Testimony of Robert Lighthizer Before the House Select Committee on Strategic Competition between the United States and the Chinese Communist Party
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The United States Needs to Strategically Decouple from China

The United States cannot continue to underwrite the geopolitical rise of the People's Republic of China. China's entire economic system centers around increasing Chinese power on the world stage. For too long, the U.S. government allowed American corporations to feed into these plans and sat idly by while Chinese entities stole American intellectual property and technical know-how. This policy was based on a collection of myths about the Chinese economic system - such as that truly private companies can exist and independently operate in China - that are no longer tenable for an informed observer. As a result, over the past few decades - as America's trade deficit surged and its industrial base fell into a state of near ruin - China consolidated leading market share in critical industries like telecommunications equipment, shipbuilding, batteries, and critical minerals. Today, this Chinese economic power increasingly translates into Chinese military and political power, which the Chinese Communist Party (CCP) deploys to coerce American allies and decrease American influence throughout the world.

I believe that Congress should act now to ensure American wealth no longer builds up Chinese power. Congress should enact policies that strategically decouple the United States economy from the Chinese economy. In parallel, it should take steps to reinvigorate the health of the American industrial base to support American workers and ensure that America is prepared to combat Chinese military and economic coercion.

The Chinese Economic System is Designed to Exploit Foreign Commerce to Advance China's Geopolitical Power

The CCP leadership believes that to be a dominant geopolitical power China must control the leading industries along the global value chain. This view, rooted in modern Chinese history, underlies most economic policy decisions the Chinese government makes.[1] To advance Chinese industry along the

[1] Chinese views on economic policy are deeply shaped by modern Chinese history. The Chinese Communist Party believes that the Qing Dynasty lost the Opium War to the British and became a Western colony primarily because China lagged behind the West in advanced technology and industry. When the CCP took over China, it set its eyes toward rapid industrial and technological development as the means to restore Chinese power. Under Mao's leadership, the party quickly adopted what the scholar Barry Naughton calls the "big push industrialization" strategy, which focused on mustering all of China's economic resources toward the development of heavy industry. As part of this effort, Mao launched the Great Leap Forward, which aimed to leap ahead in economic modernization by changing the relation of production in China (i.e., making things communally owned) and relying on the "revolutionary spirit" of the Chinese people to industrialize the country. When this policy failed miserably, the Chinese leadership reverted back to a more gradual economic modernization policy in the model of Lenin's New Economic Plan. After Mao's death, Deng Xiaoping and his allies reconsidered Mao's various economic strategies and proposed an alternative path to economic development. Under his reform policies, Deng developed a two-track economy with heavy industry under state control and agriculture and light industry gradually going into nominally "private" hands. This strategy eventually morphed into China's current

value chain, the Chinese government runs the most comprehensive suite of mercantilist policies in global history.[2] Chinese government agencies manage a large state-owned sector made up of holding companies that monopolize upstream and strategic industries.[3] What little important areas of the economy the Chinese government does not directly own, it indirectly controls through the threat of politically-motivated legal penalties, near universal requirements to host Communist Party cells within company bureaucracies, and pervasive government investments in non-state-owned companies that give the Chinese government unprecedented per-share voting rights.[4] All companies in China -

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state-driven, mercantilist economic model described elsewhere in this testimony. Despite all these shifts in Chinese economic policy, however, the focus on modernization and gaining control of high-tech industries remained *the* constant priority of all CCP leaders since the party took over control of the country. For discussion of this history and the role of high-tech industry in Chinese economic policy, please see: Evan Feigenbaum, *China's Techno-Warriors: National Security and Strategic Competition from the Nuclear to the Information Age* (Stanford, CA: Stanford University Press, 2003); Barry Naughton, *The Chinese Economy: Adaptation and Growth* (Cambridge, MA: MIT Press, 2018); David Priestland, *The Red Flag: A History of Communism* (New York: Grove Press, 2009).

[2] People use many terms to describe Chinese economic policy: communist, technonationalist, state-driven capitalist, amongst others. While all these terms aptly describe certain facets of Chinese economic policy, I believe the term 'mercantilist' best captures the main thrust of Chinese policy. Mercantilism is a school of nationalistic political economy that emphasizes the role of government intervention, trade barriers, and export promotion in building a wealthy, powerful state. The term was popularized by Adam Smith, who described the policies of Western European colonial powers as a "mercantile system." Then and now, there are a vast array of tools available for countries seeking to go down this path. Mercantilist governments frequently employ import-substitution policies that support exports and discourage imports in order to accumulate wealth. They employ tariffs, too, of course, and they limit market access, employ licensing schemes, and use government procurement, subsidies, state-owned enterprises, and regulatory manipulation to favor domestic industries over foreign ones. As the ensuing parts of my testimony show, China engages in all these behaviors in a quest to establish its own firms at the heights of the global economy.

[3] China's state owned sector is managed through a government agency called the State-owned Assets Supervision and Administration Commission (SASAC). As an article from *The Wire China* notes, SASAC was established in 2003 "to assume control of state firms from various state ministries and commissions," and its role is to "manage, approve mergers, appoint senior executives, and to ensure that the massive state sector is operating efficiently." The central SOEs under SASAC's control operate like conglomerate holding companies that manage a portfolio of smaller SOEs within a given industry. Broadly speaking, central SOEs are composed of multiple large subsidiaries that each cover research, development, and production of products within a vertical of the major SOE's industry. These large subsidiaries themselves are made up of two types of companies. The first kind of SOE subsidiary company is a production company, which - as the name suggests - produces goods or services for the market. The second kind of SOE subsidiary company is a research and development company, which provides R&D services including product design and testing for production companies. Occasionally, these two functions are merged in one company. This two-track SOE design is a legacy of the Mao-era, where SOEs were parts of government ministries that managed individual sectors of the economy. During this time, these sectoral ministries managed *both* individual factories that produced certain goods and large research laboratories that designed goods for production. When China began serious SOE reform in the 1990s, it turned these ministries into the current holding companies and encouraged them to consolidate individual factories into larger production companies. The research laboratories, meanwhile, became companies themselves that provided R&D services to production SOEs in exchange for payment. For a discussion of SASAC and the companies it manages, please see: Hannah Reale, "The Long Arm of SASAC," *The Wire China*, February 7, 2021. For a discussion of how SOEs worked in the Mao era, please see: Evan S. Meideros, Roger Cliff, Keith Crane, and James C. Mulvenon, "A New Direction for China's Defense Industry," RAND Corporation, 2005, p. 14, available at https://www.rand.org/pubs/monographs/MG334.html. For a discussion of SOE reform, please see: Evan S. Meideros, Roger Cliff, Keith Crane, and James C. Mulvenon, "A New Direction for China's Defense Industry," RAND Corporation, 2005, pp. 15-16, 40; Trevor Jones and Treston Chandler, "Sweeping U.S. Lists Seek to Restrict Trade and Investment that Support the Chinese Military," *The Wisconsin Project on Nuclear Arms Control*, September 27, 2021.

[4] The threat of legal enforcement looms over all non-state-owned company executives in China. Under President Xi, the Chinese government increasingly uses anti-corruption investigations and political prosecutions to keep Chinese business executives in line with CCP dictates. When business leaders deviate from the party line, they come under investigations

whether or not they are formally state-owned - exist to advance the economic modernization goals of the Chinese government.

To help support these companies' efforts to dominate their respective industries, the Chinese government actively supports favored firms through a sophisticated set of industrial policies, including:

- Government subsidies for state-owned and nominally private firms through direct grants of funds, preferential loan financing, export financing, and favorable investment from government investment funds.
- Government support for acquisitions of foreign companies in certain targeted sectors.[5]
- Government directed mergers of state-owned and nominally private firms to create mega-SOEs with the economies of scale necessary to crush global competition.[6]
- Government-funded applied research programs that study emerging, commercializable technologies at state-owned company research laboratories, state-run universities, and companies.[7]

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and 'disappear' from the public eye, as was the case with executives like Jack Ma and Bao Fan. On top of this, as of 2018, over 73 percent of nominally "private" companies in China host a Communist Party cell within their organization. These cells convene meetings to discuss party ideology and operations within the company. On top of the risk of prosecution, these cells act to pressure company executives to maintain the party line on important issues. Finally, the Chinese government controls non-state-owned industry by pressuring companies to allow the government or its agencies to take a small percentage share in non-state-owned firms through a share structure that gives the government higher voting rights per-share than traditional private investor shares. This in turn allows the government to place CCP officials on nominally private company boards to oversee and control private company operations. For information on politicized prosecutions in China, see for example: Li Yuan, "China's Tech Rainmaker Vanishes, and So Does Business Confidence," The New York Times, February 22, 2023. For information on Communist Party cells, see for example: Matthew Brooker, "Communist Party Cells? Nothing to See Here," *Bloomberg*, July 28, 2022; Michael McCaul, "China Task Force Report," U.S. House of Representatives, September 30, 2020. For information on the Chinese government's "golden shares," see for example: Lingling Wei, "China's New Way to Control Its Biggest Companies: Golden Shares," *Wall Street Journal*, March 8, 2023.

[5] Under Chinese government policy, if a company invests in an overseas project or acquisition in one of 40 industries, it will receive several forms of government support including subsidies for any fees incurred, bank loans at government-subsidized interest rates to pay for the investment, policy bank loan support, and priority government approval. For discussion of this, see: U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, pp. 77-78.

