage, but the control they have over their people is a disadvantage. Freedom and the American Dream is what makes this country so great, and I just hope that we can tackle this in a bipartisan manner going forward. And with that, Mr. Chairman, I yield back. Thank you.

Mr. STEIL. Thank you very much. As noted previously, votes have been called, two votes in total. Members are encouraged to return expeditiously following the second vote. Until then, this committee stands in recess.

[recess]

Chairman MCHENRY. The committee will come to order. I thank the panel for sticking with us. I will now recognize the gentleman from New York, Mr. Torres, for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman. I never thought this moment would come. According to an opinion piece by Ruchir Sharma in the Financial Times, if the United States economy would have grown at an average of 1.5 percent annually, and China's economy at an average of 2.5 percent annually, China would not overtake the United States until 2060, but even the assumption of a 2.5-percent growth rate seems increasingly questionable. As you know, China is confronting a perfect storm: a debt crisis; a demographic crisis; and a declining productivity crisis. So, I have an historical question for each of the panelists. Has there ever been a country in history that has grown at 2.5 percent annually in the face of productivity decline, population decline, and a prohibitive debt burden? I will start with Mr. Ashooh, and we will go down the row.

Mr. ASHOOH. I am not aware of one.

Mr. TORRES. Okay.

Mr. FEDDO. Nor am I, sir.

Mr. LORBER. Not to my knowledge.

Mr. WILLEMS. It seems unlikely.

Mr. TORRES. Yes.

Mr. HARRELL. I'm not aware of one.

Mr. TORRES. So, America's greatest enemy is not the CCP. America's greatest enemy is itself. It is the dysfunction of our politics. There may be severe structural limits on China's ability to grow the Chinese economy, but there are no limits to America's ability to sabotage the American economy. Who needs the CCP when you have the self-sabotage of debt limit brinksmanship here in Washington, D.C.? The full faith and credit of the United States and the status of the dollar as the world's reserve currency formed the foundation for American leadership in the world, the very American leadership that the Chinese Communist Party is intent on overturning. And I have a simple yes-or-no question. If the Federal Government were to breach the debt limit beyond the "X" date, would damaging the full faith and credit of the United States undermine the competitive position of the United States relative to the CCP? And we will start with Mr. Ashooh.

Mr. ASHOOH. Yes.

Mr. FEDDO. Yes.

Mr. LORBER. I think that is likely.

Mr. WILLEMS. I agree.

Mr. HARRELL. Yes.

Mr. TORRES. As you know, more than 6 years ago we saw Russia weaponize social media platforms like Facebook and Twitter to interfere with the 2016 election and otherwise conduct influence operations against the United States. The CCP has infinitely more influence over TikTok than Russia has over Facebook and Instagram. TikTok is or could easily metastasize into a Trojan horse for a CCP influence operation against the United States. A question to each of you is, do you think TikTok should be banned from the United States?

Mr. ASHOOH. I really can't answer that. We did look at this when I was in government, and there are clearly issues there about what to do about it. An outright ban may not be the answer, but clearly—

Mr. TORRES. Are you aware that the parent company of TikTok is a CCP committee?

Mr. ASHOOH. Most Chinese companies have some sort of Chinese government influence.

Mr. TORRES. And is that cause for alarm?

Mr. ASHOOH. Of course, it is. Absolutely.

Mr. TORRES. Right, and as you know—

Mr. ASHOOH. Let me clear. I can't give you a yes or a no because I want the solution to fit the problem, and I don't have enough information.

Mr. TORRES. Let me rephrase the question differently. TikTok is not only a social media platform, it has become a leading new source for the next generation of Americans, our most impressionable minds. Is it in the strategic interest of the United States to have the CCP shape the information environment of the United States?

Mr. ASHOOH. Again, sir, this is an important issue. We did look at it when I was in government, finding the right answer in a way that didn't run afoul of concerns such as the First Amendment and other things that came up. Just because it didn't work, the First

Amendment, doesn't mean we don't need an answer. Here, we do. I just don't know what it is. And I am out of government, so I unfortunately—

Mr. TORRES. Mr. Feddo, should we ban TikTok? And I have nothing against dancing, for the record.

Mr. FEDDO. I worry about the idea of banning because it can become a slippery slope. Also, attempting to ban TikTok failed during the Trump Administration, which is the President's Executive Order in August of 2020. I think you are right. The concerns about its parent company—the Commerce Department at the time had supporting information related to its attempt to enforce the ban that there were 130 CCP committee members within the parent company that had been—

Mr. TORRES. What was the number?

Mr. FEDDO. 130.

Mr. TORRES. So, 130 former CCP members in the parent company.

Mr. FEDDO. And National Security Advisor O'Brien, President Trump's National Security Advisor, has called it the worst own goal in national security and a scandal—

Mr. TORRES. I just want to quickly get yes-or-no answers. Mr. Lorber? Mr. Willems? Mr. Harrell?

Mr. LORBER. I don't think it lends itself to just a simple yes or no.

Mr. TORRES. Okay.

Mr. LORBER. There are all sorts of factors.

Mr. WILLEMS. I think we should put in place a broader infrastructure to examine all Chinese apps operated in the United States and make sure that we are protecting against national security threats because I don't think it is just TikTok.

Mr. TORRES. Fair enough.

Mr. HARRELL. Yes, I agree with Clete.

Mr. TORRES. Okay. Thank you. My time has expired.

Chairman MCHENRY. I will now recognize Mr. Meuser of Pennsylvania for 5 minutes.

Mr. MEUSER. Thank you very much, Mr. Chairman. And certainly, I thank all of our witnesses for your time here today.

China is characterized in many different ways—a competitor, rival, authoritarian, adversary—and I guess we will see over the years what it will be characterized as by us moving forward. But right now, the CCP, among many things, is accused of, and there is much evidence to support, the regular theft of intellectual property. Recently, the FBI Director stated that the Chinese government poses the biggest long-term threat to our economy and the national security of the U.S., of course. He described a lawless, stop-at-nothing Chinese government agenda to steal IP. Mr. Ashooh, in your judgment, is the Biden Administration treating this as seriously as we should be?

Mr. ASHOOH. The issue of IP theft?

Mr. MEUSER. Yes.

Mr. ASHOOH. I believe so. I believe it certainly had attention in the prior Administration, and I haven't seen that wane. The challenge is, it is a very hard problem to solve because the institutions to deal with it are in the law enforcement realm, and once that IP has been prolonged, it is not like you can just discourage it, so it is a very challenging problem.

Mr. MEUSER. I was in business for a long time on an international basis, and I can appreciate that, but is it something that our State Department or others are regularly commenting on and pushing back on and trying to investigate, to your knowledge?

Mr. ASHOOH. I can't speak specifically to a particular agency. I certainly know it was a priority when I was regulating.

Mr. MEUSER. Okay. Mr. Feddo, is the Biden Administration's assault on our domestic energy industry, excessive spending that took place over the last several years, which is the primary cause of inflation, higher interest rates, and the loss of much wealth in the capital markets, along with the raising of business taxes, which has been done, and a lot of talk of raising taxes higher in the near term on U.S. companies—does this improve our position vis-a-vis China, and does it improve the economic competitiveness of the United States, in your view?

Mr. FEDDO. I don't think it does. I am probably not the best to answer that with more precision. If I can just interject on your question to Mr. Ashooh, I do think that FBI Director Wray is constantly talking about intellectual property theft, and the FBI, as he said, is opening up an investigation related to espionage and IP theft every 12 hours, and there are over 2,000 investigations. So, I do think the Justice Department is very focused on that issue.

Mr. MEUSER. Mr. Lorber, do you think the idea of raising our corporate income tax from 21 percent, which has made us competitive sort of in the middle of the pack of industrialized nations—do you think the idea of raising that will help or hurt our economy vis-a-vis China's output?

Mr. LORBER. I can't speak specifically to the raising of the corporate minimum tax, but I will say that anything we do that hurts the competitiveness of U.S. companies would hurt the U.S. national security vis-a-vis—

Mr. MEUSER. Yes, Made in the U.S. makes it more difficult. Mr. Willems, your thoughts on that?

Mr. WILLEMS. We should not raise the corporate tax.

Mr. MEUSER. Right. Something else I want to bring up is I have a bill, H.R. 839, known as the China Exchange Rate Transparency Act. And what this bill does is it requires the Treasury to instruct the U.S. executive director at the IMF to use the voice and vote of the United States to advocate for increased transparency from the PRC's exchange rate practices compliance by the PRC in line with what other members of IMF are beholden to, and publication of significant divergences, and stronger consideration by the IMF management, and members of PRC's lack of transparency when evaluating quota and voting shares at the IMF. Would you just comment if you think such a bill makes sense, Mr. Willems?

Mr. WILLEMS. I think that this is the right approach. This is an issue the committee should be focused on. I think one thing that committee should explore in greater depth is enforcement mechanisms around these IMF proposals. What are the sources of leverage we can use to actually effectuate these policy changes? And I do think it is helpful to instruct the U.S. representative at the IMF to take these positions, but how are we actually going to get results? I think I would like to start with your bill, and then let's build off of it and figure out how to make it actually happen.

Mr. MEUSER. Sure. Great. Anybody else? I only have 8 seconds.

[No response.]

Mr. MEUSER. Good. Mr. Chairman, I yield back. Thank you.

Mr. LAWLER. [presiding]. The gentleman's time has expired. The gentlelady from Colorado, Ms. Pettersen, is recognized for 5 minutes.

Ms. PETTERSEN. Thank you, Mr. Chairman, and thank you all for being with us today. I know it has been a long day, so thanks for sticking it out.

I know that we are focused on the economic threats of China, and something that isn't necessarily part of this, but I think that I want to talk about are some economic tools you might recommend on how to address the threat that we face from China with the illicit drug market and the increase in fentanyl coming into our country. This has hit Colorado hard. This is happening globally. And while I know that you are not all here today as experts in the illicit movement of drugs and drug proceeds, I just want to know if you have recommendations for economic tools, carrots and sticks, that Congress might be able to employ to actually change behavior here. This is something that has killed more people in the United States than all of the world wars combined, the opioid epidemic. It is the third wave, and fentanyl has completely taken over the drug supply chain, and it is incredibly dangerous. So, I would love to hear your thoughts.

Mr. LORBER. Sure. I am happy to take the first crack at a response. As I mentioned earlier, we have seen the Treasury Department target a number of Chinese individuals and entities for their role in illicit fentanyl production and smuggling. One other approach that I have seen as a complement to sanctions authorities that has worked, I think, fairly well over the last few years, has been guidance and advisories that have been promulgated either by the Financial Crimes Enforcement Network (FinCEN), OFAC, or other entities in the U.S. Government that highlight what the typologies of illicit funds movements associate with a particular threatening activity could be, in this case, fentanyl trafficking, something along those lines. If you wanted to think about how you could expand the toolkit beyond simply sanctions and law enforcement as of right now, that might be something to consider.

Ms. PETTERSEN. I appreciate that. Thank you so much. I yield back.

Mr. LAWLER. The gentlewoman yields back. The gentleman from Wisconsin, Mr. Fitzgerald, is recognized for 5 minutes.

Mr. FITZGERALD. Mr. Willems, one of our major priorities as a committee is to prevent malign influence by China that would distort our markets. Last Congress, I was fortunate enough to author a bill, the Foreign Merger Subsidy Disclosure Act, and it was signed into law by the President. It put an emphasis on disclosure, sunshine, that type of thing. The FTC and the Department of Justice, the Antitrust Division, are now required to monitor and take foreign government subsidies into account in the pre-merger notification process, another area where China is attempting to infiltrate our exchange trade funds traded here in the United States as well.

Many of these investment vehicles contain Chinese companies involved with China's military as well. That has been disclosed. I think there was even some discussion about it today. For example, CSSC Holdings Limited, China's largest builder of military ships, is listed in several major indices, including MSCI emerging and FTSE as well. So, there are a number of different corporations that are complicated acronyms as part of this discussion. The indices contain trillions of dollars of assets under global management, and current law that prohibits U.S. investors from buying or selling securities for companies deemed to support China's military. However, parent companies or subsidiaries of listed companies can still be found in these indices. Why is it that the parent and subsidiaries of listed companies can circumvent this ban? We still don't have a full answer to that.

One of the other principles I hope we keep in mind as we look at ways to counter China is to ensure that these policies do not wink at the dominance of the U.S. dollar here and abroad. We have seen that many of these adversaries like China, Iran, and Russia have made efforts to reduce the reliance on the dollar, but even some of our allies who have sought to work around our sanctions are well aware of it. And I think it goes beyond bad actors at this point, and they are trying to establish alternatives to our SWIFT system. So my question to you would be, are there things we should be doing, in addition to what we tackled in the last Congress, that could probably tighten this and make it more presentable to not just congressional committees, but also to DOD and anybody else involved in the defense industry?

Mr. WILLEMS. First, let me say congratulations on your bill.

Mr. FITZGERALD. Yes, thank you.

Mr. WILLEMS. I think that it's a good piece of legislation and I'm glad that it was signed into law. Second, let me comment on the military company restrictions, which you referred to. I think that Congressman Barr has legislation that is looking to make this statutory and then tighten some of the gap, and I think that as we are doing it, considering what you raised is also a worthwhile endeavor for this committee to explore.

Now, I think that there may be some complexities we need to think about when you are talking about entire index funds, but the point is, if we make a determination that a company is linked to the Chinese military, we shouldn't have U.S. investors in that company. So, we need to figure out how we are closing all applicable gaps, and I think exploring what you raised is a worthwhile endeavor.

On the SWIFT question, that is less my area of expertise, but I would be happy to try to get back to you on that or maybe one of my colleagues also has something to say. And I was looking at Eric.

Mr. LORBER. I am happy to touch on the SWIFT.

Mr. FITZGERALD. Mr. Lorber, yes, do you have a comment on the SWIFT part of it?

Mr. LORBER. Yes, definitely. I do think that to a certain extent, and as we talked about previously, there are workarounds that are under development or have been developed by our adversaries. China, we talked about with the potential CBDC, as well as Russia and their Mir payment system. On the SWIFT side, I actually think that the threat of a sort of a European defection from the U.S.-led financial rail system may not be as immediate as some were worried about even a few years ago. Remember, the Europeans set up Instex following the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA) as a way to facilitate trade with Iran that was outside the U.S. sanctions jurisdiction. I think there was one transaction that ended up going through Instex. Very, very few did. And so, I think to a certain extent, there was a lot to talk about at the time, but in actuality, it didn't come to fruition, and I certainly haven't heard of anything along those lines since the Russian invasion of Ukraine.

Mr. LAWLER. The gentleman's time has expired. The Chair now recognizes the gentlewoman from Massachusetts, Ms. Pressley, for 5 minutes.

Ms. PRESSLEY. Thank you. First, I just want to take a moment to condemn the anti-Asian rhetoric by many of our colleagues in Congress across the aisle, which has emboldened anti-Asian hate, not only in the Massachusetts 7th, which I represent, leaving many of my constituents in fear with their safety threatened, but really threatened our democracy. And I want to just take a moment to forcefully disassociate myself from remarks made by my colleagues that peddle xenophobia and fuel violence against the Asian community. I do think we can certainly be critical of the Chinese government and their economic policies without being hateful, racist, or xenophobic in our language.

So, Mr. Harrell, you are the former Senior Director for International Economics and Competitiveness with experience on the National Security Council and the National Economic Council. Do you agree that it is possible to talk about China's policies without being racist or xenophobic?

Mr. HARRELL. I think it is very important that we be thoughtful in how we talk about and how we discuss the challenges we face from China. It has been heartening here today with this committee to hear several members of the committee note that when we talk about our competition with China and the threat from China, we are talking about the Chinese Communist Party and the Chinese government, and we are not talking about the hundreds of millions of ordinary Chinese people with whom we have a lot in common at a personal level. I do think it is important that we continue to be careful about how we talk about this in a politically-charged atmosphere, to make sure that we are clear that we are talking about government policies in China, the acts of the state, and that we are not inadvertently kind of sliding into statements against the Chinese people.

Ms. PRESSLEY. Thank you. I hope that my colleagues hear you loud and clear and can learn from that. I also hope they learn to discuss global competitiveness without warmongering. It is no surprise that proponents of the military-industrial complex have already seized on recent events to call for even more defense spending. War should not be the centerpiece of U.S. foreign policy. In today's hearing, let me say that war will not solve our global economic challenges. Rather, the United States can demonstrate global leadership by building partnerships grounded in economic policies that center on human rights, invest in workers, and form last-ing relationships. This is how we achieve our goals on the global stage and distinguish our approach from Chinese policies.

I am particularly interested in the U.S. economic approach to the African continent. Africa is a rapidly-evolving continent. In 2019, 7 of the 10 fastest-growing economies in the world were in African countries and the Continent's population is expected to double to 2.5 billion people by 2050.

Mr. Harrell, can you describe some of the key lessons we should learn from Chinese policies and economic investments in African countries?

Mr. HARRELL. I think it is incredibly important that we as the United States up our game with respect to engagement in Africa. I think there have been a couple of very positive steps over the last couple of months. I think President Biden's African Leaders Summit provides a useful foundation to renew diplomacy and economic engagement across the continent. I think trips like Secretary Yellen's and Secretary Blinken's recent trips to the continent help build on that foundation to deepen ties. I do think that the Biden Administration is potentially further along in its thinking with IPEF and with APEF initiatives for the Indonesia-Pacific and for the Americas Partnership than it has been on some of the specific economic deliverables and initiatives for the African continent. But I am also confident coming out of the African Leaders Summit that we are going to see more robust engagement.

I do think we are well-positioned for renewed engagement in Africa because the shine has really come off of the kind of Chinese debt diplomacy of the last decade in China. We are seeing countries in Africa and elsewhere, but particularly in Africa, see some of the downsides of letting Chinese companies come in with low standards for mining, for manufacturing, for the environment, for labor, and for human rights. And so, you are beginning to see African governments put a pause on Chinese projects.

Ms. PRESSLEY. I am almost out of time. Thank you so much. I do strongly believe the U.S. has an opportunity to be a fair economic partner with African nations and to foster a global economy that truly works for all. Thank you.

Mr. LAWLER. The gentlelady's time has expired. The gentleman from New York, Mr. Garbarino, is recognized for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman. And thank you all for being here all day today. I appreciate it.

Mr. Willems, I have a question for you. The Asian Development Bank (ADB) is probably the most important development institution in the Asia-Pacific region addressing regional development problems using financing in the form of grants, loans, and advisory services. However, beginning in 2014 with the New Development Bank, and in 2016 with the Asian Infrastructure Investment Bank (AAIB), China has created its own rival banks, while still itself getting loans from the Asian Development Bank. I believe China received the second-largest amount, counting for 14 percent of the bank's outstanding loans. There have been discussions with the Asian Development Bank about possibly stopping loans to China, because even though China likes to say it is a developing country, we don't think it is anymore, but they haven't made a final decision. Do you think China should still receive or should stop receiving loans from the Asian Development Bank, and what advantages does China get by continuing to receive these loans?

Mr. WILLEMS. Thank you for the question, and I agree. I think China should not receive loans from either the World Bank or the Asian Development Bank. And I don't have it in front of me, but if you look at the World Bank's Articles of Agreement, it talks about how the countries that should receive loans are those that don't have liquidity themselves. So, what you have here is China getting the loans instead of those who actually need it. And I think in both of those institutions, we need to try to work with allies to create a situation where China is no longer getting loans, because if they can do Belt and Road, if they can do the AIIB, they clearly don't need the ADB or the World Bank.

Mr. GARBARINO. Exactly, and I love your saying that they are taking 14 percent of the pot of money here that could be going to other people. You just mentioned Belt and Road, and I guess that has been around for what, 2 decades or so. And I think the estimates last pegged China's lending to the world at a trillion dollars. I think it was the last estimates in the last couple of years, which would make them bigger than the World Bank and the IMF. And these loans that they are giving out to these developing countries are usually shorter-term, higher-interest-rate loans. And we are seeing now Pakistan said it wants to renegotiate Belt and Road Initiative payments, accusing Chinese companies of inflating the cost of construction by $3 billion.

Laos, Sri Lanka, and I think some other African nations have asked to restructure and delay repayments or forgive billions of dollars because of the high interest rates and everybody coming out of the pandemic because of what these loans that China has done through the Belt and Road Initiative, and now these developing countries are being harmed even worse than they thought they were going to be. What role should we and other international financial institutions have in addressing the needs of these developing countries that receive funds from the Belt and Road Initiative and now are in need of debt relief?