[6] As discussed, before Chinese economic reform under Deng Xiaoping, Chinese government ministries controlled production, research, and development of products in various sectors of the economy. In the 1990s, as part of Deng's reform regime, these ministries were abolished and transformed into large SOE holding companies. These large companies each monopolized a certain industry vertical (e.g., shipbuilding). To foster competition between SOEs, in the late 1990s, the Chinese government split most of these industry vertical SOEs into two or three smaller SOEs that would pursue different management and product development strategies. Recently, however, these SOEs have begun remerging across sectors like shipbuilding, transportation, and energy. These mergers aim to increase economies of scale and create more competitive national champions abroad. For a discussion of this, see for instance: Sean O'Connor, "SOE Megamergers Signal New Direction in China's Economic Policy," U.S.-China Economic and Security Review Commission, Staff Research Report, May 24, 2018.

[7] The Chinese government runs a myriad of programs to support high-tech applied research and development, including the National High-Tech Research and Development Program (Program 863) and the National Key Basic Research Development Program (Program 973). Program 863 is a high-end, emerging technology applied research program

- Government investment in Chinese research universities working on economically relevant academic subjects.[8]
- Government imposition of a complex licensing regime that is administered through an opaque administrative process and is used to preferentially support favored firms and extract technology transfer and other concessions from disfavored foreign and domestic firms.[9]
- Government use of a host of coercive and illegal practices designed to obtain technology and business trade secrets, including through state-supported cyber theft and espionage.[10]

The Chinese government also runs specific industrial policy programs to support strategic sectors. These include:

- *Made in China 2025*: Made in China 2025 is the latest iteration of a long line of Chinese indigenous innovation policies aimed at ensuring that technological development occurs and stays in China. The CCP has, from the earliest phases of its history, sought to ensure Chinese dominance and control of key technologies. In line with this history, Made in China 2025

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founded in 1986 and administered primarily by the Ministry of Science and Technology (MOST). It is aimed at developing technology and research capabilities emerging technology fields. The program began based on the recommendation of China's nuclear and missile engineers. Focuses of Program 863 funded research have included telecommunications, integrated circuits, directed energy lasers, space, agriculture, biotechnology, ocean engineering, nanotechnology, and advanced materials. Successful Program 863 research projects have included the Tianhe-2 supercomputer, advanced Kevlar-like body armor, and 3 kW welding lasers. Program 863 successes are frequently spun-off into important companies. Program 973, meanwhile, is also run by MOST, and focuses on earlier stage applied research than Program 863. Program 973 projects have included research in categories like biotechnology, GPS navigation, and telecommunications. For a discussion of these programs, amongst others, please see: Micah Springut, Stephen Shlaikjer, and David Chen, "China's Program for Science and Technology Modernization: Implications for American Competitiveness," CENTRA Technology Inc, Testimony to the U.S.-China Economic and Security Review Commission, January 2011, pp. 27-28.

[8] Programs like Project 211, Project 985, and the Double First Class University Program seek to provide wide ranging funding for top Chinese universities to support their efforts to develop cutting edge academic and research programs. For a discussion of these, please see: China's Program for Science and Technology Modernization: Implications for American Competitiveness," CENTRA Technology Inc, Testimony to the U.S.-China Economic and Security Review Commission, January 2011, pp. 37-39.

[9] For a description of how such a licensing regime facilitates technology transfer from foreign companies, see: Sean O'Connor, "How Chinese Companies Facilitate Technology Transfer from the United States," U.S.-China Economic and Security Review Commission, May 6, 2019, https://www.uscc.gov/sites/default/files/Research/How%20Chinese%20Companies%20Facilitate%20Tech%20Transfer%20from%20the%20US.pdf. Although the Foreign Investment Law, which entered into force in July 2020, is supposed to replace case-by-case administrative approval with a system that would be applied only to "restricted" sectors, the USTR has stated that "it remains unclear whether China is fully achieving that objective in practice" and the "potential for discriminatory licensing requirements or the discriminatory application of licensing processes" remains significant even in liberalized sectors. See "2021 National Trade Estimate Report on Foreign Trade Barriers," March 2021, United States Trade Representative, https://ustr.gov/sites/default/files/files/reports/2021/2021NTE.pdf.

[10] See "Responding Effectively to the Chinese Economic Espionage Threat." February 6, 2020. Christopher Wray. Remarks at the Department of Justice China Initiative Conference, Center for Strategic and International Studies. Washington, D.C.; see also "Chinese Hackers Indicted: Members of APT 10 Group Targeted Intellectual Property and Confidential Business Information" FBI News. December 20, 2018. https://www.fbi.gov/news/stories/chinese-hackers-indicted-122018. For a broader overview of this threat, see: "China Cyber Threat Overview and Advisories," U.S. Department of Homeland Security, Cybersecurity & Infrastructure Security Agency, available online at https://www.cisa.gov/china. Technology transfer practices are discussed in more detail, infra pages 6-9 of this testimony.

seeks to replace Chinese reliance on foreign providers of advanced products by fostering the growth of Chinese producers of these products.[11] The plan focuses on 10 core advanced technology industries: biotechnology, information technology, aerospace equipment, railway equipment, shipbuilding, new materials, power generation equipment, agricultural machinery, robotics, and clean energy.[12] The plan seeks to establish Chinese national champions in all of these sectors that are capable of competing with leading foreign firms. To do this, the program mobilizes over $1 trillion of government subsidies, reduced tax rates for involved industries, and preferential regulatory treatment.[13] Made in China 2025 works in tandem with other industrial policy plans like the *Strategic Emerging Industries* strategy, which focuses on up-and-coming economic sectors where Chinese companies can be the first movers in the market.[14]

- *Military Civil Fusion (MCF)*: China's MCF strategy attempts to enhance the Chinese defense industrial base by harnessing the "dual use" overlap between the commercial demand for certain advanced technologies and the needs of Chinese military procurement. Part of China's current MCF strategy attempts to support and draw on the innovation and output of civilian sector firms involved in dual-use technology sectors like information and communications

[11] For one of the best reports on Made in China 2025 and its implications for the United States, please see: Marco Rubio, "Made in China 2025 and the Future of American Industry," U.S. Senate Committee on Small Business and Entrepreneurship, February 2019.

[12] Barry Naughton, "The Rise of China's Industrial Policy – 1978 to 2020," Universidad Nacional Autonoma de Mexico, 2021, pp. 70-74, available at https://dusselpeters.com/CECHIMEX/Naughton2021_Industrial_Policy_in_China_CECHIMEX.pdf.

[13] "Made in China 2025 Industrial Policies: Issues for Congress," Congressional Research Service, March 10, 2023; Liza Lin, "China's Trillion-Dollar Campaign Fuels a Tech Race with the U.S.," Wall Street Journal, June 11, 2020.

[14] Large Chinese industrial policy plans like Made in China 2025 and SEI set topline government priorities that encourage lower parts of the government to support the plans' priorities. After these large Chinese industrial policy plans are issued, relevant government components that oversee the industries in question typically issue industry specific plans. These industry specific plans involve concrete policy actions aimed at the industry like the allocation of subsidy funding, the publication of new favorable regulations, the cutting of taxes for certain companies in the industry, and the setting of foreign joint venture requirements across the sector. All of these actions are designed to advance the domestic Chinese industry in line with the larger industrial policy plan's goals. The interaction of Made in China 2025 and SEI around the new energy vehicle (NEV) sector provides a helpful example of how these industrial policy dynamics work. Both Made in China 2025 and SEI directed the Chinese government to prioritize NEV manufacturing. To implement that, the Chinese State Council (a Cabinet-like body) released an NEV sector specific plan called the *Energy-Saving and New-Energy Automotive Industry Development Plan (2012-2020)*. This *NEV Plan* set forth a development blueprint for NEVs calling for the establishment of numerous regulations and subsidy programs to support domestic R&D, manufacturing, and utilization of NEVs. Various Chinese government departments then implemented a range of policies to incentivize domestic NEV manufacturing including steep import tariffs, subsidies for domestically produced NEVs upwards of $6,500 (USD) per NEV sale, and a new NEV credit system. This, in turn, pressured foreign NEV manufacturers to produce their automobiles in China with a Chinese partner. For these foreign-domestic joint ventures to qualify for policy benefits like NEV subsidies, starting in 2009, the Chinese Ministry of Industry and Information Technology required the joint venture company to hold IP rights for either the battery, drive system, or control system technologies. In 2017, the Chinese government updated these regulations to require a heightened level of IP right ownership where qualification for subsidies and other benefits required the joint venture to "master" *all* the technology necessary for a complete NEV. This ensured that Chinese companies received workable, foreign NEV technology. For a discussion of this, please see: U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, pp. 29-32.

technology to advance China's military acquisition process. Another part of China's MCF strategy attempts to encourage Chinese defense industry SOEs to develop commercially marketable capabilities that can provide them with a steady revenue stream.[15] The final part of China's MCF strategy encourages and supports Chinese university efforts to work on defense-related research and academic disciplines. To achieve these goals, government agencies like the State Administration for Science, Technology, and Industry for National Defense (SASTIND) provide specific subsidies, government investment, loans, and procurement contracts to nominally private companies in dual-use sectors of the economy seeking to enter the defense acquisition market. Similarly, agencies like SASTIND fund and coordinate Chinese university departments and research laboratories working on high tech, dual use topics.[16]

In addition to these industrial policies, China's economic modernization strategy also relies on acquiring and repurposing technology from foreign companies. By the mid-1980s, Chinese leaders came to accept that domestic innovation and industrialization alone could not modernize the Chinese economy. Instead, in the view of leaders like Deng Xiaoping, China needed to draw on overseas talent and know-how to introduce modern business techniques and technological capabilities into the Chinese economy.