Mr. WILLEMS. Yes, so two comments on this. The first is, the hypocrisy from China is thick, right? China goes around and says it is the defender of the multilateral system and it is a responsible international stakeholder, yet it is the outlier in refusing to restructure these debts. And so, I do think we need to work with allies to pressure China to change its position.

The second point I would make is we need to help prevent these countries from getting in that position in the first place. And one of the issues that I think we need to focus even more on is our development tools, the DFC and others, in figuring out how to provide a robust alternative to China so that these countries aren't taking Belt and Road money to begin with.

Mr. GARBARINO. Okay. But we have to make sure that the taxpayers are bailing out these bad loans.

Mr. WILLEMS. I agree.

Mr. GARBARINO. Okay. I just want to make sure, because I don't know if the IMF, or the World Bank are coming in and renegotiating these loans, which is going to work, but what kind of pressure can we put on Beijing to make them do it?

Mr. WILLEMS. I think one of the things we want to do is work with G7 partners. The United States alone doesn't have the voting shares in either of these institutions to be able to leverage change itself. It needs partners, so we need to get those partners who have enough voting shares to actually make a difference. We need all of them to band together, get on the same page, and pressure China, and that is the best way to do it, in my opinion.

Mr. GARBARINO. I appreciate those answers, and I am out of time, so I yield back. Thank you very much.

Mr. LAWLER. The gentleman yields back.

The gentleman from Nevada, Mr. Horsford, is recognized for 5 minutes.

Mr. HORSFORD. Thank you. I want to thank the chairman and the ranking member for holding this necessary hearing today, and I want to thank our expert witnesses for appearing before the committee. I am glad that you are here to elaborate on the various ways that the Chinese Communist Party is challenging the United States interest on a global scale, whether it be through unfair trade practices and ignoring of international sanctions, undermining of the SWIFT banking system, expansion of influence through the Belt and Road Initiative, or simply military aggression.

We are seeing a multifaceted campaign from Beijing to catapult China to the forefront of global markets and the world stage. We have a responsibility to our children and to the next generation to own the 21st Century as the United States. No longer do we have the luxury of waiting for tomorrow, as we are locked in a competition for America's global standing today. So, the work that we do here and have done over the last 2 years will be key to position our country for the economic fight to come. I am proud to say that House Democrats have delivered and laid the groundwork for American success through strategic investment in our people, our production, and our infrastructure.

The CHIPS and Science Act ensures that the technology of the future will be made right here in America, by union members with good, quality jobs. And as the high-tech manufacturing sector evolves, our production capabilities will grow right along with it. However, other investments were necessary to rebuild our crumbling roads and bridges through the Bipartisan Infrastructure law, which will allow American businesses to bring their goods to the market faster and at a lower rate. Meanwhile, the Inflation Reduction Act delivered support to the nearly 60,000 manufacturing employees back in my home State of Nevada, while ensuring that the United States will lead the way forward on clean energy.

Now, these are just some of the examples, and I know my colleagues on the other side will propose additional ones, and I hope to work with many of you on those efforts, but I believe that we should be focused on also supporting and investing in American companies and the American workforce. For decades, investments in manufacturing and our supply chains had to be offshore to China by multinational corporations that saw opportunities for ever greater returns. I am particularly worried by the large investments from the Thrift Savings Plan and other retirement accounts in the companies controlled by the Chinese Communist Party.

Nevadans don't need to have their retirement accounts, investing their hard-earned money into companies and funds that are actively competing against us. While I applaud President Biden for his recent Executive Order barring investments in certain military or surveillance companies, it remains that U.S. investors hold over $1.2 trillion in equity and debt issued by Chinese entities. These investments should be made here at home to the benefit of American companies, communities, and workers. To make matters worse, while the companies that American firms have invested in may appear to be privately held, oftentimes, they are still working at the behest of the Chinese Communist Party.

Mr. Harrell, given all that we know about the difficulty in disentangling Chinese state-owned enterprise from private firms, do you think it is appropriate for the Administration and Congress to consider further trade restrictions on American investment in Chinese firms? Are we essentially shifting money away from our domestic sectors to the benefit of our competitors?

Mr. HARRELL. I do think it is appropriate for Congress and for the Biden Administration to look at ways to expand limits on certain U.S. investments in China. I would recommend, in particular, that the Administration and Congress work to build out the list of Chinese military and surveillance companies where investment is currently prohibited to potentially include other kinds of companies where we see specific national security risks from the investment in those companies. And I also joined several of my colleagues here in endorsing a narrowly-targeted review mechanism for certain outbound private investments in China. I do think it is important to look at both of these issues.

Mr. HORSFORD. Thank you very much. Mr. Chairman, and Madam Ranking Member, I will yield back.

Mr. LAWLER. The gentleman yields back. The gentlewoman from California, Mrs. Kim, is recognized for 5 minutes.

Mrs. KIM. Thank you, Mr. Chairman. And I want to really thank the witnesses. You are the experts in this field, and I think it is such a timely hearing on the topic of how we discuss the economic challenges posed by the CCP.

As you know, it is no secret that the CCP, under the authoritarian regime of Xi Jinping, are trying to displace the United States as the number-one economy in the world and have countered the American Dream with the CCP's version of the China dream on the global stage. I am an immigrant who came here to live that American Dream, and I can't tolerate seeing that eroding every year by the CCP, which is why, when we see the CCP strategically undermining U.S. interests and threatening U.S. economic and commercial interests abroad at every turn, we have to do everything we can to come up with policies that will counter it. We just saw in the last week that the CCP is not satisfied with threatening U.S. economic and commercial interests abroad. It has also sought to violate our domestic airspace and the longstanding international norms with surveillance balloons. So clearly, we need to get CCP and Xi Jinping and their reckless actions tamed.

Let me ask you, Mr. Lorber, the CCP has opted to increase its bilateral swap line agreements to further internationalize its currency, and rival the U.S. dollar as the world's reserve currency. As in the case of Russia, these bilateral swap lines are being used to circumvent the U.S. dollar and sanctions. Can you talk about the policies that the U.S. can implement to flatten or reduce bilateral swap line agreements between the CCP and other countries?

Mr. LORBER. Thanks. It is a great question, and I think there are two responses to it. The first response is, in any situation, including like this, where there is a national security threat or potential illicit activity occurring, that is a prime candidate for the use of a targeted sanction. So, that definitely does exist in this scenario.

I think the second point, though, is that part of the reason that it has been challenging, as I understand it, for China to internationalize many of its financial relationships and have adoption, widespread adoption of currency as the renminbi itself has certain core limitations to it, so a degree of exchange rate volatility, capital controls that exist. And I think the second point I would make is that there is always a distinct possibility and maybe even a probability that the expansion of the swap lines may not occur because of the limitations of the renminbi.

Mrs. KIM. Thank you. Mr. Willems, I have a question for you. The COVID-19 pandemic and the CCP's COVID Zero policy showed that critical supply chains and international commerce cannot be subject to the whims of an authoritarian regime that disregards the basic economic norms. So, can you describe any policy recommendations that will help us move the critical supply chains away from China, and as a follow-up, your thoughts on re-engaging Indo-Pacific partners and allies with our trade agreements?

Mr. WILLEMS. I completely agree with your premise, and I do think that is a lesson from the pandemic. I think that we do need to figure out, can we reduce supply chain reliance on China? Now, I think one unfortunate circumstance has been that this Administration has not been pushing for the right policies to do that. And one of the things that I would like to see much more of that I think can be more effective are trade agreements.

To put it simply, if we want our companies to leave China, we need to provide them with positive incentives and other markets to go to, so we need to make it easier to link our supply chains with these other countries. And I would like to see more trade agreements in particular, in the Indonesia-Pacific, Taiwan would be a top candidate for me, and then I would also look at renegotiating the TPP, trying to fix it and make it work for U.S. interests.

Mrs. KIM. Great. Thank you. We agree on that. I have one more question for you, Mr. Willems. I have been an advocate for the United States to provide Taiwan membership in the international organizations, and I have done that in the first term that I served. And just recently, I introduced H.R. 540, the Taiwan Non-Discrimination Act, to allow Taiwan to be included in the international monetary policy. So, I want to get your take on that, and can you describe how getting Taiwan into the IMF, for example, could strengthen the IMF and other international organizations?

Mr. WILLEMS. I have 5 seconds, but I will strongly endorse your bill, and I do think Taiwan is already a member of many organizations—

Mr. LAWLER. The gentlelady's time has expired. Please submit your responses for the record.

Mrs. KIM. I heard what I needed to hear. Thank you so much for your endorsement of my bill. I yield back.

Mr. LAWLER. The gentleman from Nebraska, Mr. Flood, is recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman. And thank you to all of the witnesses who are here.

In 2017, the People's Republic of China announced with glee that they were going to be giving us $100 million to build a garden in our national park here in Washington, D.C. It turns out that they wanted to collect intelligence. They wanted to find out what was happening in our Nation's Capital, and they have been doing this all over the country.

As a Representative from Nebraska, I represent Offutt Air Force Base, which is home to the U.S. Strategic Command (STRATCOM). We also, as many of you know, have a very close connection to our nuclear triad, and we have sensitive military assets all over the State of Nebraska. And I found out that cell phone companies, some of them owned by American companies, are providing cellular services using Huawei equipment. On top of this, folks in North Dakota and several rural States are raising the red flag about the Chinese government purchasing real estate in the United States.

My question is for Mr. Feddo. During your time working at the Treasury, can you speak to how frequently Chinese real estate purchases came under CFIUS review? Was it frequent or infrequent?

Mr. FEDDO. Thank you very much for the question, Mr. Flood. We implemented the rule. We had a statutory deadline on February 13, 2020 and we implemented regulations, which made real estate jurisdiction effective at that time. Real estate filings are voluntary. They are not a mandatory filing, but the committee has the power to pull in filings that it deems deserve scrutiny under its jurisdiction.

Oftentimes, real estate transaction jurisdiction overlaps with the normal jurisdiction of the committee, and so it is hard to say which ones might be real estate-related transactions. But the concern about proximity, which you are describing, is something that the committee and its members, especially the member agencies, the Justice Department and the FBI, in particular, are very concerned about and very alert to, so that piece is addressed.

There is a list of almost 200 military installations and other facilities that are published by the committee that relate to real estate jurisdiction. And those are provided by the agencies within the committee that have the subject matter expertise to say this facility is sensitive and should be within the real estate jurisdiction of the committee. And so, to the extent there is a facility or installation, that is not in there, that is on the committee and its member agencies to dialogue and tweak it so that there is appropriate coverage for something that is sensitive.

Mr. FLOOD. It seems to me like Congress needs to take this very seriously, maybe make it mandatory that the reporting happen. And as I read the regulations now, in the case of the Chinese garden that was roughly 2.7 miles away from the U.S. Capitol, and 4 miles away from the White House, yet CFIUS' jurisdiction is defined as 1 mile from the base. It seems to me that we could be making some changes in the way our statute reads so that we are requiring a better look at some of these concerns.

Mr. FEDDO. Maybe I would say that the full committee and all the member agencies, including DOD and those that have a stake in this issue of proximity, and spying, and collection ofintelligence—we were all very involved for 2 years in scoping this out. And one concern I would have, and as you consider what to do going forward, is to the extent real estate jurisdiction is scoped so broadly, it may consume everything that CFIUS does, and sort of make it limitless.

Mr. FLOOD. And I do appreciate your concern there, because I think we can draw this in such a way that it draws everybody into a circle and we could waste some government resources. Do you feel confident that CFIUS' current review process gives us the ability to police what I think a lot of folks in North Dakota, and Nebraska, and other communities are saying about the CCP's efforts in real estate?

Mr. FEDDO. I do, to the extent that it is a clear national security issue related to a U.S. business or to an installation or to something that gives it a hook. If it is more of a raw real estate transaction, that may be another question for another authority within the government.

Mr. LAWLER. The gentleman's time has expired.

Mr. FLOOD. I yield back.

Mr. LAWLER. The gentleman from Iowa, Mr. Nunn, is recognized for 5 minutes.

Mr. NUNN. Thank you, Mr. Chairman. And thank you very much to the panel for being here. You are all experts on China, the threat emerging from China.

As we look at things, as a counterintelligence officer myself, who protects our national security, as somebody who has flown recon operations in international airspace, not violating another country's sovereign airspace territory has been seen in recent days. We have a real concern here, and I think one of the greatest threats to U.S. national security in relationship to China right now is not on the battlefield, but it is in that area where a great transfer of U.S. wealth is going to build the Chinese economy, whether that is state-owned businesses, whether that is their foreign investment infrastructure done with American credit, or whether that is the actual buildup of the People's Liberation Army.

With this, Mr. Willems, you have highlighted firsthand how export controls, restrictions, and subsidies received by China on the global stage are becoming a threat. One of the things I would like to learn, first of all, before we get to a situation of a kinetic conflict between the United States and China is, how can we provide an offramp for China to do right by the United States and themselves, as well as U.S. companies really leading in this space, to have good behavior that is going to reward America and not allow China to continue to take advantage of us?

Mr. WILLEMS. I think what I would start with is the need to bifurcate the kinds of activity that we have with China. On one hand, there are things that can clearly contribute to their military development, that can raise national security threats, and we need to crack down on that kind of behavior. On the other hand, we want to maintain linkages with China where we can. And I think there has been a lot of conversation today about distinguishing between the PRC and the Chinese people, and it is important to maintain that distinction, and it is important for us to have our companies engaging directly with the Chinese people themselves.

And I think, as someone from Iowa, having more exports into China is good. It helps Iowa farmers. I also think, looking at our financial services industry, that they need to be on the ground in China, to do business in China and to be globally competitive. So, let's maintain those links while cracking down on the ones that are problematic.

Mr. NUNN. As far as I know, you have hit the point, head on. One of the bills that I am looking at introducing here is the Neutralizing Unfair Chinese Subsidies Act of 2023. What this really looks to do is to identify the way in which the Treasury Secretary could develop a strategic plan today and a timeline to work with our allies in order to seek China's compliance with international export subsidy standards. This goes to both a multilateral—which you have spoken to—approach with our allies, as well as very targeted bilateral pressure towards China. So, the follow-up question here is, what levers would you recommend the Administration utilize, maybe those levers that are not being utilized, and how can we move forward with this in a pragmatic way?

Mr. WILLEMS. I like where your legislation is going, and, I will say, I think it is part of a broader approach. On one hand, we do want to engage with the OECD and enforce these rules against China, and I think we should talk about how to do that, how to work with allies and partners to put that pressure on China. At the same time, we don't want to race to the bottom with China, but we do have an export credit agency, EXIM Bank, that can provide an alternative to what China is doing.

I had a couple of recommendations earlier today on how to loosen some of the strings around EXIM so we can provide a meaningful alternative, things like having their China & Transformational Exports Program that cuts through red tape, things like allowing them to take a little bit greater risk to make sure that we are actually in the same level playing field as China.

Mr. NUNN. Excellent. Mr. Willems, I would echo the Chair. This can be truly a bipartisan effort that we need to have a strategy towards China today, not a strategy that develops after an incident occurs and that we are in a reactive posture. We have the opportunity to lay out a clear roadmap here on how the U.S., China, and our allies can usually be successful, rather than locked in this long-term strategy of adversarial relationship that regretfully could end up in a kinetic situation. So with that, I would reach across the aisle to my colleagues to support what could be a bipartisan lever here on holding China accountable for their subsidies act.

And again, I want to thank the committee for hearing from this incredible group of witnesses and your expertise in the area. With that Mr. Chairman, I yield back.

Mr. LAWLER. The gentleman yields back. The gentlewoman from Indiana, Mrs. Houchin, is recognized for 5 minutes.

Mrs. HOUCHIN. Thank you, Mr. Chairman. And thank you all for taking time to come and speak to us today. Given the events occurring over the weekend, the Chinese spy balloon crossing the breadth of the United States with what appears to be a clear attempt to spy on our military assets, I am really glad that for this first substantive committee hearing, we are discussing this important topic, about the People's Republic of China, the Chinese Communist Party's threat to our financial institutions and economy, but also our national security and our way of life.

I have a question for Mr. Feddo. As a free market conservative, I read your testimony and I am particularly interested in your comments on how we can mitigate our risk while also maintaining a strong, open, free market investment environment.

Mr. FEDDO. Thank you for the question. What I am focused on primarily in the written testimony is this notion of creating a new outbound screening investment regime, a new committee to and a new bureaucracy to go with it. I tend to be a little shy of expanding government, and if we need to do it, to make that decision based on facts and on a rational basis and make sure that it is tailored to the problem we have defined. Here, I am not sure we completely understand what we want to try and stop. I don't dispute that there is a national security risk, the gap may need to be closed, and Mr. Ashooh can help me here, I think, in a second. But what my thought is, is to use something like what Mr. Barr is proposing, which is an expansion of the CMIC list, sort of a combination of the use of sanctions and export controls. It will be nimble. It will be precise. And it will be clear to private actors what is in and out of scope.

But first, whether we go the committee route, and I have outlined a series of questions we really do need to answer before creating a new bureaucracy, or whether we go a sanctions route, we need to be very clear what it is, where the national security risk is, and I think the intelligence community can help with that.

Mrs. HOUCHIN. You note that the previous Congress and the Biden Administration had considered creating a new government agency with very broad powers, that would even oversee American firms and their allocation of resources and property and capital outside of the United States, not just limited to China. And I believe your analysis of creating another bureaucracy with undefined and far-reaching powers certainly spoke to me and my constituents as an extreme version of overregulation, and perhaps growth-stifling policies that could have a chilling effect on U.S. companies.

So I am wondering, you mentioned in your comments that CFIUS has some existing jurisdiction that could potentially be utilized here with the goal of regarding the threat of China through sanctions of Chinese military companies modifying export restrictions and building a comprehensive record of the risk gap, and I appreciated your line of questions there. I do hope that we will also take a look at things in the whole of Congress, espionage attempts, hacking attempts, attempts to steal U.S. technology, companies owned, debt held, land purchased, and other national security threats by the PRC, and the CCP.

I am wondering if you have any comments finally, and this could be directed at really any of the witnesses—Mr. Willems, Mr. Ashooh—should we be concerned that outbound investment streaming can go too far, and what are your comments on that?

Mr. ASHOOH. Sure. The answer is yes, especially when you are discussing financial investments. One example from Akron Pharma was this concern over risks presented by joint ventures between American companies and Chinese companies, and even that was a very expansive concept blocking a particular kind of business transaction through the legislative process that these committees went through. It came to the conclusion that it wasn't really about the joint venture, but rather what technology could be transferred, and I think that is what we need to do here. Is it just that an investment is outbound or what is at the root of the concern, and then do we have the authority, and my bet is we probably do have the authority; we just need to tweak a little bit.

Mrs. HOUCHIN. Yes, okay. Thank you.

Mr. Willems, do you have any comments? I did see you were nodding your head.

Mr. WILLEMS. I agree, and I am happy to elaborate in writing.

Mrs. HOUCHIN. Thank you. My time has expired, Mr. Chairman. Thank you.

Mr. LAWLER. The gentlewoman's time has expired. The gentleman from Tennessee, Mr. Ogles, is recognized for 5 minutes.

Mr. OGLES. Thank you, Mr. Chairman. In our first hearing, the House Financial Services Committee is highlighting the existential threat of China. In that vein, I would like to thank the chairman for his leadership and my colleagues for their invaluable contributions, offering no less than 17 bills aimed at deterring CCP aggression. I would also like to offer some observations and recommendations of my own.

Currently, we are allowing the genocidal Chinese Communist Party access to trillions of dollars through our capital markets, echoing Chair Luetkemeyer. We are directly subsidizing the CCP's military modernization and enabling its horrific human rights abuses. While we spend nearly a trillion dollars on our own defense, we diminish that very investment as China uses revenues from our capital markets to flout the rule of law in the South China Sea. Case in point, the CCP was able to develop a brand-new warship, the Fujian, because Beijing raised more than $8.6 billion back to 2015.

So Mr. Willems, looking at your written testimony and perhaps sanctions towards the Chinese Military-Industrial Complex (CMIC), what might you envision that we do as a Congress to prevent the United States from essentially building carriers and battleships that are being used against our allies?