To do this, the Chinese government leverages the profit lure of China's economy to bring in foreign company investment under coercive terms. Under Chinese laws, to conduct business in China as a foreign entity, you must obtain the Chinese government's permission. If a company wants access to an important sector of the Chinese economy, it will only receive government permission if it agrees to form a joint venture with a Chinese partner and share its technology. These joint ventures can be profitable for American companies in the short run, but a range of Chinese laws and regulations ensure that these partnerships are short-lived. Under Chinese law, for instance, while foreign company patents only last ten years, Chinese partners in joint ventures receive perpetual rights to use foreign technology after a joint venture agreement ends.[17] Similarly, when Chinese partners make

[15] One source describes this SOE-MCF dynamic as "military applications of technology give rise [to new technology], civilian applications of technology support them as they grow old [and outdated]" (军用技术衍生、民用技术反哺). For this see: Company Introduction, About Us, China Shipbuilding Industry Group Power World Wide Web site, available at http://www.china-csicpower.com.cn/n373/n374/index.html (in Chinese).

[16] SASTIND signs "joint construction" agreements with university administrations to provide funding and guidance to Chinese colleges that work on defense related subjects. These agreements are led by SASTIND, but they often also can involve other government organs including the Ministry of Education, Ministry of Science and Technology, the Central Military Commission's (CMC) Equipment Development Department, as well as provincial and municipal governments. "Joint construction" involves funding a wide array of projects and programs at universities including "Disciplines with National Defense Characteristics," "National Defense Science and Technology Key Laboratories," National Defense Key Discipline Laboratories," and "Key Laboratories of the Ministry of Industry and Information Technology." SASTIND also facilitates meetings and exchanges between academic professors and researchers with their counterparts in the commercial industry.

[17] White House Office of Trade and Manufacturing Policy, *How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World* (Washington DC: White House Office of Trade and Manufacturing Policy, June 18, 2018), p. 7; U.S. Trade Representative, "Findings of the Investigations into

improvements on foreign technologies, they can keep the rights to the improved technology.[18] Furthermore, to gain Chinese government approval of joint venture agreements, foreign firms frequently need to turn over a wide array of documents on sensitive data and technological information.[19] Combined, rules like these mean that after the first phase of a joint venture, Chinese joint venture partners can push out their foreign counterparts, run the company for themselves, and produce products based on the foreign company's technologies.

What the Chinese government cannot obtain through these kinds of coercive market access regulations, it seeks to steal through cyber intrusions and direct industrial espionage. Teams of hackers under the Chinese military regularly bypass the systems of major American corporations to steal technical designs, which they later pass on to Chinese companies.[20] American victims of these kinds of cyberattacks include Apple, Boeing, Micron Technologies, Coca-Cola, DuPont, Google, Yahoo, T-Mobile, Adobe, Dow Chemical, General Electric, Monsanto, and Morgan Stanley.[21] When cyber intrusions alone cannot retrieve the required information, Chinese companies have bribed American corporate and academic researchers to sell corporate trade secrets. Ford Motors experienced this, for instance, when one of their employees stole Ford design documents and brought them to his new Chinese automotive employer.[22] The magnitude of these Chinese espionage operations cannot be overstated. The Federal Bureau of Investigation has approximately one thousand investigations into attempted Chinese theft of US-based technology ongoing at any one time and opens a new investigation into Chinese espionage every ten hours.[23]

China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, p. 50.

[18] U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, pp. 49-50.

[19] Recently passed domestic laws, such as the new Foreign Investment Law and amendments to Chinese Administration of Technology Import/Export Regulations, and international agreements, such as the U.S. – China Phase One Agreement, are intended to address several of these issues. However, the domestic law changes are often vague, and it is not clear whether or how they are being enforced. Furthermore, the USTR has found that Chinese compliance with the Phase One Agreement has been inconsistent at best, and it is not clear whether promised legal changes will be implemented or enforced in practice. For details of this, please see: U.S. Trade Representative, 2021 Special 301 Report, p. 40; "A Conversation with Ambassador Katherine Tai, U.S. Trade Representative," Center for Strategic and International Studies. October 4, 2021. For details on the original practices, please see: U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, pp. 24.

[20] For an overview of this threat, see: "China Cyber Threat Overview and Advisories," U.S. Department of Homeland Security, Cybersecurity & Infrastructure Security Agency, available online at https://www.cisa.gov/china.

[21] Center for Strategic and International Studies, *Survey of Chinese Espionage in the United States Since 2000*, Strategic Technologies Program, www.csis.org/programs/technology-policy-program/survey-chinese-linked-espionage-united-states-2000; Paul Wiseman and Michael Liedtke, "Here Are 5 Cases Where the U.S. Says Chinese Companies and Workers Stole American Trade Secrets," *Chicago Tribune*, February 21, 2019.

[22] U.S. Attorney's Office, "Chinese National Sentenced for Stealing Ford Trade Secrets," press release, April 12, 2011, https://archives.fbi.gov/archives/detroit/press-releases/2011/de041211.htm.

[23] Christopher Wray, "Responding Effectively to the Chinese Economic Espionage Threat," Remarks at the Department of Justice China Initiative Conference, Center for Strategic and International Studies, Washington, D.C, February 6, 2020; Michael Conte, "FBI Opens a New Investigation Into China Every 10 Hours, Bureau Director Says," CNN, April 14, 2021.

The experience of Westinghouse Electric Company provides a great illustration of all these dynamics. When Westinghouse executives sought access to the Chinese nuclear power plant market in the early 2000s, they had to sign a joint venture agreement with China's leading nuclear power state-owned company - China National Nuclear Corporation (CNNC) - to jointly build Westinghouse's AP-1000 reactors.[24] The agreement entailed both technical assistance and the exchange of thousands of documents on nuclear power plant design.[25] In one fell swoop, China received the details of decades of U.S. nuclear power research. What little China could not get through this deal, it simply stole. In 2010, hackers within the Chinese military penetrated Westinghouse systems and stole confidential, proprietary technical and design specifications for the AP-1000 plant.[26] These hacks, according to the Department of Justice, "would enable a competitor to build a plant similar to the AP-1000 without incurring significant research and development costs."[27] Within a decade of forming its Westinghouse partnership, CNNC unveiled its own Hualong One nuclear power reactor, which bore striking resemblance to Westinghouse's AP-1000.[28] Today, Westinghouse makes no nuclear power plants or reactors for the Chinese market. Meanwhile, CNNC - powered by Westinghouse technology - competes at the heights of the global nuclear power market.

These dynamics are not limited to Chinese interactions with American corporations. China also exploits cooperation with American universities and academics to advance Chinese economic goals. The Chinese government regularly poaches American academics through coordinated initiatives like the Chinese Ministry of Education's Thousand Talents Program, which offers leading foreign academics starting salaries three to four times higher than those generally offered at American universities.[29] When these academics move to China, they transfer their expertise to Chinese laboratories and academic institutions. They also have helped to start companies in China, using research initially performed at American universities, often with the support of the U.S. government.[30] Chinese universities also frequently partner with American universities for academic exchanges and conferences centering around advanced technologies. For instance, Harbin Engineering University's Department of Nuclear Science and Technology has signed strategic

[24] "China National Nuclear Corporation," Company Profile, Chinese Defense Universities Tracker, Australia Strategic Policy Institute, https://unitracker.aspi.org.au/universities/china-national-nuclear-corporation/.
[25] "Nuclear Power in China," Country Profiles, Information Library, World Nuclear Association, updated January 2023, www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx.
[26] United States v. Wang Dong et al., Indictment, Criminal No. 14-118, U.S. District Court for the Western District of Pennsylvania, May 1, 2014, pp. 13-16.
[27] United States v. Wang Dong et al., p. 15.
[28] Echo Xie, "China Ditches U.S. Nuclear Technology in Favor of Home-Grown Alternative," *South China Morning Post*, September 14, 2020, www.scmp.com/news/china/society/article/3101304/china-ditches-us-nuclear-technology-favour-home-grown.
[29] Ellen Barry and Gina Kolata, "China's Lavish Funds Lured U.S. Scientists. What Did It Get in Return?," *New York Times*, Feb 6, 2020, https://www.nytimes.com/2020/02/06/us/chinas-lavish-funds-lured-us-scientists-what-did-it-get-in-return.html.
[30] Ellen Barry and Gina Kolata, "China's Lavish Funds Lured U.S. Scientists. What Did It Get in Return?," *New York Times*, Feb 6, 2020, https://www.nytimes.com/2020/02/06/us/chinas-lavish-funds-lured-us-scientists-what-did-it-get-in-return.html.

cooperation agreements with the nuclear engineering departments of two major U.S. public universities.[31] This is the same Harbin Engineering University that openly brags about its role supporting the PLA Navy's naval equipment and weaponry development.[32] In fact, the university's Department of Nuclear Science and Technology is a "discipline with national defense characteristics" supported by the government agency that runs China's Military Civil Fusion strategy, according to the PLA Daily.[33] Top Chinese STEM universities and state owned enterprises also recruit new employees on American campuses. As recently as 2018, the Massachusetts Institute of Technology allowed a student group to host a career fair that included top Chinese defense industrial universities like Northwestern Polytechnical University and Beihang University as well as a leading Chinese defense SOE, the Aviation Industry Corporation of China.[34]

China uses its web of industrial policies and systematic exploitation of unfair trading practices to consistently run massive trade surpluses with the world, as well as with the United States.[35] On a macroeconomic level, China's huge and persistent surpluses are best understood as the result of the Chinese government suppressing consumption by Chinese citizens and funneling national resources to manufacturers in order to make Chinese exports artificially cheap. In 2021, consumption by Chinese households represented a mere 38 percent of Chinese GDP, compared with an industrialized

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[31] Introduction, Nuclear Science and Technology, Departments and Programs, Harbin Engineering University World Wide Web site, available at https://web.archive.org/web/20200718045951/https://english.hrbeu.edu.cn/2017/1102/c5855a169731/page.htm, archived July 18, 2020.

[32] For the university's integration with the PLA Navy, please see Mission, About Us, Harbin Engineering University World Wide Web site, https://web.archive.org/web/20200710063347/https://english.hrbeu.edu.cn/5663/list.htm, archived July 10, 2020; Introduction, Harbin Engineering University World Wide Web site, https://english.hrbeu.edu.cn/5816/list.htm; College Introduction, Shipbuilding Engineering, Harbin Engineering University World Wide Web site, https://english.hrbeu.edu.cn/2017/1102/c5855a169809/page.htm; Introduction, Nuclear Science and Technology, Departments and Programs, Harbin Engineering University World Wide Web site, available at https://web.archive.org/web/20200718045951/https://english.hrbeu.edu.cn/2017/1102/c5855a169731/page.htm, archived July 18, 2020; Technology Initiatives, Harbin Engineering University World Wide Web site, https://english.hrbeu.edu.cn/2017/1013/c5817a164682/page.htm; College of Power and Energy Engineering, "Classes 20150341 and 20150342 carry out group activities with the theme of 'Three Seas and One Nuclear,'" Harbin Engineering University, December 29, 2016, available at https://web.archive.org/web/20190520053551/http://pnec.hrbeu.edu.cn/2016/1229/c3349a122303/page.htm (in Chinese), archived May 20, 2019.

[33] For the department's status as a "discipline with national defense characteristics" please see: "List of the Second Batch of Disciplines with National Defense Characteristics Released," PLA Daily, available at https://web.archive.org/web/20210423023232/http://www.81.cn/jfjbmap/content/2017-12/06/content_193667.htm (in Chinese), archived on April 23, 2021.

[34] Northwestern Polytechnical University, 2018 Career Fair Information, Massachusetts Institute of Technology World Wide Web site, available at http://asianclub.mit.edu/2018/northwestern-polytechnical-university; Beihang University, 2018 Career Fair Information, Massachusetts Institute of Technology World Wide Web site, available at http://asianclub.mit.edu/2018/beihang-university; Aviation Industry Corporation of China, 2018 Career Fair Information, Massachusetts Institute of Technology World Wide Web site, available at http://asianclub.mit.edu/2018/aviation-industry-corporation-of-china.

[35] In 2022, China recorded a record $878 billion goods surplus with the world as a whole and a $383 billion goods surplus with the United States. See Laura He, "China's Exports Plunge as Global Demand Weakens, but Trade with Russia Hits Record High," CNN Business, Jan. 13, 2023; "Trade in Goods with China," U.S. Census Bureau, https://www.census.gov/foreign-trade/balance/c5700.html.

country average of approximately 60 percent.[36] Policies that create this result include currency manipulation, targeted government spending on production capacity and related infrastructure, import restraints, an exploitative banking system, labor immobility, and wage suppression.[37] Economically, China's mercantilism comes at the expense of Chinese workers, who face lower wages and living standards than they would under a more balanced trade regime, as well as workers in the United States who are displaced by excessively cheap imports.[38]

Another way to think about China's beggar-thy-neighbor industrial policy is that it creates debt around the world and transfers that wealth to China. Chinese industrial policies are protectionist because they are designed to dramatically increase exports that are already at an economically unsustainable level. They are decidedly not the result of free market forces. (In this case, to use Adam Smith's metaphor, the "invisible hand" sits at the end of the long arm of the CCP.) The Chinese government is doubling down on this approach and in recent months announced a new program to create 90,000 new industrial firms and accelerate support for firms working on technologies relating to 5G, artificial intelligence, bio-manufacturing and the digital economy.[39]

By running huge and persistent trade surpluses on the back of subsidized exports, China is forcing victim countries around the world, including the United States and other Asian countries, to either run up enormous debt which they cannot afford or to put up trade barriers like tariffs to keep from going further into debt. Until now most countries, including the United States, have simply gone further into debt. At some point that will have to stop, and countries will have to put up barriers to Chinese exports and likely raise tariffs. For our part the United States cannot continue to transfer our wealth by going into further debt to China. We should lead the way and enact tariffs now.[40]

China's mercantilist growth strategy has been a great success in allowing the country to accumulate economic and geopolitical power. In 2001, China's GDP stood at $1.3 trillion (USD). Twenty years later, in 2021, that number was $17.7 trillion. Over the same period, its annual trade deficit with the United States grew from $80.6 billion to $339.2 billion. On an aggregated basis, between 2001 and

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[36] "China Private Consumption: % of GDP," CEIC Data, https://www.ceicdata.com/en/indicator/china/private-consumption--of-nominal-gdp; "Household spending," OECD Data, https://data.oecd.org/hha/household-spending.htm.
[37] Michael Pettis, "Fighting Global Protection: Why the Economist Is Mistaken," Carnegie Endowment for International Peace, January 18, 2023.
[38] For an in-depth examination of the Chinese policies that suppress consumption and inflate the Chinese savings rate, and how that forces the United States to run massive trade deficits to absorb these excess savings, see: Matthew C. Klein and Michael Pettis, "Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace," (New Haven, CT: Yale University Press, 2020), 101-131 and 174-221.
[39] See Mia Nulimaimaiti, "How's China's manufacturing push doing, and what still needs to be done?" South China Morning Post, May 12, 2023, https://www.scmp.com/economy/china-economy/article/3220221/hows-chinas-manufacturing-push-doing-and-what-still-needs-be-done.
[40] Michael Pettis, a leading expert on the global macroeconomy, has written that as a result of China's historical and recent economic policies "countries must increasingly choose between rising trade barriers or rising domestic debt. Until now they have mostly accepted rising debt, but in the future I think we should expect rising trade barriers." See Michael Pettis, Twitter post, May 12, 2023, 1:26 pm, https://twitter.com/michaelxpettis/status/1657074891609493504?s=20.

2022, the United States imported over $6.1 trillion more in Chinese goods than it exported to China.[41] Modern Chinese companies produce more than just the cheap consumer goods that characterized the Chinese economy of the early 2000s, and are dominant players across the global value chain. Today, China is the market leader for strategic goods like nuclear power plants, commercial ships (including container ships, drill rigs, and barges), lithium ion batteries, critical minerals, steel, aluminum, high-speed railway cars and equipment.[42] Chinese control of these industries feeds into the growing modernization of the Chinese military, which now leads the world across crucial military capabilities including air defense systems, cruise and ballistic missiles, and naval shipbuilding. Chinese economic power also allows the country to gain political power abroad by fostering economic dependence on Chinese exports of critical goods like rare earth elements, access to the Chinese market for domestic company profits, and Chinese investment for domestic economic growth.

In the final analysis, China is not a market economy in any meaningful sense of that term. Foreign and Chinese firms only make a profit if the CCP allows it, and only for as long as the CCP believes that their success serves its overarching interest in consolidating and increasing its domestic and international power. The entire Chinese economy - including the activities of American and other foreign firms operating in the country - is integrated with and serves to strengthen the Chinese military. The CCP wants to control and monopolize technology for its own domestic and international ends, and has no intention of contributing to a broader project of global technological development. China has demonstrated this clearly through the policies I have described in detail throughout this testimony. The United States must respond with strong and comprehensive action, or accept the continued rise and strengthening of the CCP's control and influence throughout the world.

[41] Services were excluded from this analysis because services trade data is less reliable than the goods metrics. By their nature, service numbers are more difficult to collect than goods data, as goods must transit through a port of entry. To collect services trade data, the Department of Commerce sends out a survey to businesses in services industries then estimates imports and exports based on these responses. Thus, it is not accurate. Additionally, many service activities that an ordinary reader would not consider exports are counted as exports. For instance, foreign students coming to our universities and foreign tourists coming to the United States are both large service-export categories. See "Trade in Goods with China," U.S. Census Bureau, https://www.census.gov/foreign-trade/balance/c5700.html. Note that, even including the relatively tiny ($26 billion) bilateral U.S. services surplus with China in 2022, the bilateral goods and services trade deficit with China was $366 billion, and the world goods and services deficit was approximately $955 billion, in 2022. See "Table 1.5. U.S. International Trade in Goods and Services by Area and Country," Bureau of Economic Analysis, https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHBpZCI6NjIsInN0ZXBzIjpbMiw2XSwiZGF0YSI6W1siVGFibGVMaXN0IiwiMzAxNjQiXV19 and "Trade Balance: Goods and Services, Balance of Payments Basis," FRED Economic Data, https://fred.stlouisfed.org/series/BOPGSTB#0.