Mr. WILLEMS. I think there are two things I would look at here, and the first is what you alluded to, which is the CMIC, making sure we are plugging all applicable gaps and we are covering all types of financing that can go to those military companies. So, that is number one.

The second one is export controls, and export controls can be a tool to prevent our technology from going to China that can be used to support that exact same military development. I think, as I alluded to in my testimony, that the way in which you do export controls is critical. It can't just be the U.S. alone, it needs to be coordinated, otherwise, other countries can step in and supply the same technology. So, I would use both CMIC and export controls, but both of those tools need to be carefully coordinated with others.

Mr. OGLES. Yes, sir. As a follow-up to the committee, as an economist, I look at the current state of China, and I see some economic vulnerabilities, and I think there is evidence to document that much of their economic data is actually fabricated. So as we look as a Congress, how do we go on offense, and, quite frankly, take advantage of their economic weakness and assert America's dominance in the global marketplace?

Mr. ASHOOH. I think one thing that we could do more of and be better at is identifying vacuums before they manifest themselves. In the case of Russia, I doubt Russia is going to be the same state sponsor of whatever around the globe that it has been. That is creating a vacuum. Venezuela is a good example. As we have seen, China has moved in. The economic weakness, as you point out, are limitations on China's ability to do that, and it is even more acute if the U.S. is there to meet them at that challenge. So, I think anticipating where those gaps are going to be is wise policy for us.

Mr. OGLES. Mr. Feddo, or anyone else?

Mr. LORBER. It is a great question. The comment I would make on that is, if that is the objective, then taking away the easy wins for them makes a lot of sense, right? To your conversation earlier with Mr. Willems, if you are in a situation where they are able to secure financing for a wide range of civil military activities, taking away that avenue means that if they want to continue to maintain that pace of development and that pace of deployment, it means that they will have to find that money and those assets somewhere else, which makes it costly and riskier for them to do so. So, I think it is a two-fold approach. It is identifying the vulnerabilities and then also plugging what we think are the easy ways that they are able to access U.S. financial markets.

Mr. WILLEMS. Okay. I would just add that I completely agree with where you started with this, which is to say that their economy is probably not growing as fast as they want us to think it is. They are more vulnerable, and there is a lot of division, even within the Chinese Communist Party. Xi Jinping is not as secure in his position as many of us often think and has his own vulnerabilities at home. And I just think, through our intel community, through the way we do business, we need to recognize where those vulnerabilities are and exploit them because, again, China is not a monolithic state. They are more unstable than we actually realize, and I think trying to figure out where that instability is and putting the finger on it is good for the United States.

Mr. OGLES. Mr. Chairman, I just want to thank the panel for being here. This has been a long day. You all are amazing and very much appreciated. I yield back.

Mr. LAWLER. The gentleman's time has expired. The gentleman from Florida, Mr. Donalds, is recognized for 5 minutes.

Mr. DONALDS. Thank you, Mr. Chairman, and panel. Yes, it has been a long day. I will give you that. Obviously, the economic issues, threat, however you want to categorize it, with China are extensive, and as a nation, we have a lot of work to do, a lot of work. One of those areas of focus of mine and, frankly, for our country should be in the energy space. As we have learned over the last year, it is critical that the U.S. really strengthens its domestic energy supply, and strengthening our energy supply is probably the biggest investment we can make in our economy.

The second biggest, I would argue, largely comes out of this committee with financial regulation and the regulatory environment. On Thursday, I am introducing legislation that is called the Protect American Energy from China Act. This legislation will prohibit Federal funds from being used to implement a memorandum of understanding (MOU) signed in 2011 by the Department of Energy and the Chinese Academy of Sciences. The MOU addresses the sharing of information, equipment, personnel, et cetera.

Mr. Ashooh, can you speak to the importance of protecting the integrity of the U.S. energy sector? Why is that critical to our economy?

Mr. ASHOOH. I can, Congressman. Thank you for the question. I don't think we have come to hear about energy today, so this is an important one to touch upon. Speaking from an export control perspective, it is worth reminding the committee that the Department of Energy is one of the regular members of the interagency that approves all licenses, and that is important for two reasons. One is, there are a lot of fairly standard ideas around energy, but there is a lot happening in the emerging space. And it is really critical that we get our licensing right, that we protect what we need to protect, and that we allow collaboration where it makes sense for American innovation. So in that respect, as a technology-driven industry sector, it is important that we get that balance right.

Mr. DONALDS. Okay, and I appreciate that. Mr. Feddo? And you all can all comment, however you feel about it. It is kind of the free-for-all time at this committee. You can kind of do what you want, so if anybody else wanted to comment, you can go right ahead. That is fine.

Mr. FEDDO. I would just say our investment screening tool, CFIUS, frequently looks at energy-related investments to ensure the technology that Mr. Ashooh referred to as protected doesn't fall into the wrong hands.

Mr. WILLEMS. I am going to tackle this from a slightly different angle. I agree with my colleagues. And I think that there are again, these restrictions and things that we need to put in place. But on the other hand, the other thing we need to be doing is unleashing American energy exports around the world. That is good for our economy. And I do think that, in addition to restricting where we need to restrict, we need to think about where China is as a market that can benefit our economy and take advantage of that because, again, Chinese purchases of U.S. products is subsidization for U.S. innovation.

Mr. DONALDS. Great. Mr. Lorber, I have a question for you in particular. Obviously, we have a lot of businesses that do a lot of various things in China. What are some of the best ways you think that we can protect American businesses from covert espionage and the CCP, IP theft, and really weaponization against our businesses with shell companies here in the United States?

Mr. LORBER. It is a great question, and there are multiple sorts of ways to think through it. First and foremost, obviously, companies have an obligation to protect themselves or at least most of them do, but I think beyond that, there is a two-fold answer to it. One is in situations where you think there is or is likely to be intellectual property theft or other some type of corporate espionage, so on and so forth, the U.S. Government having the appropriate tools to say to the Chinese, that is not acceptable, and we will sanction, we will designate an entity, or whatever it may be, as a result.

On the question, I think, which is a little bit different of the shell companies that you mentioned at the end, as I was talking with one of your colleagues earlier, the United States is in sort of the mid-level stages of putting into place an effective and robust system to understand who is behind front-end shell companies that have registered in the United States. And once that is fully implemented, which should happen hopefully within the next year or two, I think that will be equally impactful way to prevent exploitation of U.S. markets.

Mr. DONALDS. Expand on that thought a little bit. We are in the middle of the game and actually figuring out how to ferret this stuff out?

Mr. LORBER. Right. As was discussed, the Corporate Transparency Act and the Anti-Money Laundering Act were passed within the last 2 years. So, U.S. regulatory authorities are in the process of rolling out the relevant rulemaking that is required under those pieces of legislation.

Mr. LAWLER. The gentleman's time has expired. The gentlewoman from Texas, Ms. De La Cruz, is recognized for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman. Thank you so much for holding this important hearing to combat the economic threat from China, and I would sincerely like to thank all of the witnesses for being here. I know this is an all-day event, but your insight is very valuable to us.

Today, we are seeing heightened Chinese aggression on multiple fronts, and we just saw this week alone the Chinese balloon, which we have spoken about several times. It is critical here in the Committee on Financial Services that we are mobilized in our financial and oversight tools to address the China challenges. Later this month, I am planning to introduce a bill to direct the Comptroller General of the United States to study the illicit financing associated with synthetic drug trafficking. As you know, I am on the border in Deep South Texas, so drug trafficking and China's involvement is very important to me and to my district. This study will outlay for Congress the business model that organizations are carrying out with the trafficking and how they move and hide illicit gains, and what the U.S. Government can do better when it comes to fentanyl money laundering. So, again, this is something near and dear, and impactful for our district.

I would like to ask you all if you have any kind of clarity on the ties between the Mexican cartels and the Chinese Communist Party, if you have seen any ties, distinct ties, or know of any ties?

Mr. LORBER. I am happy to take the first cut of that question, and it is obviously a very, very important one. I know that starting really in 2017, during the Trump Administration, the Treasury Department began looking very earnestly at illicit fentanyl trafficking generally, but specifically those networks and their touchpoints with jurisdictions including China. In terms of specific ties, we have seen publicly-reported information from the Treasury Department, as I was discussing with a colleague of yours, about Chinese companies that are making precursors to fentanyl and shipping those fentanyl products to Mexico, which are then finding their way across the border into the United States. So, there is some limited information that has been made public. With that being said, I do think a study to further explore that information is the goal of getting what I think is a worthwhile endeavor.

The other point I will make on it as well, and this is a conversation I was having with one of your colleagues, is that it is very important to have the relevant regulatory authorities in the United States publish as much information that is digestible by the private sector as they can in order to arm the private sector with that information to detect, disrupt, and deter such activity. The Financial Crimes Enforcement Network (FinCEN) at the Treasury Department has done a really good job over the last few years of publishing in-depth guidance documents that are meant to tell financial institutions this is the type of activity we are concerned about, this is the type of activity that you should focus on as financial institutions, and I think that has made a real impact. If it is a priority, it seems like it absolutely is a good candidate for that type of activity as well.

Ms. DE LA CRUZ. So what I am hearing is that the GAO should make a first step in actually trying to find the flow of the money and stop the flow of the drugs and people across our borders. And you feel a study will be beneficial.

Mr. LORBER. I think that is right. I also do think that it would be very important to have Treasury work, not collaboratively, but sort of in parallel track, because I think that the Treasury Department will have access to additional information that the GAO may not have access to, which could be useful in providing information to the private sector to help disrupt and to deter.

Ms. DE LA CRUZ. Thank you. I yield back.

Mr. LAWLER. The gentlewoman yields back. The Chair now recognizes himself for 5 minutes.

Thanks to the witnesses for being here today. I know it has been a long day, and I want to thank Chairman McHenry and Ranking Member Waters for holding this hearing. Mr. Feddo, you served as the first ever Assistant Secretary for Investment Security and oversaw the implementation of the Foreign Investment Risk Review Modernization Act (FIRRMA), which passed on a strongly bipartisan basis. Can you please elaborate on the effectiveness of FIRRMA in ensuring a welcoming investment climate while protecting our national security interests?

Mr. FEDDO. Sure. Thank you for the question. I think what makes that balance, the way the law has been drafted in the regulations have been implemented, is it has limited jurisdiction focused on specific things. For example, the purchase and the control of a U.S. business by a foreign person gives jurisdiction, but the paradigm, the lens through which that is scrutinized is a national security lens exclusively. And there is an enumerated list of national security factors that the government considers on whether or not to clear a transaction.

Similarly, with non-controlling jurisdiction, minority investments that give some level of influence or access over the U.S. businesses has been limited by the Congress to very specific areas, something related to collection and maintenance of sensitive personal data related. The business relates to critical technology that is export controlled, or it relates to a company that utilizes or is involved with part of our country's critical infrastructure. And because of the precision with which those areas of jurisdiction are defined in very clear rules, the private sector has very clear swim lanes on what is of concern and what isn't. Further, it is a voluntary process, so it gives some latitude to the private sector to understand there really is an open investment environment.

Mr. LAWLER. Thank you. There has been some concern obviously raised over TikTok. However, similar concerning situations are present in our financial systems as well. Two prime examples of that are broker-dealers that are subsidiaries of Chinese parent companies Webull and Moomoo. According to Webull CEO, Anthony Denier, "Webull is both a U.S. and a Chinese company. Our technology team is based in Hunan, China, while all of our customer-facing and brokerage operations are in New York City."

The company also is partially owned by Xiaomi, a Chinese company whose consistent security concerns led to their temporary inclusion on a U.S. Department of Defense blacklist in 2021. Moomoo is owned by Futu Holdings, which has close ties to Tencent, a company with known ties to the CCP. Concerns about these companies have been echoed by others on the Hill with these companies being the focus of letters from Senator Cotton to the Director of National Intelligence, and from Senators Tuberville, Braun, Scott, and Marshall to the SEC Chair. With millions of Americans using these apps, how concerned should we be about the potential for personally-identifiable information or other user data to be shared with parent companies with strong ties to the CCP?

Mr. FEDDO. Very concerned. This is a data economy, and it is very clear what the PRC views about the importance of collecting as much information as available and possible, and leveraging that for its own use and advantage.

Mr. LAWLER. In the interest of time, just to that point, so if it is very concerning, what do you think should be done to address that in a meaningful way to protect the privacy of U.S. citizens and companies?

Mr. FEDDO. If it is a CFIUS transaction, if it is one that is within jurisdiction, that would be something that I think the committee would want to look at. And when I was at Treasury, I frequently got letters from Members bringing to my attention transactions of concern. Some of them were not within our jurisdiction, but we very seriously considered every letter we received.

Mr. LAWLER. Thank you. The chairman's time has expired.

I would like to thank the witnesses, on behalf of Chairman McHenry, Ranking Member Waters, and the members of this committee, for their testimony today. I know it has been a long day.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, much to your delight, this hearing is adjourned.

[Whereupon, at 3:38 p.m., the hearing was adjourned.]

APPENDIX

February 7, 2023

Statement of Richard Ashooh

House Financial Services Committee

February 7, 2023

Chairman McHenry, Ranking Member Waters, and Members of the Committee:

Thank you for the opportunity to testify before you today. Having served as Assistant Secretary of Commerce for Export Administration at the Bureau of Industry and Security (BIS) from 2017 until 2020, I had both the honor and challenge of weighing many of the issues being considered by the Committee today, especially with respect to concerns over unauthorized technology transfers. It is in that capacity that I am testifying here today.

It should be stated at the outset that the concerns at the heart of this hearing are well-founded – from the moment of my swearing in at BIS, the challenges presented by the People's Republic of China were apparent, serious, and alarming. While great strides have been made in addressing these concerns, national security and economic threats are never static and must be constantly addressed.

It is also important to stress early on that U.S. global technology leadership remains strong and that the American culture of innovation is the envy of the world. I stress this because it is essential for policy makers – as you consider the challenge of promoting U.S. technology advancement while regulating it in the face of potential threats – to cause no harm to the very thing you are trying to promote and protect. Much of what has been accomplished in recent years in this area is the result of legislation this Committee had a key role in enacting - the Export Control Reform Act and Foreign Investment Risk and Review Modernization Act, also known as ECRA and FIRRMA. There are lessons from that debate which are still relevant as Congress considers new measures such as an outbound investment regime or dramatic changes to FIRRMA or ECRA.

While the issues associated with regulating financial behaviors or technology development are many, I will confine my comments today to four recommendations that are drawn from the lessons of recent efforts to regulate in this area.

1. **Clearly define the national security threat to be addressed**. While this objective appears obvious, the temptation to address a broad panoply of legitimate concerns which do not necessarily rise to the level of a national

security threat is alluring. National security as currently understood in the United States is already very broad, taking into consideration factors such as infrastructure, supply chains, and data protection, in addition to the traditional concerns over kinetic threats. That said, a fundamental premise in national security is specificity – the concept that if everything is a threat, then nothing is. During the ECRA/FIRRMA debate, concerns over joint ventures with Chinese companies led to a robust discussion of whether to expand the scope of CFIUS to regulate this activity. Once the key issue was distilled to one of concerns over technology transfer, the purview of export controls, the appropriate tailoring of ECRA could occur. Before a new regime is established, policymakers should ensure the target of such a regime is clearly defined

2. **Regulate Horizontally.** National security threats are rarely stove-piped – solutions to address them should not be either. National security threats are commonly carried out by individuals or groups, funded by governments, with the help of – or in pursuit of – technology. Therefore, multiple agencies must collaborate – the Department of State regulates persons, Treasury the financing, and Commerce technology, with coordination from additional agencies including the Department of Defense. One of the most crucial updates to FIRRMA and ECRA – made possible by amending these statutes concurrently – was to dovetail their definitions and authorities. Establishing a unified definition of critical technologies, and grounding that definition in well-defined – and might I say well-refined – export control lists such as the Commerce Control List maintained within the Export Administration Regulations or EAR and the United States Munitions List maintained within the International Traffic in Arms Regulations or ITAR, created clear, specific, updatable tools for regulating. And since it categorizes countries and restricts them based on national security concerns, this obviated the need for Treasury to develop its own country criteria – another robustly debated issue. To the extent new concerns arise, grounding any methods to address those concerns in already existing approaches and definitions is critical This synchronization –is a model for enhancing the power and effectiveness of U.S government policy implementation.

3. **Gaps exist – leverage what works to address them.** As mentioned, the passage of ECRA and FIRRMA made tremendous improvements to both regulatory regimes and in many ways streamlined their implementation. For

all the progress made because of and since the passage of these important laws, gaps do exist in the financial space. For instance, it is currently possible that export-controlled technology could be the beneficiary of U.S. financing – intentionally or not. This disconnect is one which could be addressed through alterations to current authorities. For example, as a member of the CFIUS committee, Commerce reviews cases through the national security lens prescribed by CFIUS, but also through the overall lens of the export control system, highlighting export control implications and defense industrial base issues previously undetected. Further, the review offers Commerce the chance to vet the applicants against other important national security authorities, such as compliance with the Defense Priorities and Allocations System, making for an even more comprehensive National Security review.

In addition, a recent enhancement to the Export Administration Regulations defines the term “support” by “U.S. persons” to include, among other things, financing. While further study must be conducted, this feature of the law creates a regulatory “hook” to limit financial activities already tied to restrictions based on export controls.

One further lesson from prior deliberations bears repeating. These issues, which have the potential to staunch billions of dollars of investments, demand thorough, thoughtful review and must include public input. Input from impacted stakeholders is crucial to effective policymaking. Further, just as synchronization amongst relevant agencies and authorities is critical, high priority must be given to alignment with partner nations.

Since the passage of FIRRMA and ECRA, many like-minded countries have embarked on similar national security reviews of both foreign direct investment screening and export controls. This point merits emphasis – U.S. goals are far more impactful with a coordinated, global response. It is clear from the behavior of our allies that the U.S. has led in these areas, resulting in a more global – and therefore far more effective – approach. It should continue this leadership.

Specifically, the U.S. along with key allies should consider a new method for multilateral controls in targeted technology areas that can work with – but is separate from - the existing multilateral regime construct that has served the U.S. and partner nations well in the past, but which is ill-suited for complex technology supply chains. The ad hoc approach as currently utilized in the area of semiconductors, for example, should be replaced with an agreed upon system among a smaller group of stakeholder nations that can act in concert, as the need arises, and with a full understanding of the nature of the technology being considered for control.

U.S. economic security is tantamount to national security and an essential driver to maintain U.S. supremacy at the leading edge. From the economic perspective, lack of multilateral or plurilateral alignment can result in ceding technology leadership through lost market leadership as industry's ability to invest the needed R&D to stay ahead becomes weakened. To continue this leadership requires that United States remain competitive in global markets and for the U.S. to move in concert with our allies.

Without such alignment, unilateral policy will ultimately fail in combating both national security and economic threats coming from China –it destabilizes U.S. leadership in the global market with foreign substitutes willing to replace U.S. companies in the supply chain and enables China to source sensitive technology and equipment in critical industries from our allies, undermining U.S. national security objectives.

U.S. global technology leadership is indisputable – but it is perishable. Hearing like this are essential to maintaining it.

I am happy to take your questions.

Statement of the Honorable Thomas P. Feddo
Before the U.S. House of Representatives Committee on Financial Services
February 7, 2023

Chairman McHenry, Ranking Member Waters, and distinguished Members of the Committee, I am honored to appear before you today for the Financial Services Committee's first substantive full Committee hearing of the 118th Congress. It is a privilege to join my fellow witnesses—some, former colleagues in public service—in this very important discussion.

That your first hearing focuses on "Combatting the Economic Threat from China," makes clear the priorities of the Committee—and the significance of the current geopolitical climate's potential impact on our economic security, and by relation, our national security.

As you know, I previously served as the Treasury Department's first-ever Assistant Secretary for Investment Security. In that role, I led and oversaw the operations of the Committee on Foreign Investment in the United States (CFIUS), including the timely and successful implementation of its historic overhaul after enactment of the overwhelmingly bipartisan Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA).

By virtue of that experience and roughly 27 years of government service—much of it in various national security-related capacities—I hope to contribute to your consideration of the risks to U.S. interests posed by the People's Republic of China (PRC) and how we can mitigate these risks through the use of investment screening and economic sanctions while maintaining a strong, open, free-market investment environment.