[42] For a discussion of these sectors alongside discussion of how Made in China 2025 industrial policies impact their growth, please see: Marco Rubio, "Made in China 2025 and the Future of American Industry," U.S. Senate Committee on Small Business and Entrepreneurship, February 2019.

China's Growing Geopolitical Power Harms American Economic and National Security

China's mercantilist economic policies matter because they directly harm American national security, reduce American economic growth, and distort the American labor market. In 2022, the $383 billion bilateral U.S. goods trade deficit with China represented more than a third of America's $1.2 trillion trade deficit with the world.[43] The overall U.S. trade deficit poses many challenges for the American economy, and recounting them all is beyond the scope of this testimony. However, addressing those concerns was a core motivation behind the broader shift in trade strategy pursued by the Trump Administration. As Warren Buffet explained in his famous 2003 article about "Thriftville and Squanderville," persistent U.S. trade deficits compound upon themselves and represent an enormous transfer of wealth from Americans to people in foreign countries that acquire U.S. assets in exchange for selling us cheap goods.[44] Decades of large U.S. trade deficits have led to an extremely negative and rapidly worsening net international investment position, put downward pressure on wages, harmed the nation's labor composition, and contributed to financial bubbles.[45] Although addressing the problems associated with the trade deficit generally requires a focus on net trade with the entire world, the bilateral trade deficit with China is important both because of its size and because it benefits our primary geopolitical adversary. When we run a $383 billion annual trade deficit with China, that means that China gains hundreds of billions of dollars every year to buy dollar assets, suppress its currency, purchase foreign technology to upgrade its military, and otherwise reinforce its power. Since 2001, we have directly transferred more than $6 trillion to China through our annual trade deficits, and this does not account for the returns that China earns from extensive investments around the world that it has made with those funds. During the Cold War with the Soviet Union, it would have been inconceivable for the U.S. to allow such a massive wealth transfer to happen. Had we done so, we may very well have lost to them.

Our bilateral trade deficit with China has financed China's move up the global value chain and enabled its increasing dominance of the world's high tech economy. In parallel, the American industrial base has been left in disrepair as thousands of firms have collapsed under relentless competition from directly and indirectly subsidized Chinese imports. This makes our economy critically underprepared for wartime mobilization and unable to provide for the needs of the American people. Meanwhile, the Chinese military - powered by growing Chinese high tech

[43] "Trade in Goods with World, Not Seasonally Adjusted," Census Bureau, https://www.census.gov/foreign-trade/balance/c0015.html.
[44] Warren E. Buffett and Carol J. Loomis, "America's Growing Trade Deficit Is Selling the Nation Out from under Us. Here's a Way to Fix the Problem—and We Need to Do It Now," Fortune, November 10, 2003.
[45] For a more extensive articulation of the problems posed by the U.S. trade deficit, see my by invitation article for The Economist magazine, "Robert Lighthizer on the need for tariffs to reduce America's trade deficit," *The Economist*, Oct. 5, 2021, https://www.economist.com/by-invitation/2021/10/05/robert-lighthizer-on-the-need-for-tariffs-to-reduce-americas-trade-deficit. For a broader discussion of my views on the role and goals of trade policy, please see my forthcoming book: Robert Lighthizer, *No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers* (New York, NY: HarperCollins, *forthcoming* June 27, 2023).

economic industries - is threatening key American partners in the Indo-Pacific, seeking to dislodge American influence in one of the key economic regions of the globe.

As China's industrial base grew through the tactics described in the previous section, America's industrial capacity declined as U.S. firms struggled to compete with their subsidized Chinese counterparts. America's share of global manufacturing fell from 25 percent in 1997 to 17 percent in 2019.[46] Real growth in the manufacturing sector slowed from 4.9 percent in the 1990s to 1.4 percent over the past two decades.[47] Meanwhile, our trade deficit in manufactured goods tripled - driven by declining American manufacturing of goods like auto parts, pharmaceuticals, machinery, metals, electrical equipment, semiconductors, and precision tools.[48] Importantly, this deficit is not isolated to old lower-tech manufactured goods. While the United States once was a net global exporter of advanced technology products, today we run an annual $244 billion advanced technology product trade deficit with the world.[49] As the COVID pandemic laid bare, this ever growing reliance on overseas manufactured goods makes our economy vulnerable to supply chain shortages and disruptions.

These general trends in American manufacturing have particularly acute consequences for the defense industry. America's once great shipbuilding sector, for instance, now struggles to build more than two U.S. Navy destroyers a year.[50] China, meanwhile, is on track to build at least five destroyers this year.[51] According to the Chief of Naval Operations, shipbuilding industrial capacity is the largest limitation on growing the U.S. Navy fleet.[52] Not so for the Chinese Navy. As the U.S. Secretary of the Navy put it, one Chinese shipyard "has more capacity than all of our shipyards combined."[53] The picture is no prettier in other parts of the defense industry. Over the past year, as the United States began supplying munitions to the Ukrainian military, American ordnance contractors building

[46] James Manyika, Katy George, Eric Chewning, Jonathan Woetzel, and Hans-Werner Kaas, "Building a More Competitive U.S. Manufacturing Sector," McKinsey Global Institute, April 15, 2021, pp. 8-9, www.mckinsey.com/featured-insights/americas/building-a-more-competitive-us-manufacturing-sector.
[47] James Manyika, Katy George, Eric Chewning, Jonathan Woetzel, and Hans-Werner Kaas, "Building a More Competitive U.S. Manufacturing Sector," McKinsey Global Institute, April 15, 2021, pp. 8-9, www.mckinsey.com/featured-insights/americas/building-a-more-competitive-us-manufacturing-sector.
[48] James Manyika, Katy George, Eric Chewning, Jonathan Woetzel, and Hans-Werner Kaas, "Building a More Competitive U.S. Manufacturing Sector," McKinsey Global Institute, April 15, 2021, pp. 8-9, www.mckinsey.com/featured-insights/americas/building-a-more-competitive-us-manufacturing-sector.
[49] Trade in Goods with Advanced Technology Products, U.S. Census Bureau, available at https://www.census.gov/foreign-trade/balance/c0007.html.
[50] In the late 1970s, the United States had twenty-two large shipyards that built a variety of oceangoing vessels including cargo ships, tankers, regional containerships, drill rigs, and barges. For a discussion of the shipbuilding sector in the late 1900s, see: Tim Colton and LaVar Huntzinger, "A Brief History of Shipbuilding in Recent Times," Center for Naval Analyses, September 2002, p. 18, www.cna.org/CNA_files/PDF/D0006988.A1.pdf.; for a discussion of U.S. Navy shipbuilding woes, see: Mallory Shelbourne, "OSD Comptroller Says U.S. Shipyards Can't Build 3 Destroyers a Year," U.S. Naval Institute News, March 21, 2023.
[51] John Hill, "China's Navy Launches New Destroyers at Dalian Shipyard," Naval Technology, March 14, 2023.
[52] Mallory Shelbourne, "CNO Gilday: Industrial Capacity Largest Barrier to Growing the Fleet," U.S. Naval Institute News, August 25, 2022.
[53] Brad Lendon and Haley Britzky, "US Can't Keep Up with China's Warship Building, Navy Secretary Says," CNN, February 22, 2023.

precision-guided weapons have begun struggling to meet delivery timelines for the U.S. military.[54] Wargames performed by the Center for Strategic and International Studies indicate that the United States would run out of key munitions like long-range anti-ship missiles within one week of a conflict with China.[55]

By contrast, China's robust defense industrial capacity supports its increasingly modernized military, which Chinese leaders use to coerce American allies throughout the Indo-Pacific. Almost daily, Chinese military aircraft violate Taiwan's Air Defense Identification Zone. Chinese ships also perform exercises circling Japan's main islands as well as disputed islands in the East China Sea.[56] Meanwhile, in the South China Sea, the Chinese military operates multiple man-made islands and regularly harasses Filipino and Vietnamese ships attempting to assert their territorial claims in the region.[57]

Beyond its geopolitical impacts, the decline of America's industrial base has hurt American innovation. The manufacturing sector is a large driver of economic growth. While today manufacturing represents only about 11 percent of GDP, the sector accounts for 20 percent of U.S. capital investment, 30 percent of productivity growth, 60 percent of exports, and 70 percent of business research and development.[58] This outsize role for manufacturing in driving innovation occurs because incremental technological progress generally relies on familiarity with challenges in the production and development process that can only be gained on the production floor.[59] Without robust manufacturing capacity in leading edge industries today, the United States loses out on the jobs and companies of the future.