I believe we are engaged in one of history's most consequential great power competitions, and that technology plays a key role in that contest. Leaders of both the current and prior Administrations have warned of the existential challenge posed by the PRC and its policy of "civil-military fusion"—exploiting corporate advancements and innovation in technology to close the battlefield gap. Secretary Michael Pompeo's State Department noted that civil-military fusion "aims to make any technology accessible to anyone under the PRC's jurisdiction available to support the regime's ambitions." Secretary of State Antony Blinken has described Beijing's intent as: "to spy, to hack, to steal technology and know-how to advance its military innovation and entrench its surveillance state."

In the 1990s, I served as an officer on a *Los Angeles* class nuclear-powered fast-attack submarine, an engineering and technological marvel. Today our submarines, ships, aircraft, and other weapons systems remain cutting-edge; the most sophisticated and lethal in the world. This is in great part a result of America's free-market innovation ecosystem, both in and outside of the defense industrial base. From my submarine experience, the imperative for maintaining America's technology advantage is crystal clear—it advances the capability to win decisively on the battlefield, whatever the domain.

The PRC poses grave threats to the United States and its allies and to the global world order; including its strategy to exploit technology, raw materials, market power, and energy resources to achieve its ends. The last several years have also demonstrated the vulnerability of certain key supply chains—such as semiconductors, critical minerals, and clean energy technology—to these same goals.

Enactment in 2018 of both FIRRMA and the Export Control Reform Act (ECRA) was largely precipitated by this growing threat and the potential risk gaps manifested by foreign actors' activity vis-à-vis U.S. businesses involved with cutting edge technology. Now, as another step to counter the PRC's thirst for advanced technology and to remedy certain supply chain vulnerabilities, both Congress and the Biden Administration are considering potentially sweeping authorities creating a new government agency with new powers to block international business transactions—that is, to oversee *American* firms' allocation of resources, property, and capital outside the United States.

A version of this new interagency panel—a Committee on National Critical Capabilities (CNCC)—was considered during the course of drafting last year's CHIPS and Science Act. One proposal for the CNCC would have limited capital investments, sharing of intellectual property and know-how, financing, and even sales, that could benefit a "country of concern" in a sweeping list of sectors. Many key terms were broad and undefined, and left substantial latitude to the Executive branch to expand the "critical" sectors within the CNCC's purview and to designate the cabinet secretary accountable for leading it. Virtually every U.S. business, private or public investment fund, and bank engaged in international business could have been impacted if a transaction implicated the "influence" of a country of concern, and could have been compelled to share confidential deal details and obtain the government's permission to proceed. Even foreign entities in third countries transacting with, or influenced by, such a country could have been impacted. Subsequent proposals were narrowed, but I believe more homework is necessary.

Complicating matters, media reports indicate that the Biden Administration will move forward this spring with creating an outbound screening regime through Executive action, but little is known about its potential scope or focus.

To be clear, I hold the strongest view that creating an investment screening mechanism by Executive Order would be a major mistake. Rather, Congress, collaborating with and receiving key input from the Administration, is best suited to assess and respond to an issue of this complexity and potential scope and impact. Many of the points made throughout my written statement have similarly been voiced by Chairman McHenry in his October 3, 2022, letter to National Security Advisor Jake Sullivan.

There should be no dispute that to ensure America's future security the PRC's theft and misappropriation of technology must be prevented. The question is whether a new committee and bureaucracy of potentially immense scope and authority is the answer. The debate has seemed to take on a life of its own, with an apparent presumption that an outbound screening committee is absolutely necessary. The dangers posed by the PRC are real and present, not over-the-horizon, but decision makers would benefit greatly by refusing the temptation to rush into a "solution" without adequately assessing the extent to which it will both enhance national security and avoid creating unnecessary burdens on U.S. persons' business transactions and global capital flows.

I am encouraged that this Committee will begin, in part through some of today's hearing, to scrutinize the need for outbound screening. There should be more such hearings before any solution is enacted—to define the objectives, determine costs and benefits, and assess whether existing national security authorities could better meet the challenge.

When a bipartisan Congress and the Trump Administration worked together to formulate the most extensive changes to CFIUS in its nearly 50-year history, those efforts included roughly a half-dozen hearings with foreign policy and national security experts, the Intelligence Community, private sector stakeholders, and former and *current* senior Executive branch officials. Congress and the President thus understood well the gaps they intended to fill, where the expanded jurisdiction would reach, and the attendant increases in capacity and cost. The resulting strong, stand-alone bill resoundingly passed. Afterwards, it took two intensive years within an *existing* CFIUS bureaucracy, including at the Cabinet secretary level, to effectively implement the law.

Here, an outbound screening mechanism would be created out of whole cloth with, among other things, little to no clarity or consensus yet on who has the capacity and institutional heft to effectively implement the tool and be held accountable.

As with FIRRMA, decision makers would be best served by building a comprehensive record—taking testimony from experts and key stakeholders and, critically, senior Administration officials. That effort should explore whether existing or other types of authorities could be less bureaucratic and costly, and more precise and impactful, in achieving the ends—such as adjusting CFIUS's existing jurisdiction, expanding current economic sanctions against Chinese military companies, or modifying export restrictions. These tools do not appear to have been fully considered, but they may in fact offer a better cost/benefit calculus.

Only after defining the precise risk gap requiring action, and then considering the full spectrum of potential authorities available, a considered and careful assessment of a new outbound investment regime might as an initial matter examine:

- which agency should be accountable for leading implementation and operations;
- which agencies should participate, and why;
- precisely which technologies or sectors warrant investment screening, and why;
- the extent to which such a tool would have a "national security" standard, as distinguished from a "national interest" standard (that is, whether such screening would be intended for broad industrial policy/strategy);
- how risk will be quantified and assessed;
- whether and how risk could actually be mitigated and enforced for an approved transaction;
- whether filings should be mandatory;
- the financial and human resources required to be effective;
- the potential U.S. business compliance costs;
- the anticipated impacts on the American economy and global capital flows;
- the extraterritorial effects, and likely response from allies;
- the extent to which such a mechanism furthers the decoupling of the world's two largest economies—*and* to what extent that is a desired policy outcome; and

- the extent to which restrictions on U.S. person transactions would be simply replaced by other capital or intellectual property sources.

From my experience in government and with the interagency process, and particularly in leading CFIUS, I expect that a new committee or screening mechanism would be extremely time- and resource-intensive. It would require substantial energy and effort to build an effective, clear, and precise regulatory framework, and to hire the key human capital and expertise needed to ensure success. The argument that CFIUS itself could be "leveraged" for this mission also brings the risk of diminishing the capacity of CFIUS to effectively execute its current charge.

Again, it is my privilege to appear before you today and to contribute to your scrutiny of these issues consequential both to national security and the U.S. economy. I would be happy to answer any questions that you may have, and to be a future resource for the Committee.

As I mentioned in similar testimony last September to the Senate Banking Committee, to H.L. Mencken is attributed the wisdom that "for every complicated problem there is a solution—easy, simple, and wrong." In the interests of national security, a strong, open economy, and accountable government, all Americans should hope and expect that policymakers get this right. The alternative could be an unrestrained bureaucracy, wasted time and resources, and an inadequate response to the PRC's ominous goals.

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TESTIMONY FOR THE HOUSE FINANCIAL SERVICES COMMITTEE
HEARING ENTITLED "COMBATTING THE ECONOMIC THREAT FROM CHINA"

FEBRUARY 7, 2023

TESTIMONY BY PETER E. HARRELL

Thank you Chairman McHenry, Ranking Member Waters, and Members of the Committee. It is an honor to be here to testify alongside four distinguished colleagues at today's hearing on "Combatting the Economic Threat from China."

America's diplomatic, economic, and military competition with the People's Republic of China (PRC) represents an overarching challenge for this decade. The current government in Beijing is a competitor that seeks to undercut the political, economic and security interests of the U.S. and our partners. The PRC pursues policies— both domestically and around the world—that are in tension with American values. Unlike other U.S. competitors and adversaries, the PRC has the economic, technological, and military capability to mount a credible challenge to our security and our prosperity. Yet even as we compete with the PRC, we must simultaneously find ways to keep lines of communication open, cooperate on shared challenges like reducing greenhouse gas emissions, continue outreach to the Chinese people, and keep the door open to ties that benefit the U.S. and citizens in both countries.

In my view, the U.S. faces three primary sets of economic risks with respect to the PRC.

First, the U.S. and our allies risk losing our technological and economic edge. If we fail to maintain that edge—our technological leadership and the economic dynamism—we cannot ensure our security and the economic wellbeing of the American people.

Second, Beijing could use the China's control over data networks, supply chains, and key elements of the global economy to the detriment of the U.S. and our allies. As the current debate over TikTok here in Washington highlights, the Chinese Communist Party (CCP) can use Chinese control of telecommunications network infrastructure and over Chinese-controlled apps and software globally to collect sensitive data about Americans and impact our communications. The CCP could use its control of key supply chains, like the supply chains for certain critical minerals and clean energy technologies, to undercut the energy security of the U.S. and our allies. The U.S. and our allies need to strengthen our resilience against this set of risks.

Third, the PRC could divide the U.S. from our friends and build economic networks that pry countries away from the U.S. For example, China's government is working to increase the role of the renminbi in international finance and to weaken the centrality of the U.S. financial system. We need to defend our position. There is a similar dynamic regarding global development and infrastructure investment. In recent years countries around the world have begun to see the risks of taking on too much debt from the Belt and Road initiative, but absent an effective western alternative, the PRC's development financing will continue to expand.

The U.S. should respond to these threats with a three-pillar strategy.

First, the U.S. and our allies should promote our own technological leadership and economic strength. This includes making investments to strengthen our technological and industrial base. We must also avoid catastrophic self-inflicted wounds, such as defaulting on the U.S. national debt, which risks trillions of dollars of damage to the U.S. economy and would play straight into Beijing's efforts to portray the U.S. as irresponsible.

Second, we should protect our technological and economic advantages while limiting Beijing's ability to weaponize the leverage it has over the U.S. and our partners. We should be clear-eyed that a broad de-coupling would be extraordinarily expensive to both the U.S. and China, and we should not seek a complete decoupling. But we do need to ensure that U.S. and allied companies and experts are not inadvertently providing Beijing an edge in key technologies, giving the PRC access to our critical data, or creating dependencies for essential goods and products that the CCP could weaponize to its advantage.

Third, we should deepen our partnerships with existing allies while working to strengthen relations with new ones. The U.S. should continue to galvanize like-minded multilateral organizations like the G7 to develop shared approaches towards China, and to work with distinct groupings of countries to take joint action against specific risks, such as the recent Dutch and Japanese decisions to join the U.S. in imposing restrictions on semiconductor exports. We should pursue multilateral economic deals, including the Indo-Pacific Economic Framework. And we need to expand bilateral outreach to key emerging markets and swing countries, such as India and Indonesia, to deepen ties as we face a period of long-term competition with Beijing.

I will now elaborate on each of these three pillars of work.

I. Promoting the foundations of America's technological and economic leadership:

Our strategy should start by investing in the foundations of our technological leadership and economic strength. We cannot maintain our edge without investments in the U.S. and with our partners to spur technological innovation, ensure a resilient industrial and manufacturing base, secure critical supply chains, and promote our economic leadership globally.

Fortunately, over the past several years, Congress and the Biden-Harris Administration have taken steps to invest in the foundations of American technological and economic strength.

The bipartisan CHIPS and Science Act is providing tens of billions of dollars to promote the manufacturing of semiconductors—a key component of products from phones to cars—here in the U.S., and to ensure that the next generations of semiconductors are developed here. CHIPS and Science is also modernizing the National Science Foundation, the national labs, and other engines of innovation to make sure that U.S. is both investing in fundamental research and transforming new scientific breakthroughs into new technologies.

The Inflation Reduction Act will spur U.S. leadership in the clean energy ecosystem. As the world transitions to clean energy, the U.S. and our allies need to maintain our energy security by innovating and manufacturing key clean energy technologies rather than depending on China for key clean energy supply chains.

Finally, the Bipartisan Infrastructure Law provides a critical foundation for economic growth across a range of industries. Infrastructure literally lays the groundwork for investment. New factories need roads, power, and water. The next generation of tech entrepreneurs needs fast and reliable internet connectivity. Simply put, modernizing our infrastructure here at home is essential to our competitiveness with China.

The challenge now is to build on this foundation. Many of the policies the U.S. should pursue, such as ensuring STEM education, are beyond the scope of my testimony. However, I would like to offer three specific recommendations.

First, we need to multilateralize the clean energy agenda—and more broadly, the industrial policy—we are pursuing with the Inflation Reduction Act and other investments in the U.S. Some allies and partners have criticized the IRA as advantaging U.S. firms over their own. But the IRA actually offers a once-in-a generation opportunity to galvanize allies and partners to make their own complementary clean energy investments that will ensure both a speedy transition away from fossil fuels and a supply chain and industrial base that is not dependent on China or other competitors.

Much as Europe is enacting a European CHIPS Act to spur complementary semiconductor investments in Europe, U.S. allies should strengthen their own clean energy investments while working with the U.S. on new rules around industrial policy to ensure that incentives spur innovation, rather than becoming a subsidy race to the bottom. We need creative multilateral arrangements to bring partners into our clean energy ecosystem. For example, the Administration should build on the State Department's Minerals Security Partnership, a diplomatic initiative to strengthen critical minerals supply chains, to launch a new critical minerals club to build resilient minerals supply chains for batteries and other clean energy technologies.

Second, we need to continue identifying vulnerabilities in our supply chains and industrial base. Pursuant to Executive Order 14017, and supported by Congress, the Biden Administration has effectively worked to address a known set of supply chain vulnerabilities on products such as semiconductors, rare earth elements and other critical minerals, and clean energy equipment. But there are critical supply chains where we continue to have vulnerabilities, such as ingredients for pharmaceuticals, which are overwhelmingly concentrated in China and India. And there is a set of supply chain vulnerabilities that we don't know even know that we have. Congress should support policies to close known supply chain gaps while I urge the Administration to undertake a comprehensive study of supply chain vulnerabilities, much as Australia and the European Union have, to get a handle on the vulnerabilities we don't yet know we have.

My third recommendation is one squarely in this Committee's jurisdiction: the U.S. should develop a strategy to maintain the preeminent role of the U.S. dollar and the U.S. financial system globally.

The pre-eminence of the U.S. dollar and the U.S. financial system provides the U.S. with economic and national security benefits. It ensures we have access to capital and benefits U.S. companies investing and trading globally. From a national security perspective, it gives us the ability to target our adversaries with financial sanctions that have teeth.

In recent years we have seen growing efforts by countries such as Russia and China to develop alternatives to the existing global financial system—initiatives that have recently borne some success. While the dollar remains preeminent as a reserve currency and in foreign exchange, last year we saw Russia easily shift to Russian payment systems for domestic payments when sanctions forced western payments providers out of the market and cut major Russian banks off from their U.S. relationships. Today Beijing has already built domestic payment rails that are insulated from the U.S. and is increasingly seeking to push Chinese payment rails out to third countries. The Treasury and State Departments need to develop a proactive strategy to maintain the preeminent role of the U.S. dollar and U.S. financial system in the face of these challenges.

Finally, I must make a comment on the ongoing debate here in Congress about our national debt limit. If we fail to raise the debt limit and trigger a default on our obligations, we risk massive harm to both our domestic economy and America's position relative to China. Even aside from the domestic economic ramifications, a default would undermine global confidence in the dollar and speed up the development of effective alternatives. It would undercut the confidence of our allies and partners, who would justifiably question whether, if the U.S. cannot be counted on to pay its debts, it can be counted on as an ally. A default would give the CCP a priceless talking point about the irresponsibility of the United States. Congress must raise the debt limit this spring and ensure that the U.S. never defaults on our national debts.

II. Protecting our strengths and reducing the CCP's leverage

The second pillar of the strategy to address the economic threat from China is to protect our advantages and to reduce the CCP's leverage over the U.S. and our allies.

In recent years the U.S. began to take important steps to protect our economic and technological advantages. 2018 Congress enacted the Foreign Investment Risk Review Modernization Act ("FIRRMA") to modernize the CFIUS process. Congress also enacted the Export Control Reform Act ("ECRA") to update U.S. export controls and put them on a sound statutory basis. The Trump Administration launched a global campaign to reduce the role of Huawei and other untrusted vendors in global telecommunications networks. The Biden Administration has expanded export controls, particularly on semiconductor exports to China. We have begun to build the resilience of key U.S. supply chains so that the CCP cannot weaponize its control of key inputs, like rare earths minerals, to our disadvantage.

I would like to highlight three specific areas for additional action: data, investment, and trade.

Data:

The current debate here in Washington over TikTok, the Chinese-owned social media app, highlights the need for new legislation to better protect U.S. data from exploitation by the PRC and other competitors. The simple reality is that the U.S. does not currently have an effective legal regime to address and mitigate the national security data security risks we face from the PRC. And while the U.S. has taken steps to reduce specific risks, such as the important work begun by the Trump Administration to target the presence of Huawei and other untrusted telecoms vendors in 5G telecoms networks, much more needs to be done.

There are essentially five major vectors through which the PRC can get access to U.S. data. First, the Chinese government can engage in outright hacking or other espionage to steal data from U.S. IT networks. Second, the Chinese government can use its control of pieces of network infrastructure, not just mobile networking equipment but other key pieces of infrastructure like cloud services, to gain access to data. Third, the Chinese government can purchase U.S. companies that hold repositories of sensitive U.S. data, which is one reason the CFIUS process has been focused on data security risks. Fourth, the Chinese government can control apps and software, or other data-collecting tools, that are popular in the U.S. While TikTok is the most prominent Chinese app in the U.S., there are others, including in areas such as genomics, that arguably collect more sensitive data than does TikTok (albeit with far smaller numbers of users). And fifth, Chinese government-aligned entities can purchase data on the open market from the same data brokers that U.S. companies use to enable targeted advertising and market research.

We need a strategy that addresses each of these vectors. We need to continue hardening U.S. IT networks against espionage and cyber attacks. We need a network infrastructure line of work that focuses not only on mobile telecommunications, but on cloud services providers, undersea cables, and other parts of the network. We need CFIUS to continue focusing on data security risks as it evaluates Chinese acquisitions of U.S. companies. While the Biden Administration is working diligently within existing legal structures to creatively address the risks posed by apps and software like TikTok, the reality is that current legal structures are inadequate and we need new legislation to fully address these risks. We need a new domestic data privacy law to crack down on data brokers and to reduce the volume of data collected in the first place. I urge members of Congress to make data security a major area of work.

Investment:

The second area is investment. Following the enactment of FIRRMA in 2018, the Executive Branch stepped up scrutiny of Chinese investment in the U.S., including requiring notifications for all investments in certain U.S. technologies and beginning to actively require the divestment of certain companies that Chinese companies acquired without going through CFIUS review.

However, five years after FIRRMA's enactment the time has come to take another close look at CFIUS. In 2021 and 2022 I participated in the work of the CFIUS committee as a non-voting observer member and saw several continuing vulnerabilities. For example, while FIRRMA gave CFIUS some jurisdiction over certain real estate transactions, and over smaller minority investments, CFIUS continues to lack clear jurisdiction over certain greenfield investments here in the U.S. This creates a risk where, for example, a Chinese company can come into the U.S. to set up a data-intensive subsidiary—even in a sensitive area such as a cloud services--without ever passing through CFIUS jurisdiction. While I strongly believe that the U.S. should be open to capital and attract global investment, we also need adequate, narrowly targeted authorities to review and prohibit national security-sensitive investments from China and other competitors. CFIUS also needs greater authority to review and prohibit investments in U.S. companies that play a critical role in U.S. civilian supply chains, not just military supply chains, given the need to increase U.S. supply chain resilience.

Moreover, the time has come to take a close look at certain U.S. investments in China—not just Chinese investments here in the U.S. I fully recognize that much U.S. investment in China is benign, and I'm happy to see U.S. farmers and consumer companies prosper from sales to Chinese customers. However, U.S. investments in certain sectors in China can foster Chinese technological innovation to our detriment and can undermine our supply chain resilience. By and large, the U.S. government doesn't currently even have a full or detailed understanding of what U.S. investments in China are.

Take semiconductors. The U.S. is currently investing billions of dollars to strengthen semiconductor R&D and manufacturing. New export controls limit China's access to high end chips and chip manufacturing equipment. But there is currently no tool that clearly provides an authority to review investments by U.S. companies in Chinese semiconductor companies—even if a U.S. company is investing, for example, in a Chinese company that is trying to develop Chinese semiconductor tools or chip designs.

Establishing an outbound investment review is a complex undertaking that will raise novel policy, legal, and resourcing issues, and there are risks of unintended consequences. It makes sense to start an outbound investment review regime small and build it over time—much as the U.S. did with CFIUS in the 1980s. However, I strongly recommend that the government establish a narrowly tailored regime with the authority to require disclosures regarding narrow categories of investments in critical Chinese technology and supply chain sectors, and that the government have the authority to limit or block the small number of transactions that are likely to raise serious national security risks.

Trade:

The third area I'd like to discuss is trade. I believe our current trade posture towards China needs to be re-evaluated with a view towards the specific economic threats we face from the CCP and the U.S. needs to better integrate trade tools with our national security needs.

The existing U.S. tariff regime on China established by the Trump Administration was designed to increase U.S. economic leverage over Beijing in pursuit of a trade deal in which the Chinese government would cease IP theft, abandon a host of distortive subsidies, and end other unfair trade practices. The experience of the last several years, however, demonstrates that the PRC is simply not going to agree to such a deal. And despite the tariffs, data out today are likely to show record levels of bilateral trade between the U.S. and China in 2022.

The U.S. should expect that many tariffs on China will remain in place for the foreseeable future and re-evaluate specific tariffs against specific economic and national security threats we face.

For example, the U.S. currently imposes tariffs on a large number of imports from China that are not necessarily strategically important. Tariffs on products like clothing and inexpensive furniture were designed for negotiating leverage, not because imports of the goods themselves necessarily threatened U.S. economic or national security. Yet there are a number of critical goods in our supply chains that are not currently subjected to tariffs—ranging from rare earths and other critical minerals to pharmaceuticals and pharmaceutical ingredients, a situation that risks maintaining our dependencies on China for these critical products. Meanwhile, tariffs on other goods we import, like certain intermediate goods used in U.S. manufacturing, might actually raise costs for U.S. manufacturers and make U.S. manufacturing less competitive vis-à-vis international competitors. The U.S. Trade Representative and Commerce Department should review individual tariffs with an eye towards adjusting them—both up and down—to ensure that each specific tariff on each specific good is in our national interest.

III. Strengthening relations with allies and partners

Finally a strategy to address the economic risks we face from China must include expanding our cooperation with friends. In a world where the U.S. represents 24 percent of global GDP, but the G7, including the European Union, and other allies like South Korea and Australia, represent more than half, it is obvious that we are better positioned to address the economic risks from China collectively. Key U.S. allies also have strong technological and innovation ecosystems that can either complement U.S. expertise—or, if the U.S. doesn't keep our allies and partners on board, can undermine efforts to out-compete Beijing.

Fortunately, the U.S. is well-positioned to expand cooperation internationally. Russia's invasion of Ukraine a year ago has re-unified the trans-Atlantic alliance and raised awareness in Europe and Asia about the risks of autocratic, saber-rattling countries. It has also strengthened U.S. diplomacy regarding key technological and economic tools: the international working groups that coordinated sanctions and export controls on Russia have built relationships and expertise that the U.S. can leverage to improve cooperation regarding China.

The Biden Administration has taken a smart approach to diplomacy by seeking to assemble bespoke groupings of nations focused on specific risks. Bespoke groups for different risks let the U.S. pull together the countries needed to solve a specific risk while minimizing the presence of potential diplomatic spoilers. For example, effective multilateral export controls on high-end semiconductors effectively only require the U.S., the Netherlands, Japan, Taiwan, and South Korea. Adding other countries to discussions of semiconductor export controls would risk including spoilers without bringing additional leverage to the table. On the other hand, an issue such as ensuring a free and open internet in the face of the PRC's authoritarian vision of the internet requires a much broader grouping of countries—which is why the Biden Administration worked with the European Union and more than 60 countries last year to launch the Declaration for the Future of the Internet, a political commitment to maintaining a free, open, secure, and competitive internet ecosystem.

When it comes to trade, current initiatives including the Indo-Pacific Economic Framework and the Americans Partnership for Economic Prosperity create the opportunity to increase economic opportunities for both American citizens and partner countries while helping diversify and build more resilient global supply chains.

The Biden Administration has also been effective at revitalizing the G7 as a core coordinating body of large, technologically savvy, like-minded democratic partners. The G7 and a handful of "adjunct" members such as Australia and South Korea have achieved a remarkable degree of coordination on issues as diverse as Russia sanctions to launching coordinated global infrastructure investment initiatives to provide emerging markets with alternatives to BRI development financing. The Biden Administration should continue to invest in the G7, especially under Japan's leadership this year, as a tool for coordination with close allies to collectively address the risks we face.

Finally, the U.S. must invest in expanded bilateral ties with key emerging partner countries. Last week's announcement of a new technology partnership with India shows the potential for patient diplomacy to bring the U.S. and emerging partner governments closer together on technological issues like space and AI as well as the economy. The Administration's embrace of friendshoring and its economic statecraft and the work of the U.S. Development Finance Corporation to crowd in private capital and support impactful projects in the developing world, have the potential to strengthen economic ties with partners in ways that help us build collective resilience against the risks we face.

In Closing:

I want to close with two final, brief points. The first is that while my testimony today focuses on the risks we face from the PRC, we must keep lines of communication open to both the Chinese government and the billion-plus Chinese citizens who harbor no ill will towards the United States. We have to find ways to cooperate on issues such as global climate change. We will need nuanced diplomacy with China that embraces pressure where we need pressure but keeps lines of communication open to avoid crisis and to ensure that we understand each other.

Finally, I am optimistic about our future. There is a growing consensus here in Washington and across the country about competitive threats we face. We have proved resilient in the face of the shocks of the past several years. We have begun making investments to ensure our competitiveness. The American people remain more innovative and entrepreneurial than people anywhere else on earth. I am confident our future is bright, and that we will succeed in the era of economic and geopolitical competition we now face.

Thank you. I look forward to your questions.

February 7, 2023

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Introduction

Chairman McHenry, Ranking Member Waters, and distinguished members of the House Committee on Financial Services, I am honored to appear before you today to discuss economic sanctions and the U.S.-China relationship.

I come before this committee as an expert on sanctions; I have served at the United States Department of the Treasury as a Senior Advisor to the Under Secretary for Terrorism and Financial Intelligence and in the private sector advising clients on sanctions compliance. These positions have afforded me perspective on how sanctions policy is made and implemented, as well as how companies around the world adjust their business models, strategies, and compliance programs to ensure they are meeting their obligations under the law. I am testifying today in my personal capacity, and not as a representative of any organization with which I am affiliated or employed.

Over the last three decades, economic sanctions have become a core tool of American foreign policy and national security. When properly calibrated and judiciously used, they can impact U.S. adversaries' behavior and reduce their ability to harm U.S. interests around the world. Nevertheless, sanctions are not a silver bullet and, as the recent Russia war in Ukraine has made clear, have real limits.

In recent years, policymakers in the United States have begun employing targeted sanctions against China as part of the broader U.S.-China competition. These sanctions have focused on China's increasing control over Hong Kong, its alleged human rights abuses in Xinjiang, and on limiting U.S. firms' ability to transact in securities of certain Chinese Military Industrial Complex ("CMIC") companies, among other areas. While the United States' use of sanctions against China has so far been limited, policymakers have increasingly focused on sanctions as a key foreign policy tool in the U.S.-China relationship.

In my testimony today, I will discuss key principles to consider when thinking through the use of sanctions, including what makes them more impactful, when they are likely to work (and not work), and how these general principles might apply as U.S. policymakers think through sanctions in the U.S.-China relationship.

I will focus my testimony today on three key topics. First, I will discuss the U.S. sanctions architecture broadly. Second, I will discuss the range of sanctions currently in place on China. Third and finally, I will provide a few considerations.

[1] The views expressed in this testimony are my personal views and do not represent the views of PricewaterhouseCoopers or any other organization with which I am affiliated. Pursuant to legal and ethical obligations, I cannot discuss internal deliberations that occurred during my tenure at the Treasury Department.

February 7, 2023

U.S. Sanctions Architecture

Over the last five administrations, the Treasury Department, the State Department, and other executive agencies, along with Congress, have significantly increased the number of both countries and illicit actors subject to U.S. sanctions, as well as the sophistication of these tools. In recent years, the United States has expanded the scope, intensity, and impact of these tools. For example, in the recent sanctions campaign against Russia, the Biden Administration has designated more than 1800 Russia-related targets.[2]

Beyond new targets and ramped-up programs, successive administrations have imposed novel and sophisticated types of sanctions to change state behavior and prevent terrorist organizations, weapons proliferators, corrupt actors, human rights abusers, and many others from accessing the international financial system. The United States now employs a range of sanctions to protect its national security interests, including:

- **Comprehensive Jurisdictional Sanctions**. Often referred to as "embargoes," comprehensive sanctions broadly prohibit U.S. persons from transacting with certain countries or territories, often as a means of pressuring the regime in that country. The United States currently maintains comprehensive sanctions programs on Iran, Cuba, Syria, and North Korea as well as on the Crimea, Luhansk, and Donetsk regions of Ukraine.

- **Conduct/List-Based Sanctions**. List-based sanctions focus on individuals and entities engaged in illicit activity such as terrorism, weapons proliferation, drug trafficking, corruption, human rights abuses, and malicious cyber activity, among many other illicit activities. These persons are often added to the Specially Designated Nationals and Blocked Persons (SDN) List, and U.S. persons are required to block their assets. These sanctions are generally imposed to cut these persons off from legitimate financial and business markets. They are often referred to as targeted sanctions because they focus on the specific individuals and networks engaged in the illicit activity, as opposed to an entire jurisdiction.

- **Regime-Based Sanctions**. Regime-based sanctions are list-based programs that target members of current and former regimes engaged in corruption, human rights abuses, and other malign activity. These programs are not fully comprehensive programs but target specific regimes. Examples include the U.S. sanctions programs on Libya, Yemen, and Zimbabwe. The sanctions and associated prohibitions apply only to specific persons identified by OFAC, even if the U.S. government has the legal authority to prohibit transactions with any member of a regime.

- **Sectoral Sanctions**. First employed against Russia following its annexation of Crimea and destabilizing activities in eastern Ukraine, sectoral sanctions were developed to impose costs on target companies in situations where designating those companies as SDNs was

[2] *See, e.g.*, https://www.castellum.ai/russia-sanctions-dashboard, accessed February 5, 2023

viewed as too escalatory or would have too many negative collateral consequences. Whereas SDN designations prohibit U.S. persons from engaging in all transactions with the target, sectoral sanctions prohibit certain transactions with targets, such as transactions in new debt over a certain tenor or equity. The Russia sectoral sanctions program was subsequently expanded pursuant to the Countering America's Adversaries Through Sanctions Act as well as recent Biden Administration actions. The Trump Administration also extended these types of sanctions to a range of countries, including Venezuela and China. The Biden administration likewise enhanced these sectoral restrictions on China, as discussed further below.

- **Secondary Sanctions**. Secondary sanctions extend to non-U.S. persons who knowingly engage in significant transactions with SDNs or in prohibited sectors (e.g., in Iran's oil or shipping sectors). Secondary sanctions authorities target persons who engage in such activities by cutting them off from U.S. markets (including financial markets), among a number of additional penalties. Designed to pressure non-U.S. persons to cease engaging in unwanted activity with adversaries, they are often controversial with allies and partners given their so-called "extraterritorial" nature. Currently, the United States has secondary-sanctions authorities in the Iran, North Korea, Syria, Russia, Hizballah, Hong Kong, and terrorism programs.

It is important to note that the United States often imposes multiple types of sanctions to address a particular national security challenge. For example, Iran is subject to comprehensive jurisdictional sanctions, secondary sanctions, and list-based authorities. Likewise, Russia is subject to comprehensive jurisdictional sanctions, secondary sanctions, sectoral sanctions, and list-based sanctions.

The Current U.S. Sanctions Regime on China

To date, the United States maintains a range of targeted, list-based, sectoral, and secondary sanctions on Chinese persons designed to limit certain Chinese companies' access to U.S. capital markets, target certain Chinese companies and individuals accused of engaging in serious human rights abuse or corruption, disrupt efforts at sanctions evasion, and punish a number of persons for their involvement in the implementation of certain policies in Hong Kong. These sanctions are list-based programs designed to target specific individuals and entities and lock them out of the U.S. financial system and U.S. markets. To date, the United States has not imposed more sweeping sanctions on sectors of the Chinese economy nor any type of comprehensive jurisdictional sanctions that it maintains on countries such as Syria and Iran or jurisdictional regions such as Crimea.

Communist Chinese Military Companies and Chinese Military Industrial Complex Sanctions

Beginning under the Trump administration in November 2020, the United States prohibited certain transactions in publicly traded securities of designated "Communist Chinese Military Companies." The purpose of this sectoral-focused prohibition was to ensure that Chinese companies closely linked to the Chinese military — particularly those involved in China's military-civil fusion program — could not raise capital in U.S. markets.[3] Citing Beijing's efforts to leverage China's private sector to support military research and development, Executive Order 13959, titled "Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies," sought to restrict those companies' access to U.S. capital by barring U.S. persons from conducting certain transactions involving publicly traded securities of "any Communist Chinese military company."[4] As part of this effort to prevent Communist Chinese military companies from gaining access to U.S. capital markets, the U.S. government identified a number of such entities.[5]

Building on this initial effort, the Biden administration issued a new executive order to further refine these prohibitions. Like Executive Order 13959, Executive Order 14032 aims to prevent certain companies in the Chinese defense and surveillance technology sectors from benefiting from U.S. investment, and to prevent China's military-industrial complex from accessing U.S. capital markets.[6] The new executive order is more narrowly tailored than Executive Order 13959 in a number of ways.[7]

This approach — identifying specific Chinese entities the United States believes pose national security threats and preventing them from raising capital on U.S. markets — is narrowly tailored to limit those entities' ability to benefit from robust U.S. capital markets, while minimizing the risk that other companies will be unduly prevented from accessing U.S. markets. While these Chinese companies are not blocked persons and U.S. persons can continue to engage in certain business with them, they are now effectively cut off from U.S. capital markets.

Blocking Sanctions Against Certain Chinese Persons

The United States also has authorities in place to target individuals and entities with powerful blocking sanctions, which not only cut those persons off from U.S. capital markets but also prohibit U.S. persons from conducting any transactions with them. In recent years, the United States has

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[3] "DOD Releases List of Chinese Military Companies in Accordance With Section 1260H of the National Defense Authorization Act for Fiscal Year 2021," June 3, 2021 (https://www.defense.gov/News/Releases/Release/Article/2645126/dod-releases-list-of-chinese-military-companies-in-accordance-with-section-1260/)

[4] Executive Order 13959, "Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies," November 12, 2020 (https://home.treasury.gov/system/files/126/13959.pdf).

[5] Executive Order 14032, "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China," June 3, 2021. (https://home.treasury.gov/system/files/126/eo_cmic.pdf). Two listed companies, Luokung Technology Corporation and Xiaomi Corporation, challenged their designations, arguing that the U.S. government failed to develop a sufficient factual record to establish a linkage between them and the Chinese military. Both companies were successful in their challenges and were delisted shortly thereafter.

[6] Executive Order 14032, "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China,"

[7] For example, when Executive Order 13959 was issued, it caused considerable confusion in the markets due to ambiguity surrounding the application of the prohibitions to targeted companies and their subsidiaries. In particular, the prohibitions under the original executive order applied to entities whose name exactly or "closely" matched the name of an entity identified under the executive order. Executive Order 14032 leaves no room for ambiguity by removing the "closely matching" prohibition. In addition, Executive Order 14032 includes the full English-language names of the targeted companies rather than the shorthand English-language names that caused confusion following the issuance of Executive Order 13959.

used its authorities under the Global Magnitsky Human Rights Accountability Act,[8] signed into law in 2017, as well as authorities related to Hong Kong,[9] to target Chinese individuals and entities alleged to have engaged in human rights abuses or the suppression of rights.

For example, in July 2020, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) designated the Xinjiang Production and Construction Corps (XPCC) and two affiliated CCP officials under Executive Order 13818, the implementing executive order for the Global Magnitsky Human Rights Accountability Act.[10] The XPCC is a quasi-governmental paramilitary entity that was designated for its alleged connection to serious human rights abuses against ethnic minorities in Xinjiang.[11] According to the U.S. Government, the XPCC is involved in human rights abuses, including surveillance and detention of ethnic minorities.

Likewise, the U.S. government has targeted individuals in Hong Kong under Executive Order 13936, which authorizes the president to impose sanctions on non-U.S. persons involved or complicit in, *inter alia*, undermining democratic processes or institutions in Hong Kong; threatening the peace, security, stability, or autonomy of Hong Kong; censoring, prohibiting, or limiting the freedom of expression or assembly by citizens of Hong Kong; or limiting access to free media. On August 7, 2020, the Treasury Department imposed its first set of sanctions under Executive Order 13936, designating then-Hong Kong Chief Executive Carrie Lam and 10 other high-ranking Hong Kong or Chinese Communist Party officials for their role in implementing China's National Security Law.[12] Then, on December 7, 2020, the U.S. State Department announced the designation of 14 vice-chairs of China's National People's Congress Standing Committee who voted unanimously to adopt the National Security Law, thereby undermining "the ability of the people of Hong Kong to choose their elected representatives."[13] Relatedly, the Hong Kong Autonomy Act provides for secondary sanctions for certain persons engaging in knowing and significant transactions with individuals or entities designated pursuant to the Act.

Finally, the United States Government has used a number of non-China-related sanctions authorities to target certain Chinese companies and individuals. For example, in September 2019, the United States Government designated COSCO Shipping Tanker (Dalian) Co., Ltd, a Chinese shipping company, under Iran-related authorities for allegedly knowingly engaging in a significant

[8] *See* Executive Order 13818, "Blocking the Property of Persons Involved in Serious Human Rights Abuse or Corruption," December 20, 2017. (https://home.treasury.gov/system/files/126/glomag_eo.pdf). This executive order implements the legislation.
[9] *See* Hong Kong Autonomy Act, Pub. L. 116-149, codified as amended at 22 U.S.C. §5701.
[10] "Treasury Sanctions Chinese Entity and Officials Pursuant to Global Magnitsky Human Rights Executive Order," U.S. Department of the Treasury, Press Release, July 31, 2020. (https://home.treasury.gov/news/pressreleases/sm1073)
[11] *Id.*
[12] "Treasury Sanctions Individuals for Undermining Hong Kong's Autonomy," U.S. Department of the Treasury, Press Release, August 7, 2020. (https://home.treasury.gov/news/press-releases/sm1088)
[13] "Designations of National People's Congress Officials Undermining the Autonomy of Hong Kong," U.S. Department of State, Press Statement, December 7, 2020. (https://2017- 2021.state.gov/designations-of-national-peoples-congress-officials-undermining-the-autonomy-of-hongkong/index.html)

transaction for the transport of oil from Iran.[14] Similarly, the United States has targeted a number of Chinese persons for assisting North Korean sanctions evasion.[15]

Likewise, in September 2018 the United States imposed sanctions on China's Equipment Development Department for knowingly engaging in significant transactions with Rosoboronexport, an entity listed on the Countering America's Adversaries Through Sanctions Act ("CAATSA") Section 231(d), which identifies entities in the Russian Defense and Intelligence sectors.[16]

Overall, the United States maintains a limited patchwork of list-based and sectoral sanctions designed specifically to limit certain Chinese companies' access to U.S. financial markets and target particular Chinese persons whose actions are determined to threaten U.S. national security and foreign policy objectives.

Thinking Through the Use of Sanctions

As Congress and the Administration consider how to think through the use of sanctions to achieve national security and foreign policy objectives in the U.S.-China competition, a number of key lessons about what makes sanctions more or less likely to be impactful stand out:

1) **Defining the objective of sanctions is an important first step.** Over the last twenty years, the United States has deployed a wide range of sanctions types to combat national security threats. Any use of sanctions should be preceded by the definition of what those types of sanctions are meant to achieve. Are they meant to impact a company's ability to raise funds on U.S. markets while still allowing U.S. persons to conduct otherwise innocuous transactions with that entity? Are they designed to completely cut a target off from access to U.S. markets? Failing to answer these questions in the first instance could lead to situations where the wrong types of sanctions are deployed, with potential ineffective or unintended consequences.