Our trade deficit with China has also harmed American workers and their communities. Manufacturing jobs pay higher wages and offer more robust benefits for non-college educated Americans than their service sector equivalents.[60] They also have much higher employment

[54] Eric Lipton, "From Rockets to Ball Bearings, Pentagon Struggles to Feed War Machine," New York Times, March 24, 2023.
[55] Seth Jones, "Empty Bins in a Wartime Environment: The Challenge to the U.S. Defense Industrial Base," CSIS International Security Program, January 2023.
[56] Brad Lendon, "Why Russian and Chinese Warships Teaming Up to Circle Japan is a Big Deal," CNN, October 25, 2021; Dzirhan Mahadzir, "People's Liberation Army Navy Ships Complete Circle Around Japan," U.S. Naval Institute News, July 1, 2022.
[57] Ketian Zhang, "Chinese Coercion in the South China Sea: Resolve and Cost," International Security, January 2020.
[58] James Manyika, Katy George, Eric Chewning, Jonathan Woetzel, and Hans-Werner Kaas, "Building a More Competitive U.S. Manufacturing Sector," McKinsey Global Institute, April 15, 2021, www.mckinsey.com/featured-insights/americas/building-a-more-competitive-us-manufacturing-sector.
[59] For an in-depth exploration of this phenomenon, and what this means for U.S. innovation, see: Gary P. Pisano and Willy Shih, "Producing Prosperity: Why America Needs a Manufacturing Renaissance," (Cambridge, MA: Harvard Business Review Press, 2012).
[60] Median wage data shows that manufacturing jobs pay better wages to the ordinary worker. The median wage for the over 12 million Americans who worked in the manufacturing sector was $22.51 per hour in May 2021. This hourly wage level is higher than almost all service sector industries outside of teaching and highly paid professions like finance and tech. For example, the median wage for the over 20 million Americans that work in the health care sector was $20.23. The median wage for the over 15 million Americans that work in the retail services sector was $14.36. The median wage for

multipliers than jobs in other industries, with durable manufacturers creating 744 total indirect jobs for every 100 direct manufacturing jobs created, as compared to 205 for health care and social assistance or 573 for information services.[61] Multiple studies in recent years found that the surge in Chinese imports that began with China's accession to the World Trade Organization (WTO) has had devastating impacts on American workers. Estimates suggest that Chinese import competition directly eliminated between 550 thousand and one million manufacturing jobs between 2000 and 2007, significantly suppressed wages for those jobs that remained, and increased dependency on government transfers in those geographies most exposed to competition with China.[62] Regional labor markets that were particularly exposed to competition from subsidized Chinese imports saw significantly increased unemployment and reduced labor force participation in both manufacturing and non-manufacturing industries, indicating negative and persistent impacts on local demand.[63] These concentrated harms to manufacturing employment were mostly not offset by gains in other geographies or other sectors, and led to an overall loss of approximately 2.4 million jobs between 1999 and 2011.[64] These labor market impacts were exacerbated by rising mortality rates, drug use, crime and societal breakdown in affected communities.[65] The McKinsey Global Institute found that the decline of the U.S. manufacturing sector, significantly driven by the trade deficit with China, was responsible for 68 percent of the decline in labor share of U.S. GDP between 1990 and 2015. Similarly, estimates suggest that deindustrialization is responsible for at least 20 percent of the decline in private sector unionization.[66] American workers will pay for our short-sighted opening to China for years to come.[67]

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the over 11 million Americans in the hospitality and food services sector was $13.69. The median wage for the almost 9 million Americans that work in the administrative services sector – which includes clerical services like paralegal work - was $17.48. The same is true for employee benefits. Employee benefits that manufacturing employees receive are worth an average cost of $14.14 per hour, which is higher than the value of benefits that employees in the retail, hospitality, administrative services, real estate, health care, and transportation sectors receive. For a database with all this data, please see U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment and Wage Statistics.

[61] Josh Bivens, Updated employment multipliers for the U.S. economy, Economic Policy Institute (January 2019).

[62] See Lorenzo Caliendo, Maximiliano A. Dvorkin, Fernando Parro, "Trade and Labor Market Dynamics: General Equilibrium Analysis of the China Trade Shock," Federal Reserve Bank of St. Louis Working Paper 2015-009H, 2018, https://doi.org/10.20955/wp.2015.009 and David H. Autor, David Dorn, Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," American Economic Review, 103 (6): 2121-68, 2013.

[63] David H. Autor, David Dorn, Gordon H. Hanson, "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade," Annual Review of Economics 8:1, 205-240, 2016.

[64] David H. Autor, David Dorn, Gordon H. Hanson, The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade, Annual Review of Economics 8:1, 227-229, 2016.

[65] See Anne Case and Angus Deaton, *Deaths of Despair and the Future of Capitalism* (Princeton, NJ: Princeton University Press, 2020).

[66] Sree Ramaswamy, James Manyika, Gary Pinkus, Katy George, et al., "Making it in America: Revitalizing U.S. Manufacturing," McKinsey Global Institute, November 2017, p. 6; Lawrence Mishel, Lynn Rhinehart, and Lane Windham, "Explaining the Erosion of Private-sector Unions: How Corporate Practices and Legal Changes have Undercut the Ability of Workers to Organize and Bargain," Economic Policy Institute, November 18, 2020.

[67] In 1997, I warned that "if China is allowed to join the W.T.O. on the lenient terms that it has long been demanding, virtually no manufacturing job in this country will be safe." Sadly, the outcomes for American workers, national security, and economic growth have been even worse than I predicted. See Robert Lighthizer, "What Did Asian Donors Want?" New York Times, Feb. 25, 1997.

The Trump Administration Began Combatting Chinese Mercantilism

Prior to the Trump Administration, many American leaders refused to accept the reality of China's mercantilism and did not recognize the true nature of the threat that it poses to American security, economic growth, and income inequality. Officials in the Clinton, Bush, and Obama Administration - as well as many Republican and Democratic leaders in Congress - remained hopelessly wedded to the belief that if we engaged *enough* with China, and if we provided China *enough* access to the American market, the Chinese government would turn its back on its communist, totalitarian, mercantilist model.[68] This colossal, and bipartisan, mistaken approach helped create the situation we find ourselves in today.

Many of us in the Trump Administration felt that we needed to reset our relationship with China and begin pushing back against China's unfair economic practices. Given the limitations of U.S. law and WTO rules, we realized that the United States had no choice but to act on its own to achieve real and sizable enforcement actions. Our best tool to do this was Section 301 of the Trade Act of 1974, which allows the president, acting through the U.S. Trade Representative, to take action against countries that engage in unfair trading practices. This powerful tool had been left sitting on the shelf by prior administrations, but we decided to make full use of it to serve the needs of American workers and communities and address the threat posed by China's behavior to American security. We focused our effort on China's technology theft, cyber intrusions, and failure to protect intellectual property – actions that were clearly within the parameters of Section 301. Over the course of the next several months, we performed a full and thorough investigation into those practices. The resulting Section 301 report carefully demonstrated the many abuses of the Chinese system in four key areas: China's technology transfer regime, Chinese licensing restrictions for U.S. businesses, Chinese state-sponsored investments to acquire U.S. technologies, and the ongoing problem with China's repeated attacks on commercial computer networks in the United States.[69]

Based on the findings in the Section 301 report, we implemented an initial 25 percent tariff on $50 billion worth of Chinese imports.[70] In response to Chinese retaliation, we ultimately imposed 25 percent tariffs on $250 billion worth of goods - primarily targeting products in strategic sectors including autos, machinery, and chemicals - as well as 7.5 percent tariffs on an additional $120

[68] As ITC Commissioner Jason Kearns wrote in a recent ITC report, "the United States could not have been more patient as it tried to persuade China to change course. But more concrete action was necessary to protect U.S. interests and possibly to achieve a mutually agreeable resolution somewhere down the road. Negotiations without much leverage were essentially going nowhere." See "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, pp. 173-180, https://www.usitc.gov/publications/332/pub5405.pdf.
[69] USTR, Update Concerning China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974, November 20, 2018.
[70] The $50 billion figure reflected Trump Administration estimates of the annual damage caused by the practices identified in the Section 301 report.

billion worth of goods.[71] These tariffs were maintained through the end of the Trump Administration, and to the credit of the Biden Administration largely continue to be in force today.

In parallel to raising tariffs, we engaged in constructive negotiations with Chinese officials that culminated in the January 2020 "Phase One" deal. The deal had four key components. First, we largely kept the new tariffs in place - including all of the 25 percent tariffs on strategically important goods. Thus, the United States maintained its leverage for future negotiations and, most importantly, began the process of decoupling our economies - particularly in essential sectors (as is discussed below). Second, China agreed to make certain systemic changes to facilitate U.S. access to its market, including on issues related to technology transfer, agriculture regulation, treatment of financial services firms, and intellectual property protection.[72] Third, China agreed to increase purchases of U.S. agriculture, energy, manufactured goods, and services by at least $200 billion over 2017 levels by 2022, and continue elevated purchases thereafter. Fourth, China agreed to a rigid dispute settlement provision which required that disputes about breaches of the agreement be resolved within 90 days. If violations are not resolved within that time frame, the United States can unilaterally determine a remedy (i.e., tariffs or other trade penalties) or can withdraw from the agreement.

Any assessment of the Phase One agreement must begin with the fact that the tariffs remain in effect. This fundamentally altered our relationship. In addition, China has taken several significant steps to implement the systemic changes it committed to - particularly with regards to agriculture, intellectual property, and financial services. However, it has not sufficiently kept its commitments and vigilant monitoring continues to be essential. In addition, China has failed to follow through on many of its purchasing commitments. Although a small share of that failure can be explained by the impact of the COVID-19 pandemic, that does not offset the scale of missed purchasing targets.

Importantly, the Section 301 tariffs have initiated a process of decoupling between China and the United States. The bilateral trade deficit between the United States and China decreased for five consecutive quarters on a year over year basis following the imposition of Section 301 tariffs. While

[71] For a breakdown of HS codes included in each tranche of tariffs, and corresponding tariff rates, see "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, pp. 61-70, https://www.usitc.gov/publications/332/pub5405.pdf.