2) **List-based, targeted sanctions can be impactful at disrupting particular threatening activity and making it harder, costlier, and riskier for adversaries to access U.S. markets**. A key objective of sanctions is to deny terrorists, human rights abusers, weapons of mass destruction proliferators, and others access to global and U.S. markets in order to make it more difficult for them to engage in malign activity. For example, successive administrations have used targeted sanctions against terrorist organizations to degrade their capabilities and make it more difficult for them to move money and earn illicit revenue. For example, the Obama and Trump administrations' efforts to constrict the Islamic State's

[14] *See, e.g.*, "The United States Imposes Sanctions on Chinese Companies for Transporting Iranian Oil," Press Release, United States Department of State, September 25, 2019 (https://2017-2021.state.gov/the-united-states-imposes-sanctions-on-chinese-companies-for-transporting-iranian-oil/index.html).

[15] *See, e.g.*, "Treasury Announces Largest North Korean Sanctions Package Targeting 56 Shipping and Trading Companies and Vessels to Further Isolate Rogue Regime," Press Release, United States Department of the Treasury, February 23, 2018 (https://home.treasury.gov/news/press-releases/sm0297).

[16] "CAATSA – Russia-related Designations," United States Department of the Treasury, September 20, 2018 (https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20180920_33).

access to the international financial system and to global markets greatly impacted the group's ability to finance its operations.[17] While such targeted sanctions may not change an adversary's desire to threaten U.S. national security, they can impact the adversary's ability to do so.

3) **Impactful list-based sanctions require constant vigilance by regulators, law enforcement, the intelligence community, and the private sector to ensure targets are unable to evade sanctions**. While sanctions can be a powerful tool for achieving U.S. foreign policy objectives, sanctions targets are continually developing and implementing strategies and tactics to blunt their impacts. These adversaries use a range of sanctions evasion techniques – many of which rely on obfuscation and opacity – to surreptitiously move funds and goods across the world, frustrating the impact of U.S. sanctions programs.[18] Effective implementation of sanctions is a constant game of cat and mouse, where the sanctions target attempts to evade detection and authorities and the private sector try to detect and root out such activity. While efforts to disrupt evasion are not always successful, forcing sanctioned persons to engage in such surreptitious activity often imposes significant costs and increases the risks they face.

4) **More expansive sanctions programs – including comprehensive jurisdictional programs – can have a greater macroeconomic impact and can also make it harder for countries to engage in activity that threatens the United States and its allies and partners.** For example, the recent U.S., EU, UK, and other jurisdictions' sanctions on Russia have reportedly limited Russia's ability to continue to produce advanced military equipment in a way that has made it more difficult for Russia on the battlefield. Indeed, this effort at using sanctions to degrade Russia's military capabilities has been an explicit focus of U.S. officials following the initial waves of sanctions on Russian companies and financial institutions.[19] Similarly, while Russia has been able to blunt the impact of sanctions due – in part – to increased energy prices helping provide additional revenue for the country, some economists have argued that the sanctions are taking a toll and will lead to a long-term decrease in Russian GDP and productivity.[20]

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[17] *See, e.g.*, Assistant Secretary for Terrorist Financing Marshall Billingslea, Testimony before House Committee on Financial Services Subcommittee on Monetary Policy and Trade, November 30, 2017. (https://www.treasury.gov/presscenter/press-releases/Pages/sm0227.aspx)

[18] Eric Lorber, "Schemes and Subversion: How Targets of Sanctions Undermine and Evade Sanctions Regimes," Testimony before House Committee on Financial Services, Subcommittee on National Security, International Development, and Monetary Policy, June 16, 2021 (https://www.fdd.org/wp-content/uploads/2021/06/2021.06.16-Lorber-Testimony.pdf)

[19] *See, e.g.*, "Remarks by Deputy Secretary Wally Adeyemo at Meeting of Countries Imposing Economic Restrictions on Russia," Press Release, United States Department of the Treasury, October 14, 2022 (https://home.treasury.gov/news/press-releases/jy1020). *See also* "The Impact of Sanctions and Export Controls on the Russian Federation," Fact Sheet, United States Department of State, October 20, 2022 (https://www.state.gov/the-impact-of-sanctions-and-export-controls-on-the-russian-federation/).

[20] "The Economic Impact of Russia Sanctions," Congressional Research Service, *In Focus*, December 13, 2022 (https://crsreports.congress.gov/product/pdf/IF/IF12092)

5) **However, more expansive programs, including comprehensive programs, often fail to achieve lofty policy objectives.** Expansive sanctions programs are often properly credited with important successes; for example, the sanctions campaign against Iran is widely thought to have helped bring Iran to the negotiating table to negotiate what ultimately became the Joint Comprehensive Plan of Action. However, even comprehensive programs are often insufficient to achieve substantial foreign policy objectives. For example, the comprehensive program on North Korea – while certainly impacting its economy – has not compelled North Korea to give up its nuclear weapons program. This does not mean such programs are ineffective; indeed U.S., EU, UN, and other sanctions on North Korea have undoubtedly made it more difficult, costly, and expensive for North Korea to fund certain activities, including the development of its nuclear weapons program, but rather that they often times are not a silver bullet for solving difficult foreign policy challenges.

6) **Sanctions, particularly secondary sanctions, are more likely to be impactful when access to U.S. markets is more important than access to the sanctions target's markets.** For example, in the case of Iran, the incentive for potential partners to forsake connections with U.S. markets in favor of Iranian markets was very low, as Iran's market (both for energy products and other items) was comparatively small and underdeveloped. Thus, when the United States put forward a choice to foreign companies that they could either do business in Iran or the United States, but not both, most companies chose to continue doing business in the United States. This dynamic may not always hold, however. Indeed, China's economy is roughly comparable in size to the U.S. economy. The United States has not waged an aggressive, expansive sanctions campaign against a country with such an economy. It is an open question whether large numbers of non-U.S. firms would decide to continue doing business with China and not the United States, and what impact that could have on a U.S. sanctions campaign.

7) **Sanctions are likely to be more impactful when the target – particularly a country's leadership – cares more about the negative economic effects caused by the sanctions than their policy objectives.** If a country's leaders think the country can weather the negative economic impacts – or value the objectives more than the cost of sanctions – the use of these tools is unlikely to succeed. Most recently for example, the U.S. Government's efforts to deter Russia from invading Ukraine with the threat of crippling sanctions did not change the Russian decision to invade Ukraine in February 2022. Because Russian leadership did not believe that the United States and its allies and partners would impose such sanctions, because they believed that Russia could weather the impacts, or because they were willing to pay the cost of sanctions in order to achieve their objectives in Ukraine, the threat of sanctions failed to cause Russian President Vladimir Putin to change course.

Conclusion

These are important lessons gleaned over the last twenty years of the aggressive use of sanctions against U.S. adversaries and relevant when considering the use of sanctions in any context. I look forward to answering your questions.

Thank you very much again for the opportunity to testify.

Hearing before the

United States House of Representatives

Committee on Financial Services

"Combatting the Economic Threat from China"

Clete R. Willems

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Nonresident Senior Fellow, Atlantic Council

February 7, 2023

Chairman McHenry, Ranking Member Waters, and Members of the Committee,

Thank you for the opportunity to discuss the threat that China poses to U.S. national security and economic leadership. The Chinese Communist Party (CCP) seeks to remake the international order to its advantage with priorities and values that differ significantly from our own. Accordingly, the outcome of the U.S. – China strategic competition will profoundly affect the future of our country and the world we live in.

Congress deserves credit for prioritizing the China challenge. The fact that this is the first Financial Services Committee hearing of 2023 underscores your commitment to overcoming this existential threat, as does the creation of the *Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party*.[1]

For its part, the Financial Services Committee will play a pivotal role in developing Congress' legislative approach to China. With jurisdiction over the U.S. financial system, this Committee will shape some of the most consequential policies being considered, such as restrictions on U.S. capital flows to prevent them from strengthening China's military.

In my testimony today, I hope to facilitate the Committee's development of a robust and thoughtful China agenda by outlining principles and actions to improve the odds of success. In particular, the United States should clearly define its objectives with respect to China,[2] fully consider the broader economic and geopolitical consequences of its policies, and coordinate action with allies. Our approach should also be comprehensive and not only defensive in nature. We should crack down on problematic capital and technology flows. But we should also prioritize competitive tax and regulatory policies and double down on our comparative advantages, including our free market economy, democratic values, deep network of partners and allies, and the most vibrant financial system in the world.

To this end, my testimony will cover:

- The <u>defensive measures</u> necessary to protect U.S. national security and prevent our capital and technology from contributing to China's military development;

- The need for <u>multilateral coordination</u> to ensure these measures are effective and do not harm U.S. economic competitiveness, as well as engagement with China in <u>international financial institutions</u> to advance U.S. interests;

- The importance of pairing defensive action with <u>offensive measures</u> to maintain U.S. economic strength and create incentives to reduce supply chain reliance on China; and

- The role and appropriate contours of balanced <u>bilateral</u> engagement with China.

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[1] Congress should be commended for clarifying that the U.S. national security threat to the United States emanates from the Chinese Communist Party (CCP), not the Chinese people, many of whom suffer under the same policies that concern the United States.

[2] Possible objectives include protecting U.S. national security from the CCP and promoting U.S. economic and geopolitical leadership to preserve important values like freedom, democracy, and the respect for human rights.

My ideas are shaped by a career working on China policy in the U.S. Government. This includes serving as the Deputy Director of the National Economic Council (NEC), a member of the National Security Council (NSC), and President Trump's Sherpa to the G7 and G20. In 2019, I joined Akin Gump Strauss Hauer & Feld, where I help companies in the private sector navigate the challenges posed by the complex U.S.-China relationship. Nonetheless, the views in this testimony are entirely my own and do not necessarily align with the firm's many clients.

Part I: Defensive Measures

To win the strategic competition with China, the United States should take all necessary actions to avoid contributing to China's military development with U.S. capital or technology. This necessitates novel actions on outbound investment, sanctions, and export control measures.

At the same time, it is important to realize that these actions can impose a substantial cost on the U.S. economy by cutting off a critical market and are only effective if U.S. allies take similar actions since they can provide much of the same capital and technology that we can. Overly-broad measures also raise questions about our commitment to a market economy, a key source of our strength in contrast to China's industrial policies and a distinction that matters to many of our allies. Therefore, our "defensive" measures should be predicated on national security threats, appropriately targeted, and internationally coordinated to the extent possible.

Outbound Investment Screening

The Biden Administration and Congress are both considering an outbound investment screening mechanism. To date, no action has been taken, likely in part because of conflicting objectives under consideration. Some proponents focus on national security concerns about U.S. capital funding People's Republic of China (PRC) military development while others advocate for broad supply chain and economic objectives, including on-shoring the production of key goods. Many experts have also raised questions about whether such a mechanism would be redundant of existing authorities, where it would be housed in the U.S. Government, and whether it would be overly burdensome for the U.S. Government and U.S. business.[3]

The United States should seriously consider adopting outbound investment restrictions and a corresponding transparency mechanism; however, any restrictions should be targeted to national security concerns and designed to cover gaps in existing tools. For example, if the United States determines that an export control action is warranted to prevent U.S. companies from sending national security sensitive technology to China, the United States should also prohibit U.S. companies from financing China's indigenous development of that same technology. Greater transparency about how U.S. investment in China is being deployed would also help us gain a better sense of the problem and whether additional restrictions are ultimately needed.

This approach has numerous merits. Prohibiting U.S. capital from financing China's indigenous development of sensitive technologies with military implications is a clearly defined (and hard to

[3] See, e.g., Sarah Bauerle Danzman and Emily Kilcrease, "Sand in the Silicon: Designing an Outbound Investment Controls Mechanism", Atlantic Council and Center for New American Security, available at: https://www.atlanticcouncil.org/wp-content/uploads/2022/09/Sand_in_the_Silicon-Designing_an_Outbound_Investment_Controls_Mechanism..pdf.

argue with) national security objective. Because this approach is national security-based, it will be easier to convince U.S. allies to follow along than with a broad supply chain-based approach. This policy would also fill a gap in export control actions that focus on technology flows, not financial flows. And clear prohibitions will be less burdensome for the U.S. Government and business than a bureaucratic review mechanism.

By contrast, we should not address broad supply chain issues with outbound investment screening. This would unduly harm the many U.S. companies that have operations in the Chinese market primarily to sell there.[4] It would also represent an unprecedented type of intervention in U.S. company decision-making and resemble the type of command and control policies associated with Beijing. Finally, there are better ways to reduce supply chain reliance on China, including a proactive trade policy with third countries.

Sanctions on Chinese Military-Industrial Complex (CMIC) Companies

To help ensure U.S. capital is not financing Chinese military development, the United States should also expand existing restrictions on financing for Chinese-Military Industrial Complex (CMIC) companies. Both the Trump and Biden Administrations have taken action to limit U.S. investments in companies that are part of China's military-industrial complex.[5] However, the prohibitions are limited to the "purchase or sale of publicly traded securities" and entities involved in the "defense-material" or "surveillance-technology sectors". This leaves two major gaps: (1) private investment, including private equity and venture capital activity; and (2) PRC companies that pose national security threats but are not technically in one of the named sectors. Therefore, the United States should expand existing CMIC restrictions to cover private investment and a broader set of activities in China that may pose national security concerns.

Relatedly, the United States should consider whether it is possible to reconcile the various types of entity-based restrictions that it applies under CMIC and Commerce's Entity List and Military-End User Lists. There are reasons why this could be difficult, including a different process and different set of interagency actors for each determination. But if the Administration believes that a Chinese company raises enough concerns to apply restrictions on export, it should strongly consider limiting any potential investment in that same company as well.

Export Controls

A robust use of export controls is critical to ensure that U.S. companies are not supplying China with sensitive technology that could enhance the PRC's military capabilities. But it is vital that these measures are targeted, coordinated with U.S. allies, and implemented in a predictable manner to ensure their effectiveness and mitigate harm to U.S. industry.

The Biden Administration has actively deployed new export controls, but its implementation has been mixed. For example, the October 7, 2022 rule targeting China's ability to obtain advanced

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[4] US-China Business Council, "Member Survey", Jun. 2022, available at: https://www.uschina.org/sites/default/files/uscbc_member_survey_2022.pdf.

[5] Executive Order 14032, Addressing the Threat from Securities Investments That Finance Certain Companies of the People's Republic of China, issued Jun. 3, 2021; Executive Order 13959, Addressing the Threat from Securities Investments That Finance Communist Chinese Military Companies, issued Nov. 17, 2020.

computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors has numerous positive elements.[6] The rule highlights the Administration's commitment to addressing the PRC military threat and attempts to avoid impacting legacy semiconductor ecosystems that are important to the global supply chain. Additionally, the rule's country-wide application is better than entity-based approaches, which have allowed China to shift production to unnamed companies to avoid restrictions.

However, it remains unclear why the Biden Administration did not initially coordinate the October 7 rule with U.S. allies. As a result, in the immediate aftermath of the rule's release, Dutch and Japanese companies made statements suggesting it would help their business in China, while U.S. companies reported that their business would be substantially harmed.[7]

Recent reports that the Biden Administration has now convinced the Netherlands and Japan to impose additional export controls on China are welcome, but it may be a Pyrrhic victory. A key open question is whether these allies will include key features of the U.S. rule in their regulations, including controls on persons, the broad end-use catch-all control on semiconductor technology, and prohibitions on re-exportation for those tools outside of the Netherlands and Japan. Nothing short of parity with the U.S. rules will level the playing field or meet the Administration's national security objectives.

If the Dutch and Japanese actions lack key features of the U.S. rule, China will find ways to exploit the gaps. For example, without Dutch and Japanese person controls, Chinese companies can lure talent away from Dutch and Japanese companies to aid in their advancement. Without a catch-all control, the rule will not keep up with an evolution in the tools used for advanced node manufacturing. And without restrictions on re-exportation, Chinese companies can find ways to obtain foreign tools and technology via third countries. In addition, Chinese indigenous equipment makers can today freely obtain critical sub-systems and components from firms in Asia and Europe that can be integrated into indigenous semiconductor manufacturing equipment – all outside the purview of the U.S. export control system.

The Administration also erred in issuing the October 7 action as an interim final rule instead of a proposed rule. This deprived U.S. companies, with their deeper understanding of supply chains, a chance to opine on the rule before it went into effect. It was also unnecessary since Commerce had already imposed licensing requirements on tools and integrated circuits through "is

[6] Bureau of Industry and Security Interim Final Rule, "Implementation of Additional Export Controls: Certain Advanced Computing and Semiconductor Manufacturing Items; Supercomputer and Semiconductor End Use; Entity List Modification", Oct. 7, 2022.

[7] See, e.g., Financial Times, "US export curbs will have 'limited' impact, chip tool supplier ASML says", Oct. 19, 2022, available at: https://www.ft.com/content/4e5687df-737a-4d62-bb53-b3f316f52e2c; Bloomberg Law, "Chip Industry Braces for 'Heavy Blow' From China Export Curbs", Oct. 12, 2022, available at: https://news.bloomberglaw.com/international-trade/applied-materials-cuts-forecast-blaming-china-export-curbs-1; Reuters, "Lam Research warns of up to $2.5 bln revenue hit from U.S. curbs on China exports", Oct. 19, 2022, available at: https://www.reuters.com/technology/lam-research-warns-up-25-bln-revenue-hit-us-curbs-china-exports-2022-10-19/.

informed" letters.[8] Finally, this decision defies the Export Control Reform Act, which requires BIS to "include a notice and comment period" before publishing unilateral controls.[9]

Due to this unforced error, there were widespread and unnecessary disruptions in production, fraying the already strained semiconductor supply chain. In response, the Administration backpedaled through "interpretations" and "waivers" for certain companies. It was also forced to fine-tune parts of the rule to prevent multinational companies from shutting down manufacturing operations – the ramifications of which would have been felt by downstream consumers.

Moving forward, Congress should pressure the Administration to follow ECRA's clear guidance about coordination with allies and the importance of public comments on export control rules. Rule of law and due process begets predictability and stability, which are hallmarks of the U.S. legal system, and that will ultimately help U.S. businesses and U.S. allies.

Part II: Multilateral Coordination

Multilateral coordination is critical to ensure that U.S. measures on China are effective and do not unduly harm U.S. economic competitiveness. The United States should use all available avenues to facilitate such coordination, including bilateral discussions and multilateral fora. Among the multilateral fora, the G7 is likely the best suited to advance U.S. goals. By contrast, the G20's ability to achieve effective coordination appears limited due to its membership, although the United States should use the G20 to pressure China directly on select issues.

The United States should also be active at the World Bank and International Monetary Fund (IMF) to pressure China to follow through on its lofty rhetoric about being a responsible international stakeholder and defender of the multilateral system. More specifically, the United States should push to change China's status as one of the top recipients of World Bank loans. The United States should also work with allies to prevent China from blocking important reform packages at the IMF through an unwillingness to restructure developing country debt.

G7/G20

The G7 provides a useful forum to work with U.S. allies to coordinate policy on China. Many key U.S. allies are present, including those best positioned to provide financial flows, technology, and know-how to China. The G7's year-round meeting schedule also offers frequent opportunities for engagement on key issues. And in recent years, the G7 has a track record of success, including on geopolitical crises like Ukraine.

Recent G7 actions and statements illustrate progress on aligning approaches on China. For example, the G7's recently enhanced Investment Screening Expert Group helps coordinate on policy approaches in this area.[10] Likewise, the 2022 communique highlights "China's non-

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[8] See, e.g., Reuters, "Biden to hit China with broader curbs on U.S. chip and tool exports", Sept. 15, 2022, available at: https://www.reuters.com/business/exclusive-biden-hit-china-with-broader-curbs-us-chip-tool-exports-sources-2022-09-11/.

[9] ECRA, 50 U.S.C. § 4817(a)(2)(C).

[10] White House, "Carbis Bay G7 Summit Communiqué", Jun. 13, 2021", available at https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/13/carbis-bay-g7-summit-communique/.

transparent and market-distorting interventions and other forms of economic and industrial directives" and pledges to "work together to develop coordinated action to ensure a level playing field for our businesses and workers, to foster diversification and resilience to economic coercion, and to reduce strategic dependencies."[11] Japan's G7 host year is likely to offer new opportunities, including collectively developing "effective responses to economic coercion".[12]

To maximize the G7, the United States should push members to build on these statements and turn pledges into tangible action. Two areas of focus should be outbound investment screening and export control coordination. Indeed, with respect to broadening export controls on China, this forum may be more useful than the Wassenaar Arrangement, which has bogged down in recent years. The United States should also consider proposing an expansion of the membership to include other key allies on a permanent basis, such as Australia and Korea, and to invite others on a select basis, such as Taiwan, for export control discussions.

The G20 has recently been less effective than the G7 and the United States needs to be realistic about how much it can achieve through this forum. Although the G20 was essential in managing the 2008 financial crisis, it has since lost its unifying issue and struggled to develop a coherent agenda in light of its diverse range of members with a diverse range of priorities, including China and Russia. The United States should not disengage from this forum entirely since regular engagement with these countries on international economic issues still has some utility. Further, the United States can use G20 meetings to put China on the defensive by pushing issues such as the need for more transparent infrastructure financing and debt restructuring for poorer nations.

World Bank

At the World Bank, the United States should push to substantially limit the loans provided to China. Despite a slight decrease in its position, China remains one of the top five recipients of World Bank loans, with $16 billion currently outstanding.[13] Some of the World Bank's loans to China may serve good purposes, but it is hard to reconcile how a country with China's track record as the world's leading bilateral lender continues to be a major World Bank borrower, preventing other countries in greater need from receiving loans instead.

China's Belt and Road Initiative and its creation of the Asian Infrastructure Investment Bank (AIIB) only serve to underscore the absurdity of the situation. Indeed, recent reports suggest that China's loans to middle and lower-income countries exceed $170 billion and are probably much higher.[14] As a result, there are now more than 40 low and middle-income countries whose debt

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[11] G7 Germany, "G7 Leaders' Communiqué", Jun. 2, 2022, available at: https://www.g7germany.de/resource/blob/974430/2062292/9c213e6b4b36ed1bd687e82480040399/2022-07-14-leaders-communique-data.pdf?download=1.

[12] TIME, "As G7 Head, Japan Wants Member Countries to Team Up Against China's 'Economic Coercion'", Jan. 3, 2023, available at: https://time.com/6245021/japan-g7-economic-coercion-china/.

[13] World Bank, "IBRD Country-wise Loan summary", Jan. 8, 2023, available at: https://finances.worldbank.org/Loans-and-Credits/IBRD-Country-wise-Loan-summary/5xqk-t59j.

[14] Kai Wang, "China: Is it burdening poor countries with unsustainable debt?", Jan 6. 2022, available at: https://www.bbc.com/news/59585507.

exposure to Chinese lenders exceeds 10 percent of their annual economic output (GDP), with Djibouti, Laos, Zambia, and Kyrgyzstan holding debts to China equivalent to at least 20 percent.

Despite the clear policy imperative to curtail Chinese World Bank loans, it is important to recognize that achieving this objective will be difficult. The United States has the largest World Bank voting power but cannot make unilateral changes to the institution's practices. International Bank of Reconstruction and Development (IBRD) graduation is based on the "[b]orrowing countries' decision to graduate from IBRD" and "involves a dialogue between the country and the bank".[15] It also takes place on "a case-by-case basis reflecting country context", which disregards the fact that China has long surpassed the graduation discussion threshold. Thus, the United States can and should continue to object to China receiving loans, but it is unlikely to yield immediate changes.

The United States could seek broader reforms to the rules to address the China situation, but this could also pose risks to the United States. In particular, if the United States pushes for reforms that would prohibit China from receiving loans, it should also expect China and others to push for reforms that could disadvantage U.S. interests, such as more voting power for themselves.[16]

In light of this situation, the United States should continue to work with allies to publicly pressure China to reduce or abandon its World Bank loans, but recognize that actually changing this practice will take time. The Trump Administration made incremental progress and in 2019 was able to persuade the World Bank to reduce China's loans, converting China from a net borrower to a net lender within the institution.[17] More progress is needed, and this Committee could consider working with Administration to devise a broader reform package that includes provisions to wean China off of World Bank loans once and for all, paired with other reforms that might draw support from a broader range of members to minimize any negative trade-offs.

International Monetary Fund (IMF)

At the IMF, the United States should also seek to change the way China does business. In particular, the United States should work with allies to pressure China to restructure faulty loans for countries where it has provided significant amounts of lending, putting China on the spot to finally become the responsible international stakeholder it claims that it wants to be.

As just discussed, China is a major lender to several developing nations in significant need of debt relief. One role of the IMF is to provide such relief in exchange for important economic

[15] World Bank Group, "Sustainable Financing for Sustainable Development: World Bank Group Capital Package Proposal," April 2018.

[16] Victor Shih, "How China Would Like to Reshape International Economic Institutions", Atlantic Council, Oct. 17, 2022, available at: https://www.atlanticcouncil.org/in-depth-research-reports/report/how-china-would-like-to-reshape-international-economic-institutions/.

[17] World Bank, "New Country Partnership Framework for China Reduces Lending and Focuses on Global Public Goods and Institutional Challenges", Dec. 5, 2019, available at: https://www.worldbank.org/en/news/press-release/2019/12/05/new-country-partnership-framework-for-china-reduces-lending-and-focuses-on-global-public-goods-and-institutional-challenges.

reforms within the country. Oftentimes, however, China is the main obstacle to providing such relief, which prevents the necessary restructuring from occurring.

There are numerous examples in just the last few weeks of China's lack of cooperation in restructuring loans for needy countries. This has been a major highlight of Secretary Yellen's recent trip to Africa, where she criticized China for its refusal to provide debt relief for Zambia.[18] Similar situations appear to be unfolding in Chad, Ethiopia, and Sri Lanka, despite China previously agreeing through the G20 that it would assume its share of the burden in helping restructure debt.[19]

There is no easy solution here either, although Congress should partner with the Administration and ramp up the pressure on China to hold it accountable for its promises. Indeed, the United States should loudly and clearly declare that this is an opportunity for China to demonstrate that it will be a responsible international stakeholder, or it will be called it out for its hypocrisy.

Other International Bodies

Despite these concerns about how China has been operating in multilateral institutions, we should not go so far as to attempt to reject China from these institutions outright. China's economy and lending to other countries are too large to be ignored, and there are no good alternatives to the existing international economic framework. Therefore, we must continue to do the best we can working with allies in these institutions to hold China to account.

Additionally, we should be careful about prohibiting Chinese entities from other global institutions, such as standard-setting bodies. Along these lines, there have been calls to reject Chinese participation from the body that develops specifications and standards to promote secure, global interoperability of payments.[20] It is in the interest of U.S. businesses and consumers that these bodies have global participation to maintain a secure global payments system and to pressure the Chinese government and Chinese actors to adopt global standards.

Part III: Offensive Measures

Enacting "defensive measures" is a necessary part of a successful strategy to counter China, but it is not sufficient. At the same time as the United States is cutting off capital and technology, we must also be creating new opportunities for U.S. companies affected by these measures.

One reason this type of "offensive" strategy is so important is that sales into the Chinese market are a vital source of revenue for many leading U.S. technology companies.[21] Limiting those

[18] Hans Nichols, "China's first African debt rodeo is playing out in Zambia", Jan. 31, 2023, available at: https://www.axios.com/2023/01/26/china-zambia-africa-debt-restructuring.

[19] Bloomberg, "China's Premier Vows to Work With G-20 on Debt Restructuring", Dec. 8, 2022, available at: https://www.bloomberg.com/news/articles/2022-12-08/china-s-premier-li-vows-to-work-with-g-20-on-debt-restructuring.

[20] E.g., the Merchants Payments Coalition.

[21] See, e.g., Market Watch, "Apple, Nike and 18 other U.S. companies have $158 billion at stake in China trade war", Apr. 4, 2018, available at: https://www.marketwatch.com/story/trade-war-watch-these-are-the-us-companies-with-the-most-at-stake-in-china-2018-03-29.

sales through export controls and other restrictive measures will substantially reduce the revenue available to fund groundbreaking R&D. Therefore, we must help our companies find new markets to make up for lost revenue, allowing them to maintain their position as global innovation leaders ahead of their Chinese competitors. One way to do this is to pursue market access trade agreements that cut down barriers to U.S. exports in third-country markets.

Comprehensive, market access trade agreements are also critical to achieving our supply chain objectives, including reducing our reliance on China for critical goods. In particular, if we want companies to move supply chains out of China, we need to provide them with meaningful incentives to relocate. This is all the more pressing in light of China's aggressive pursuit of trade deals around the world that aim to lower the cost of integrating supply chains with China. If we are serious about resolving our supply chain issues, we need a serious trade policy to match.

The U.S. Export-Import Bank (EXIM) and U.S. Development Finance Corporation (DFC) should also be considered as a part of an offensive strategy. EXIM includes tools that can help U.S. companies access additional markets while the DFC has tools that can assist with a "friend-shoring" strategy by helping to finance trade infrastructure in key third markets.

Trade Agreements

High-standard trade agreements are a vital part of any strategy to counter China. They can help our companies make up lost revenue with new markets, make it easier for companies and countries to link their supply chains with the United States, and help demonstrate to the world that we have a coherent, comprehensive international economic strategy to counter China.

Recent U.S. trade agreements also include numerous provisions that liberalize financial services markets and facilitate a level playing field for U.S. financial institutions. For example, some of the key features of the United States – Mexico – Canada Agreement (USMCA) include:

- Obligations to prevent discrimination against U.S. financial service suppliers and prohibit restrictions that would limit their business;
- Prohibitions on local data storage requirements in the financial services sector;
- Provisions to allow for the cross-border transfer of data;
- Robust transparency provisions to ensure good regulatory practices in licensing and other market access authorizations; and
- Policy and transparency commitments on currency.[22]

[22] United States–Mexico–Canada Agreement ("USMCA"), "Macroeconomic Policies and Exchange Rate Matters", available at: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/33_Macroeconomic_Policies_and_Exchange_Rate_Matters.pdf; Office of the United States Trade Representative, "UNITED STATES–MEXICO–CANADA TRADE FACT SHEET Modernizing NAFTA into a 21st Century Trade Agreement", available at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/modernizing.

USMCA was a major success, but it was a revision to the North America Free Trade Agreement (NAFTA), not a new trade agreement that yielded new partners. In fact, the United States has not acquired a single new trade agreement partner in the last 10 years.

By contrast, China is collecting new trade partners around the world. Just last year, the Regional Comprehensive Economic Partnership (RCEP), a 15-nation China-led Indo-Pacific pact, entered into effect.[23] This agreement – the world's largest – cuts tariffs and harmonizes standards between China and its 14 other countries, including Australia, Indonesia, Japan, Korea, Malaysia, New Zealand, Thailand, and Vietnam, among others. RCEP raises serious concerns, but it is hardly an outlier. Since the last new U.S. deal in 2012, China has also inked separate deals with Iceland, Switzerland, the ASEAN countries, Georgia, Pakistan, and Mauritius.[24] To add insult to injury, China is now attempting to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the successor agreement to the Trans-Pacific Partnership (TPP).

This situation is entirely unacceptable. The Biden Administration appears to recognize that China is dominating the United States on trade and is pursuing the Indo-Pacific Economic Framework (IPEF). Unfortunately, IPEF lacks many of the most important features of traditional trade deals, including the market access provisions that are critical to change the supply chain cost calculus for companies. Moreover, IPEF does not include meaningful proposals on financial services, among many other sectors left behind.

To address this problem, the Financial Services Committee should work closely with Ways & Means to pressure the Biden Administration to adopt a real trade strategy. Restarting negotiations with the United Kingdom, which also has a strong financial services sector, and Kenya should be no-brainers. Beyond that, we need to be bold if we want to provide a meaningful supply chain alternative to China. In particular, Congress should push the Administration to pursue an agreement with Taiwan and renegotiate the CPTPP.

Taiwan is a particularly attractive trading partner for economic and geopolitical reasons. Our farmers are seeking additional market access,[25] and there are significant benefits to more closely linking supply chains with Taiwan in high-tech goods like semiconductors.[26] Further, nearly 50 percent of Taiwan's trade is with China, which provides the CCP with an undue ability to exert

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[23] Regional Comprehensive Economic Partnership ("RCEP"), Nov. 15, 2020, available at: https://rcepsec.org/wp-content/uploads/2020/11/All-Chapters.pdf.

[24] Clete Willems, "TTC, IPEF, and the road to an Indo-Pacific trade deal: A new model", Sept. 27, 2022, available at: https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/ttc-ipef-and-the-road-to-an-indo-pacific-trade-deal-a-new-model/.

[25] Russell Boening, Testimony before the House Ways & Means Committee, Sept. 14, 2022, available at: https://docs.house.gov/meetings/WM/WM00/20220914/115098/HHRG-117-WM00-Bio-BoeningR-20220914.pdf.

[26] See e.g., Center for Strategic and International Studies, "Why Taiwan Matters - From an Economic Perspective", Oct. 12, 2022, available at: https://www.csis.org/analysis/why-taiwan-matters-economic-perspective; Mark Wu, Testimony before the House Ways & Means Committee, Sept. 14, 2022, available at: https://docs.house.gov/meetings/WM/WM00/20220914/115098/HHRG-117-WM00-Wstate-WuM-20220914.pdf.

economic coercion on the island.[27] A U.S. trade agreement with Taiwan would reduce this vulnerability and signal to other countries that they should expand trade with Taiwan as well.[28]

Moreover, the United States should seek to rejoin CPTPP, subject to renegotiating the agreement to improve it and address U.S. concerns. This could provide an immediate economic boost to U.S. companies by removing thousands of tariff and non-tariff barriers in the fastest-growing region in the world. It would also provide a platform to promote U.S. interests and values in China's backyard. The CPTPP has flaws, such as automotive rules of origin and labor and environmental standards that fall short of the USMCA. But rather than walk away from the agreement, we should seek to improve it in the same way that USMCA improved upon NAFTA.

To try to craft a viable path back to CPTPP, I have spent the past year consulting with a broad bipartisan group of experts to determine what changes would be necessary to ensure the agreement supports U.S. economic and national security interests. The outcome of those consultations is a report entitled *Reimagining the TPP: Revisions That Could Facilitate U.S. Reentry* that I co-authored with Wendy Cutler of the Asia Society.[29] Our report outlines changes to CPTPP to modernize and improve the agreement so it can provide a meaningful alternative to China in the Indo-Pacific. I strongly urge Congress to pressure the Administration on a real trade policy, including a renegotiated CPTPP.

EXIM and DFC

As part of its offensive strategy, the United States should also aggressively use the tools available at EXIM and DFC to facilitate U.S. exports and U.S. participation in infrastructure projects abroad. Such projects will help open up new markets, while also creating additional trade infrastructure to support friend-shoring of critical supply chains and help wean countries off of less secure Chinese technology.

This role for EXIM and DFC is important, especially in light of China's expansive use of its two official export credit agencies, along with a number of other state entities such as state-owned banks, enterprises, and investment funds to expand its influence and gain competitive advantages globally. From 2015 to 2019, China's official Medium- and Long-Term (MLT) export credit activity alone was greater than 90 percent of that provided by all G7 countries combined.[30]

The most recent authorizations of EXIM and DFC were major steps forward in promoting a more strategic role for these agencies in countering China. The 2019 EXIM reauthorization established a "Program on China and Transformational Exports" that charges EXIM to reserve

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[27] Congressional Research Service, "U.S.-Taiwan Trade Relations", Mar. 7 2022, available at: http://sgp.fas.org/crs/row/IF10256.pdf.

[28] POLITICO, "Taiwan sees U.S. trade deal as vital to maintaining its democracy", July. 4, 2022, available at: https://www.politico.com/news/2022/07/04/taiwan-sees-u-s-trade-deal-as-vital-00043556.

[29] Clete Willems & Wendy Cutler, "Reimagining the TPP: Revisions That Could Facilitate U.S. Reentry", Dec. 12, 2022, available at: https://asiasociety.org/sites/default/files/2022-12/ASPI_CPTPP3_rev.pdf.

[30] Export-Import Bank of the United States ("EXIM"), "EXIM Debuts 2019 Competitiveness Report, Finds that China's Predatory Practices are Fundamentally Changing Nature of Export Credit Competition", Jun. 30, 2020, available at: https://www.exim.gov/news/exim-debuts-2019-competitiveness-report-finds-chinas-predatory-practices-are-fundamentally.

not less than 20 percent of the agency's total financing authority to directly neutralize China's export subsidies for competing Chinese goods and services.[31] This program focuses on 10 transformational export industries, including 5G, artificial intelligence, and semiconductors, by relaxing overly burdensome requirements that have made it difficult for EXIM to counter China in the past. EXIM recently took a major step forward in promoting U.S. 5G exports abroad by clarifying its rules under this program.[32]

The BUILD Act was also a major achievement in improving DFC's ability to counter China by modernizing its tools, expanding the capital available for investments abroad, and providing a strategic vision.[33] However, DFC's effectiveness has been hampered in a few ways, including a decision by the Office of Management and Budget (OMB) to limit the capital available for equity investments.[34] Congress should act to ensure that DFC can counter China with all available tools, including equity, and should also consider whether some version of the Transformational Exports program tailored for DFC tools could help cut through DFC red tape in strategic areas.

Part IV: Bilateral Engagement

Any winning China strategy requires bilateral engagement. This is important to prevent the kinds of miscommunication and miscalculation that can lead to conflict and to strengthen our economy by seeking opportunities in the second-largest economy in the world. China is the top export market for U.S. agriculture products and has massive, untapped potential in energy and financial services, among other sectors.[35] In this context, it is worth noting that many financial services firms cannot do business on a cross-border basis due to prudential requirements and thus have a need to be in the Chinese market to compete in China and to remain competitive globally. Accordingly, the United States needs to engage with China directly to ensure these companies are being treated fairly and able to access over one billion potential customers.

As we engage bilaterally, we should be careful to avoid falling back into old habits of engaging in mere "process" dialogues, like those of the mid-2010s that had limited effectiveness.[36] But we

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[31] Further Consolidated Appropriations Act 2020, P.L. 116-94, 116th Congress, Dec. 20, 2019; EXIM, "EXIM's Chairman's Council on China Competition Meets to Discuss Implementation of Program on China and Transformational Exports", May. 20, 2021, available at: https://www.exim.gov/news/readout-exims-chairmans-council-china-competition-meets-discuss-implementation-program-china.

[32] "Export-Import Bank of the United States' Board of Directors Approves Clarified Policy for 5G Transactions", Jan. 20, 2023, available at: https://www.exim.gov/news/export-import-bank-united-states-board-directors-approves-clarified-policy-for-5g.

[33] Better Utilization of Investments Leading to Development Act of 201 ("BUILD"), P.L. 115-254, 115th Congress, Oct. 5, 2018.

[34] See, e.g., Center for Global Development, "Current Budget Rules Stand in the Way of a Reasonable Path for US DFC to Realize Ambition on Climate and Pandemic Response", Apr. 19, 2021, available at: https://www.cgdev.org/blog/current-budget-rules-stand-way-reasonable-path-us-dfc-realize-ambition-climate-and-pandemic.

[35] See, e.g., U.S. Department of Agriculture, "Record U.S. FY 2022 Agricultural Exports to China", Jan. 6, 2023, available at: https://www.fas.usda.gov/data/record-us-fy-2022-agricultural-exports-china; Council on Foreign Relations, "The Contentious U.S.-China Trade Relationship", Dec. 2, 2022, available at: https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship.

[36] This includes the U.S. – China Strategic and Economic Dialogue (S&ED) and the U.S. – China Joint Commission on Commerce and Trade (JCCT).

can and should engage China in a clear-eyed fashion to achieve market access for U.S. goods and services and to hold China accountable for unfair behavior.