[72] The agreement comprehensively addressed China's unfair trading practices. The commitments China made are beyond the scope of a footnote, but it is worth reviewing some of the main provisions. On intellectual property, China committed to actions including imposing civil penalties on companies that steal trade secrets from U.S. companies, ensuring U.S. companies can obtain criminal investigations and penalties for the theft of trade secrets by Chinese companies, provide adequate enforcement of trademark rights, enforce against counterfeit and pirated goods, amongst others. On technology transfer, China agreed not to employ formal and informal practices to pressure U.S. companies to turn over their technology. China here committed to not imposing technology transfer requirements as a condition of obtaining market access, operating licenses, or benefits like tax credits and subsidies. China also made similar commitments for its financial sector, currency manipulation practices, and agriculture sectors. Finally, China agreed to set purchase agreements for U.S. goods. For a proper overview of the agreement, please see: Fact Sheets, Economic and Trade Agreement Between the United States of America and the People's Republic of China, U.S. Trade Representative's Office World Wide Web site, available at https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china/phase-one-trade-agreement/fact-sheets.

this downward trend ended after the outbreak of the COVID-19 pandemic, the pandemic and post-pandemic increase in our bilateral trade deficit with China came from trade in products not subject to Section 301 tariffs. On average, imports from China of goods that were subject to the tariffs dropped by 13 percent between 2018 and 2021.[73] The decline was most significant in strategically important sectors. Imports of Chinese semiconductors decreased by as much as 72 percent in 2021 as a result of the Section 301 tariffs, and U.S. production of semiconductors increased in response by as much as 7.8 percent in 2020.[74] Similarly, imports of Chinese auto parts decreased by more than 50 percent and domestic production rose by about 3 percent.[75] Imports of Chinese electrical equipment went down 40 percent and U.S. production went up 7 percent because of the tariffs.[76] Imports of Chinese manufactured commodities decreased by 12 percent and U.S. production increased by about 2.5 percent.[77] Imports of Chinese computer equipment declined by 5 to 7 percent, and U.S. production rose by slightly more than 1 percent.[78] The list goes on and on. In looking at these figures, it is critically important to remember that imports will always fall faster than U.S. production can increase. Importing from friendlier nations is better than importing from China, but does not help address critical shortages in American industrial capacity. Firms require time, and assurance that the tariff regime is here to stay, in order to make the investments necessary to build up domestic capacity. Firms have now gotten the message, and are already beginning to make such investments.[79]

The dynamics in the US-China automobile trade help play out the impact of Section 301 tariffs on bilateral trade relations. Automobile imports from China are currently subject to a 25 percent tariff under Section 301, which began in October 2018. Two weeks after these tariffs went into effect, Volvo announced it would halt exports of S60 and XC60 cars from China to the United States. At first, Volvo switched production to its Swedish factories, but today new Volvo S60s in the United States are made in a factory outside Charleston, South Carolina.[80] Similarly, General Motors announced they would no longer import their CT6 Hybrid from China a month after the Section 301

[73] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 149, https://www.usitc.gov/publications/332/pub5405.pdf.
[74] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 153, https://www.usitc.gov/publications/332/pub5405.pdf.
[75] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 159, https://www.usitc.gov/publications/332/pub5405.pdf.
[76] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 161, https://www.usitc.gov/publications/332/pub5405.pdf.
[77] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 163, https://www.usitc.gov/publications/332/pub5405.pdf.
[78] "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries," United States International Trade Commission, March 2023, p. 155, https://www.usitc.gov/publications/332/pub5405.pdf.
[79] Construction of new U.S. factories hit an all-time record in 2022, with the $108 billion spent on factory construction by U.S. firms exceeding the amount spent on construction of schools, healthcare centers, or office buildings. See John Keilman, "America Is Back in the Factory Business," Wall Street Journal, Apr. 8, 2023, https://www.wsj.com/articles/american-manufacturing-factory-jobs-comeback-3ce0c52c.
[80] Andrew Krok, "Volvo Shifts US-Bound XC60 Production to China to Dodge Tariffs," CNET, July 19, 2018; Keith Naughton and Gabrielle Coppola, "Volvo Rips Up Production Plan as U.S.-China Trade War Slams Profits," LA Times, November 12, 2018.

auto tariffs went into effect.[81] As a result of the Section 301 tariffs, the United States is avoiding the surge in Chinese auto imports currently plaguing the European Union.[82]

American companies across the board are moving production out of China. Apple, for instance, has moved some iPhone manufacturing to India and MacBook manufacturing to Vietnam.[83] Dell plans to stop using Chinese microchips.[84] Hewlett Packard is divesting its Chinese IT equipment enterprises.[85] Of course, many factors play into these business decisions, including the pandemic, China's zero-COVID policy, and increasing business awareness of supply chain risk. Business surveys show, however, that the Section 301 China tariffs helped start this trend. As early as October 2018, business surveys showed that more than 70 percent of U.S. firms operating in southern China either considered delaying further investment in China or moving manufacturing into other countries.[86] Surveys from 2019 showed that upwards of 40 percent of U.S. companies in China planned to relocate some of their production outside of China.[87] More recently, a 2022 business survey found that 69 percent of American companies operating in China reported that tariffs were having a negative impact on their China-based production operations.[88]

The record shows that the Section 301 tariffs worked to begin decoupling in those sectors that were subject to the tariffs. Building up the requisite domestic capacity will take time, but that process has already begun. A comprehensive strategic decoupling strategy is critically important to ensure that this trend continues and accelerates, and tariffs must be a central part of the solution.

I believe that the Phase One agreement was a great success from the American point of view. For the first time, the United States took significant action to defend itself and its workers against China and to signal to the American business community that our economic relationship with China was permanently changed. In addition, the Phase One agreement was an important first step in strategic decoupling and led to some improvements in our economic balance. The most important part of the agreement was the tariffs. Today, I believe that China is in clear violation of our agreement due to its abject failure to meet many of the systemic change commitments and the purchasing targets.

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[81] "Cadillac Pulls the Plug on CT6 Hybrid in the U.S.," Gardner Business Media, November 19, 2018.
[82] Nick Gibbs, "EU Should Impose Higher Tariffs on Chinese Automakers, Carlos Tavares Says," Automotive News Europe, October 19, 2022.
[83] Patrick Van den Bossche, Omar Troncoso, et al., "America is Ready for Reshoring. Are You?," Kearney, 2022 Reshoring Index, p. 3; Craig Mellow, "Tech Exodus from China Accelerates. These Emerging Markets May Benefit," Barrons, March 25, 2023.
[84] Craig Mellow, "Tech Exodus from China Accelerates. These Emerging Markets May Benefit," Barrons, March 25, 2023.
[85] Craig Mellow, "Tech Exodus from China Accelerates. These Emerging Markets May Benefit," Barrons, March 25, 2023.
[86] Sue-Lin Wong, "Many U.S. Firms in China Eyeing Relocation as Trade War Bites: Survey," Reuters, October 29, 2018.
[87] "Joint Survey on Tariffs," America Chamber of Commerce China, May 22, 2019, available at https://www.amcham-shanghai.org/sites/default/files/2019-05/Joint_survey_on_tariffs_May_2019.pdf.
[88] Arendse Huld, "Insights from AmCham South China's Latest Survey on 2022 Business Outlook," China Briefing, March 11, 2022.

Therefore, the U.S. government should use its authority under Section 301 to significantly raise tariffs on Chinese imports across the board.

Congress Should Pass Laws to Phase In a Strategic Decoupling of the Chinese and American Economies

China policy, however, can no longer be left entirely to the Executive Branch. Congress should act now to take the next steps that are needed to defend America and its workers from the CCP. I believe that we need a policy of strategic decoupling which includes several components. Clearly, we need to phase in this new policy over a relatively short period of time to give our economy the time necessary for it to adjust without avoidable disruptions.

1. Congress should raise tariffs on China to a level that will balance our bilateral trade.

We need to stop the annual transfer of America's wealth and jobs to China. To do this, we need to impose tariffs that are sufficiently high in order to ensure that we buy approximately the same amount of goods from them as we sell to them. Efforts to lower the bilateral trade deficit should begin with a withdrawal of China's permanent normal trading relation (PNTR) status with the United States. PNTR makes China qualify for our "most favored nation" (MFN) schedule of tariffs, which average around 3.4 percent.[89] Allowing such generous market access terms to a country like China - which engages in the mercantilist practices detailed earlier - enables Chinese firms to easily prey on American industries. This fuels the bilateral trade deficit and contributes to the transfer of American wealth to China.

After repealing PNTR, Congress should establish a new tariff regime for U.S. trade with China. In a world where Congress repeals PNTR, imports from China would be subject to our column two list of non-MFN tariffs in addition to any Section 301 tariffs currently in place. While column two tariffs are significant on some products like aircraft (30 percent), they remain quite low for other important products like cars (10 percent). So, in addition to repealing PNTR, Congress either should create a new column of tariffs specific to China or should rewrite U.S. column two tariffs. These tariffs should be written in a way that decreases U.S. reliance on Chinese imports of high tech products and eliminates the bilateral trade deficit.

As the impact of our Section 301 tariffs showed, sufficiently high tariffs will achieve the desired trade deficit reduction and decoupling effects. To effectively decouple from China, tariffs must be high enough to affect firm-level decisions of where to manufacture goods. Furthermore, I believe that the tariffs should be adjusted periodically to assure that our trade relationship becomes, and over time stays, balanced.