Enforcing the Phase One Deal

One mechanism that the United States should use to engage bilaterally with China is the *Economic and Trade Agreement Between the United States of America and the Government of the People's Republic of China*, also known as the "Phase One Deal".[37] This agreement included a robust chapter on Financial Services that addressed barriers that had plagued U.S. financial firms for years, including commitments from China to:

- Eliminate foreign equity caps for U.S. securities companies and ensure that U.S. suppliers can access China's market on a non-discriminatory basis;
- Eliminate foreign equity caps for U.S. suppliers of life, health, and pension insurance services, remove discriminatory requirements for market access, and approve licenses;
- Improve the licensing process for U.S. suppliers of electronic payment services so as to facilitate access to China's market in a timely fashion;
- Eliminate foreign equity caps for U.S. fund management companies, ensuring market access on a non-discriminatory basis, including in regard to the review and approval of qualified license applications;
- Expand opportunities for U.S. financial institutions, including bank branches, to supply securities investment fund custody services;
- Remove barriers facing U.S. suppliers of credit rating services, including approving applications for service and majority ownership, as well as allowing these suppliers to expand their rating activities;
- Eliminate foreign equity caps for U.S. futures companies and ensure non-discriminatory treatment; and
- Expand the services provided by U.S. financial services suppliers with expertise in handling distressed debt.[38]

Unfortunately, it has been very difficult to determine China's Phase One implementation track record to date. There have been at least some periodic reports that indicate China is following

[37] Economic And Trade Agreement Between The Government Of The United States Of America And The Government Of The People's Republic Of China ("Phase One Deal"), Jan. 15, 2020, available at: https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf.

[38] Economic And Trade Agreement Between The Government Of The United States Of America And The Government Of The People's Republic Of China ("Phase One Deal"), Jan. 15, 2020, available at: https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf.

through in certain areas,[39] but the Office of the U.S. Trade Representative (USTR) has not provided Congress or the public with a thorough accounting of China's progress in implementing the agreement, including the Financial Services chapter.

In light of this situation, this Committee should work with Ways & Means to pass legislation requiring USTR to provide a Phase One report card and demand that USTR enforce the agreement in areas where China is falling short. This will help ensure that the U.S. financial services sector can expand in China, underpinning its overall strength. Deal follow through is also essential to building trust, a necessary precursor to any future U.S. – China bilateral economic agenda. If China is unwilling to follow through on the deal we already have and the United States is unwilling to hold China accountable, it is difficult to see meaningful value in a broader set of commitments.

The Holding Foreign Companies Accountable Act (HFCAA)

A second area where the United States should continue to engage China bilaterally – and where this Committee can play an important oversight role – is on the implementation of the Holding Foreign Companies Accountable Act (HFCAA).[40] The Public Company Accounting Oversight Board's (PCAOB) announcement on December 15, 2022, that it had for the first time secured the ability to inspect and investigate firms in mainland China and Hong Kong completely was a major achievement.[41] And it almost certainly would not have happened without Congress' intervention, which sent a powerful signal to China that it could no longer play by its own set of rules without consequence.

Congress should be mindful of this lesson moving forward and continue its rigorous oversight of the law. In particular, Congress should ensure that U.S. regulators remain vigilant and routinely check their access to Chinese firms, dispelling any concerns that this was a one-time act by the Chinese government to avoid mass de-listings. Recent Congressional passage of the Accelerating HFCAA was a step in the right direction.[42] Consistent with this law, we should do

[39] See, e.g., CNBC, "U.S. financial firms like Citi and BlackRock make inroads into the Chinese market", Sept. 2, 2020, available at: https://www.cnbc.com/2020/09/02/us-financial-firms-make-inroads-into-the-chinese-market.html; Nikkei Asia, "China steps up approvals for foreign financial companies", Jan. 25, 2023, available at: https://asia.nikkei.com/Business/Finance/China-steps-up-approvals-for-foreign-financial-companies?utm_campaign=Marketing_Cloud&utm_medium=email&utm_source=USCBC+News+Overview+1.25.23&%20utm_content=https%3a%2f%2fasia.nikkei.com%2fBusiness%2fFinance%2fChina-steps-up-approvals-for-foreign-financial-companies.

[40] Holding Foreign Companies Accountable Act ("HFCAA"), P.L. 116-22, 116th Congress, Dec. 18, 2020.

[41] Public Company Accounting Oversight Board ("PCAOB"), "PCAOB Signs Agreement with Chinese Authorities, Taking First Step Toward Complete Access for PCAOB to Select, Inspect and Investigate in China", Aug. 26, 2022, available at: https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-signs-agreement-with-chinese-authorities-taking-first-step-toward-complete-access-for-pcaob-to-select-inspect-and-investigate-in-china; PCAOB, "PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History", Dec. 15, 2022, available at: https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history.

[42] Accelerating Holding Foreign Companies Accountable Act, S. 2184, 117th Congress, as passed by the Senate, Jun. 22, 2021.

everything we can to ensure our markets remain the most attractive place in the world to raise capital, and one way to do this is to protect their sanctity.

Conclusion

I appreciate the opportunity to detail these ideas for the Committee and hope they can help provide a bipartisan roadmap for addressing the challenge posed by the Chinese Communist Party. I look forward to continuing to work with members of the Committee of both parties on these critical issues.

2/7/23

Record

Build back nuclear

BY REP. FRENCH HILL (R-ARK.), OPINION CONTRIBUTOR - 03/01/21 1:00 PM ET

The Hill

With the U.S. rejoining the Paris Agreement last Friday, it's puzzling to see what President Biden has actually announced he'll do to meet its goals. Mr. Biden seems to believe that adding boxes to a bureaucratic org chart and mingling with foreign officials at conferences may avert an environmental crisis: an executive order from his first week in office creates a White House envoy, a new Climate Policy Office, an international photo op branded as the Leaders' Climate Summit, and a heap of "draft action plans" for a government task force to review. This month also brought news that the Biden Treasury Department would set up a "climate hub" among its ranks. Draft actions plans don't write themselves, after all.

But hidden in this strategy, such as it is, lies one idea of consequence, and that is the president's goal to finance lower emissions in developing countries through organizations like the World Bank. While the Bank already seeks to do this, its hands have been tied in an area where it could make an enormous difference: nuclear energy. For the president's climate plan to be serious, it should prioritize nuclear support through the Bank and the other multilateral lenders where the U.S. is a top shareholder.

While rich countries' carbon output is largely flat, the developing world's emissions are only projected to grow unchecked. The U.S. and Europe, responsible for nearly all emissions at the turn of the 20th century, now only account for one third. Wealthy nations may be the loudest voices in climate activism, but the future will be decided elsewhere, and it won't be an especially prosperous one if we insist that poorer societies power their way up the income scale with renewables alone. Nuclear will be essential for their energy mix.

Although its reputation in the United States suffers from memories of Three Mile Island, a 1979 accident as haunting as the bell bottoms of that era (but just as harmless to human life), nuclear energy is a mainstream power source providing 30 percent of the world's low-carbon electricity. The main risks connected with nuclear arise when retreating from it, not embracing it. For instance, after a 2011 tsunami hit Japan's Fukushima reactor, leading the country to temporarily take its nuclear power plants offline, fossil fuel usage and electricity prices surged, resulting in more deaths for the country than from the disaster itself. Researchers have shown that Germany overreacted to Fukushima too, shutting down some of its reactors and incurring $12 billion in social costs each year, mostly through increased mortality from higher levels of air pollution.

Not only does nuclear energy release no carbon emissions, innovations continue to minimize the waste it leaves behind. One recent breakthrough at the Argonne National Laboratory may permit up to 97 percent recycling of spent nuclear fuel. Other advances continue to strengthen power plants' safety, and in the case of modular reactors, they permit both smaller physical footprints and use with different energy sources.

Despite producing safe power with more reliability than solar or wind, nuclear hasn't benefitted from the same subsidies, and its financing is more complex since projects require massive upfront costs. This is why government-backed agencies are often called in to guarantee loans when building abroad. With Beijing and Moscow eyeing nuclear energy deals in South Asia, Africa, Eastern Europe, and even Latin America, it makes no sense for the U.S. to stay on the sidelines. For this very reason, Congress in 2019 eased restrictions at the Export-Import Bank when competing for nuclear deals against Chinese suppliers.

Yet the World Bank and its sister institutions across the globe can do even more. Not only is the Bank's lending more transparent than China's, it has the balance sheet and experience in developing countries to make an impact. It could also finance safer reactors based on U.S. and Japanese technologies.

Though the World Bank left nuclear finance decades ago, its own anti-poverty mission makes its return a no-brainer. The governments that act as the Bank's shareholders have already compelled it to quit upstream oil and gas projects in the developing world, even as the Bank pursues a goal of universal access to electricity. This makes little sense. If the World Bank has to surrender its expertise in fossil fuel lending, surely it can restore its know-how in nuclear finance.

Breaking ground on new infrastructure is better than endless handwringing. Years of climate talks have emitted pledges to coordinate the vaguest of environmental efforts; the Paris Agreement itself attempts to "enable opportunities for coordination," whatever that means. These discussions are becoming nothing more than mileage runs for the frequent flyers who attend them, not progress reports on the building spree that the world will need to thrive with ample clean energy. It's time to go nuclear or go home.

Congressman French Hill is a Republican representing the 2nd District of Arkansas. He is a member of the House Financial Services Committee, which oversees U.S. policy at the World Bank and other international financial institutions.

<u>February 6, 2023 FSC hearing – "Combatting the Economic Threat From China"</u>
Rep. French Hill
QFRs for Mr. Eric Lorber

Economic Intelligence

1. Mr. Lorber, you served as a Senior Advisor to the Under Secretary for Terrorism and Financial Intelligence at the Treasury Department.
    a. Can you help me understand where the gaps in our economic intelligence and data gathering are with respect to China?
    b. That is, where is the "smoke" that we should investigate further, and where are the gaps in even knowing where the smoke is?

I left my position as a Senior Advisor to the Under Secretary for Terrorism and Financial Intelligence in December 2018 and am not privy to any economic intelligence and data gathered with respect to China since that time and cannot speak to any current gaps in our understanding of financial flows, illicit or otherwise, that may be emanating from China and to which U.S. officials have access.

2. The Biden Treasury conducted a review of U.S. economic and financial sanctions, and released a nine-page report in October 2021.
    a. In your view, was this an adequate or holistic review of sanctions, and did it drive any meaningful improvements to U.S. sanctions architecture?

The October 2021 Biden Treasury Department review of economic and financial sanctions according to the document, focused on "(1) the framework guiding imposition of economic and financial sanctions and (2) potential operational, structural, and procedural changes to improve Treasury's ability to use sanctions now and in the future." Since the publication of the review, the United States has taken a number of actions that broadly align with the principles enunciated in that document (e.g., a focus on facilitating humanitarian transactions to comprehensively sanctioned jurisdictions). These guiding principles generally signaled the way in which the Treasury Department has approached the use of sanctions to address key foreign policy challenges since its publication (e.g., Russia's invasion of Ukraine).

China’s Engagement in Latin America: Views from the Region

A look at the challenges of understanding and responding to China’s increasingly complex relationships in Latin America.

Monday, August 8, 2022 / **By:** Lucy Stevenson-Yang; Henry Tugendhat

China’s economic and political engagement in Latin America grew significantly in the first part of the 21st century. And yet, Latin American reporting on China has not grown apace. Too few Latin American journalists cover Chinese activities in the region and even fewer foreign correspondents from Latin America report on developments in China. This knowledge gap means journalists struggle to provide proper context for major trade and investment deals and are unprepared to investigate when scandals erupt. Latin American media outlets often lack the capacity or resources to cover foreign affairs in general, much less the geo-political repercussions of China-Latin American relations.

An aerial view of the Coca Codo Sinclair project near Reventador, Ecuador, Nov. 25, 2018. China financed and built the dam; the project has become a national scandal. (Federico Rios Escobar/The New York Times)

The reality is that in the Americas — as elsewhere — all politics is ultimately local. The following presents the perspectives of one academic and four journalists on the challenges of understanding and responding to China's increasingly complex relationships in the region.

Chile: Ignacio Tornero, Catholic University of Chile

China-Latin America relations are living a very interesting moment; with China having established diplomatic relations with most of the region, having become a strategic trade partner for many countries and, more recently, having increased the amount of foreign direct investment flows in several destinations.

The establishment of formal diplomatic relations has been of critical importance for building the appropriate grounds to move toward the development of other ties.

This created the conditions for China and Latin American to start trading with each other and then, in some cases, in the establishment of free trade agreements like the ones with Chile (2005), Peru (2009) and Costa Rica (2010). Based on World Economic Forum's figures, trade between China and Latin America grew 26-fold between 2000-2020 (going from $12 billion to $315 billion); and is expected to more than double by 2035, reaching more than $700 billion.

Another interesting dimension is outward direct investment (ODI), a comparatively new phenomenon. China has invested more than $130 billion in the region between 2005-2020, and countries like Brazil, Peru, Chile and Argentina have received $60 billion, $27 billion, $15 billion, and $12 billion of Chinese ODI, respectively. It is expected that China will keep creating stronger bonds with the region, moving into cultural and education exchange, technology transfer and scientific research, among other areas of influence.

Ecuador: Paúl Mena Mena, El Universo

Covering China and its relationship to Latin America is challenging for Latin-American journalists, as we have to face some serious difficulties, such as secrecy, technical issues, and cultural and language barriers. My colleagues and I tackled those problems while investigating Ecuador's public debt to China. First, state-owned Chinese banks, which act like Western multilateral ones, do not have transparency policies. Indeed, the credit contracts between the Chinese banks and the Ecuadorian government were declared confidential, breaking local rules. We could get three of those 16 contracts thanks to the Panama Papers' leak and other sources. Second, understanding those documents is too difficult because they created a new way of payments through advance sales of crude.

The contracts are so complex that they involve four or five parts: the Chinese bank, the Chinese petroleum company, the Finance Ministry of Ecuador, the Ecuadorian petroleum company and, eventually, the Central Bank of Ecuador. To comprehend this structure, not only is a background in finance needed, but in international trade of crude also, as it is a very technical issue. Finally, the lack of knowledge on China is generalized in Latin America, as we do not know how that state works, how its control institutions operate, how the decision makers approve their operations, and so forth. All these difficulties must be overcome to ensure that the relationship between China and Latin America develops in a strict democratic environment.

Brazil: Luiza Duarte, Wilson Center

The expansion of Chinese state-media content directed to foreign audiences in the Global South points to an imbalanced relationship over information. Latin American countries are far from being able to engage Chinese audiences or being active in the Chinese social media ecosystem. Latin America needs a healthy and strong media environment to be able to tell its own stories.

More specifically, Sino-Brazilian relations have become more complex over the last decade, entering a new phase with the election of President Jair Bolsonaro and the onset of the trade war between China and the United States. China has deepened sub-national level relations through parliamentary exchanges and building relationships directly with governors and mayors. State-level connections with China ended up playing a crucial role in negotiating medical supplies and Chinese vaccines during the pandemic, despite opposition at the federal level.

Argentina: Fermin Koop, Diálogo Chino

The relationship between Latin America and China has changed deeply over the last 20 years. While in 2001 the region's exports to China accounted for just 1.6% of total exports, in 2020 this figure had grown to 26%. This big shift is largely because of China's accelerated growth during this period and its growing demand for raw materials from Latin America. As well as the growing trade flows, China has also intensified its political relations with Latin American governments, 21 of which having already signed the Belt and Road Initiative (BRI).

China has published two policy papers on Latin America, which identify areas of potential cooperation with the region, with public health being the most relevant one amid the pandemic. A dozen countries in Latin America have signed vaccine contracts with China, which also distributed medical equipment. Another key factor in understanding the relationship centers on financing. In recent years, Chinese banks have increased lending to Latin American governments. Up to 2020, the China Development Bank and the China Export-Import Bank had granted 94 loans in the region to the tune of $137 billion, for example. Looking ahead, China will continue to have a strong role as an investor and trade partner to Latin America. It will be interesting to see how the relationship shapes up amid climate change and biodiversity commitments, with China already discussing approaches on how to green its BRI investments.

Nicaragua: Javier Meléndez, Expediente Público

In the last 10 years, the presence of China in Latin America has increased exponentially. For some countries, Chinese influence has meant opportunities to diversify markets and increase exports. However, for other countries, such as Bolivia and Ecuador, China has left in its wake a legacy of excessive debt and losses of tens of billions of dollars that have favored corrupt elites and left countries at the mercy of their Chinese creditors. In Central America, the presence of China presents a credible security threat for the region and the United States in the form of a platform that exacerbates corruption and works against the overall prosperity of countries.

Costa Rica (2007) and Panama (2017) were the first Central American countries to break diplomatic relations with Taiwan to establish themselves as partners of the Chinese. Later, El Salvador (2018) and Nicaragua (2021) joined Panama and Costa Rica in breaking ties with

Taiwan. For Costa Rica, Panama, and, at the beginning, El Salvador, the goal of relations with the Chinese was to improve trade relations and expand traditional markets. But Nicaragua is another story. Chinese relations are an explicit effort to increase ideological pressures and confrontations with the United States. Since 2019 with the rise of Nayib Bukele as president, El Salvador has followed a similar path.

In countries with robust and independent institutions that function in an environment conducive to respecting and promoting accountability and civil liberties, including press freedoms, the presence of China could, although not free of risks, provide market advantages and growth opportunities. On the other hand, in countries where secrecy is the name of the game, accountability lags, and there are no guarantees for civil liberties, the consequences are clear: China uses these countries to increase its predatory presence, back repressive regimes and promote an anti-Western narrative, especially regarding the United States.

Issue Areas

Economics Global Policy

Countries

Argentina Brazil Chile China Ecuador Nicaragua

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MAXINE WATERS, CA
RANKING MEMBER

February 7, 2023

The Honorable Patrick McHenry
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I am writing to request that you promptly convene a Committee hearing to consider how Congress should protect the creditworthiness of the United States government, including by reviewing the likely financial and economic impact of a potential default on the full faith and credit of the United States. This is the biggest threat to our financial stability and economy today. Treasury Secretary Janet Yellen has already notified Congress that the United States hit its borrowing cap weeks ago, and that the Department of the Treasury is utilizing "extraordinary measures" as the country hurtles towards running out of money to pay its bills when they come due. Yet, the first hearings the Committee is holding this week make no attempt to examine this important issue.

As Members of Congress, we took a solemn oath to "support and defend the Constitution of the United States against all enemies, foreign and domestic." The Fourteenth Amendment of the Constitution states that, "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned." However, House Republican Leadership is threatening to call into question the validity of our debts by not addressing the debt limit in a timely manner, risking a catastrophic default.

We have seen this threat before during past times of Republican leadership in the House. Just the mere threat of default, on its own, can lead to market volatility, as it did in 2011. Even though the debt limit was addressed, the near default had serious impacts on everyday families, including spiking mortgage rates, making it more difficult for homebuyers to secure housing. In 2011, Standard & Poor's downgraded United States federal debt from its AAA rating. In 2013, Democrats led the Senate and held hearings on the impact of a potential default on financial stability and economic growth, and a default was, then, narrowly avoided.

If the United States were to default on its debt, there would be severe effects on financial stability and the economy. Among the many possible catastrophic outcomes of forcing the U.S. to default on its debt,[1] some project that the global economy itself could freeze if the U.S. Treasuries market collapses.[2] Further, if the U.S. defaults on its debts, there would be irreversible damage caused to the U.S. dollar's status as the global reserve currency, to Americans' standard of living, and to our nation's economic standing and political influence.[3]

President Biden has led our country into the best economy for workers in decades, with more than 12 million jobs created since the President took office. This could all be endangered, as a default could send

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[1] VOA, R. Garver, *5 Ways US Debt Default Would Echo Through Global Economy*, (Sep. 30, 2021).
[2] Chartbook, A Tooze, *Chartbook #172: Finance and the Polycrisis (3) US Treasuries - how fragile is the world's most important market?*, (Nov 15, 2022).
[3] The Hill, K. Brill, *Debt ceiling debate: A gift to China's grand strategy*, (Jan 27, 2023).

already high interest rates even higher and trigger a recession. A default would also directly impact millions of Americans, threatening the government's ability to pay Social Security checks to seniors and salaries to our servicemembers.

With the serious implications of a debt default looming over our economy, this should be the top priority for our Committee. I encourage you to promptly convene a hearing so that our Committee does not turn a blind eye to the very real impact of a downgrade of the U.S. credit rating and a default on U.S. debt, including what it will mean for consumers, investors, retirees, servicemembers, small businesses, community financial institutions, financial markets, financial stability, and the U.S. economy.

Sincerely,

Maxine Waters

MAXINE WATERS
Ranking Member