[89] Kenneth Rapoza, "Repealing China's Most Favored Nation Status: What it Means for U.S. Manufacturers and Workers," Coalition for a Prosperous America, March 22, 2023.

2. Congress should take steps to prevent current and future technological integration with and dependence on China.

The CCP has made control and monopolization of advanced technology in China central to its mission for many decades. Many of China's most harmful unfair trading practices are designed to acquire foreign technology and use it to make Chinese firms market leaders in militarily and economically strategic sectors. Therefore, the United States needs to take comprehensive action to prevent American reliance on technological research, development, and manufacturing supply chains in China.

To help achieve this goal, Congress should strengthen export controls on dual use and other important products and technologies flowing from U.S. entities to China. The Trump Administration began aggressively using the existing export control toolkit to restrict Chinese access to sensitive dual use technologies.[90] The Biden Administration has done an excellent job accelerating this process and transitioning the U.S. to a stricter export control regime. However, more work needs to be done. Congress should encourage the Commerce Department to continue tightening export controls on China. First, the U.S. should use the "foreign direct product" rules to prevent exports to China of highly sensitive, military-related products that we cannot allow the Chinese military to acquire, even if the product is not entirely produced in the United States.[91] In parallel, the U.S. should work closely with our allies to enter into multilateral agreements with other major producers of a given advanced product in order to restrict its export to China and avoid potential free rider problems from unilateral export controls. Congress should also provide more funding to the Commerce Department to enhance its screening of Chinese companies and ensure rigorous enforcement of current and future export controls.[92]

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[90] For example, under the Trump Administration, the Commerce Department expanded the scope of items covered by our export control regime, raised the standard for granting export licenses, added hundreds of Chinese companies to the Entity List of foreign persons subject to greater screening scrutiny, started a new Military End User list, and began treating exports to Hong Kong as exports to China.

[91] The United States can use the "foreign direct product" rule to restrict exports for any producer of a given high-tech product when that product is the direct result of U.S. technology or software. The Trump Administration, for instance, used this rule to restrict semiconductor-related exports to Huawei from European semiconductor companies that relied on U.S. technology or software for their semiconductor production process. Using this rule too freely, however, risks encouraging foreign companies to stop relying on U.S. upstream technology or software.

[92] The Entity List, in particular, should be revamped. As currently structured, the list only contains company English language names and a handful of addresses. It does not include vital company information like original language names, e-mail addresses, phone numbers, and government identification numbers. Without information like this, screening exports becomes much harder, and export control circumvention by firms in China becomes that much easier. To remedy this, Congress should fund a modernized Entity List database that includes more information than company English names and addresses. The database should be online and searchable. At the same time, Congress also should fund an open-source Chinese defense industry research center in the Bureau of Industry and Security. This center would work to expand the Entity List, fill in new information about Chinese companies on export control lists, and help evaluate export license applications.

Additionally, Congress should increase tariffs on technologically advanced Chinese goods and support efforts to eventually create multilateral alignment on China tariffs with our allies. As the Section 301 tariffs showed, high tariffs on strategically important goods both discourage imports of such goods and help increase American production, improving our economic and technological resiliency. Congress should also encourage U.S. efforts to work with our allies to coordinate our respective tariffs and other controls on Chinese imports, and potentially work towards an advanced technology tariff agreement on China. Although unilateral action is better than no action at all, an effective multilateral tariff rebalancing that limits Chinese technology exports across the board would best limit China's ability to establish dominance in global high tech markets.

In parallel, Congress should fund programs that catalyze and accelerate American research, development, and production of capital intensive high tech products. Of course, Congress should be mindful that subsidies can be wasteful, distortionary, and improperly reward certain interest groups at the expense of the general public. However, the massive subsidies used by countries like China to build technological dominance mean that we need properly conditioned and controlled public support in some essential industries if we want to continue to compete in those sectors and ensure our economic resiliency. Semiconductor manufacturing, particularly for the highest end chips, is such a sector. Advanced battery manufacturing is likely another. Congress should build on the CHIPS and Science Act to ensure American competitiveness in advanced technology, and should ensure that any funding that is appropriated for that purpose has strict content requirements that guarantee that affected production occurs in the United States or, when necessary, in closely allied nations.

Finally, Congress should support efforts to ensure American leadership in setting global technology standards. China has weaponized its involvement in global technology standards setting bodies, and its influence through programs like the Belt and Road Initiative (BRI), to impose its unique standards on the global marketplace across a range of high technology industries – thereby locking in an advantage for Chinese firms and entities.[93] The U.S. should not let this happen, and thus must lead on developing global technology standards that pursue a market- and consumer-driven innovation agenda and select technology on the basis of consensus and merit instead of Chinese mercantilist priorities.[94] The United States cannot allow global standards for advanced technologies like 5G (and eventually 6G) mobile wireless, quantum computing and artificial intelligence to be left in a vacuum - particularly one that is certain to be filled by China.[95]

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[93] See "2021 National Trade Estimate Report on Foreign Trade Barriers," March 2021, United States Trade Representative, https://ustr.gov/sites/default/files/files/reports/2021/2021NTE.pdf; see also Matt Sheehan, Marjory Blumenthal, and Michael R. Nelson, "Three Takeaways From China's New Standards Strategy," Carnegie Endowment for International Peace, October 28, 2021, https://carnegieendowment.org/2021/10/28/three-takeaways-from-china-s-new-standards-strategy-pub-85678.

[94] See Walter G. Kopan and Kirti Gupta, "Renewing U.S. Leadership in Standards," Center for Strategic and International Studies, June 13, 2022, https://www.csis.org/analysis/renewing-us-leadership-standards.

[95] See Leonard Lee, "The Future of U.S. Technology Leadership," Forbes, Apr. 27, 2023, https://www.forbes.com/sites/forbestechcouncil/2023/04/27/the-future-of-us-technology-leadership/.

3. Congress should further restrict inbound investment from China.

Part of China's economic strategy relies on acquiring foreign companies and their technology and data through government-supported acquisitions.[96] As a result, when Chinese firms acquire American assets, they frequently are not making profit-motivated business decisions. Instead, they are acting to advance China's national interest. In theory, the Committee for Foreign Investment in the United States (CFIUS) should step in and prevent Chinese firms from acquiring strategic American assets. In practice, however, CFIUS enforcement remains uneven and its scope is too limited.[97] Congress should step in to fix the CFIUS process.

First, Congress should expand CFIUS' scope. CFIUS should be able to block Chinese investment in the United States for reasons other than a traditional national security threat. The likelihood an investment could cause long-term economic harm to the United States, for instance, should be enough for CFIUS to block it. Similarly, CFIUS should be authorized to block *any* investment from a state-owned enterprise or from a Chinese firm that receives subsidies from the Chinese government if it finds that investment is contrary to American economic or national security interests.

The law should also be changed to require mandatory notification to the Department of Treasury of all Chinese investment in the United States. As currently structured, the Foreign Investment Risk Review Modernization Act (FIRRMA) and the Treasury Department's implementing regulations make disclosing potentially threatening foreign investment generally voluntary for firms. While CFIUS takes it upon itself to investigate non-notified transactions and retains the ability to unwind old deals, in practice finding every instance of Chinese investment in the United States proves exceptionally difficult. To remedy this issue, Congress should amend FIRRMA to require mandatory disclosure of all Chinese investment in the United States with harsh criminal penalties for failing to disclose this investment.

Finally, Congress needs to engage in rigorous oversight of the Treasury Department implementation of this statute. Too often, the impetus of the officials is to let acquisitions go through and to permit so-called "mitigation agreements" which are, in many cases, ineffective.

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[96] As discussed in an earlier footnote, under Chinese government policy, if a company invests in an overseas project or acquisition in one of 40 industries, it will receive several forms of government support including subsidies for any fees incurred, bank loans at government-subsidized interest rates to pay for the investment, policy bank loan support, and priority government approval. For discussion of this, see: U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," March 22, 2018, pp. 77-78.

[97] In 2022, for instance, CFIUS failed to block a Chinese investment in 150 hectares of land 20 kilometers from a U.S. Air Force base. See Ken Moriyasu, "Marco Rubio Slams CFIUS for Failing to Block China Land Purchase," Nikkei Asia, December 15, 2022.

4. Congress should restrict outbound investment to China.

Congress should take steps to severely curtail outbound American investment into China, particularly investment flowing into strategically important or dual use sectors. We should only allow such investment if it is in our interest and, specifically, we cannot allow American finance and expertise to build up Chinese technological dominance and military capabilities. However, the United States currently only screens inbound investment from foreign countries, and does not systematically screen or regulate outbound investment. This is unacceptable, since some of the most harmful investments that aid Chinese military growth come from U.S. firms that invest in China through joint ventures that require U.S. partners to share their technology with their Chinese counterparts.

Congress should establish a regime to screen all high-tech outbound investment into China from U.S. firms. This structure must require all U.S.-based firms engaged in sectors related to advanced technology *or* national security to report any investment they make in China. After screening these investments, it must be authorized to enjoin any outbound investment it deems harmful to U.S. national or economic security.

Congress should also ensure that Americans are only permitted to invest in Chinese firms that meet acceptable disclosure rules - whether or not such firms are listed on U.S. exchanges. We cannot allow pensions and other American investors, and ultimately the American financial system, to be exposed to unknown risks from opaque Chinese firms. To this end, Congress should consider expanding the Holding Foreign Companies Accountable Act of 2020 (HFCAA) to require all Chinese firms that accept U.S. investors to comply with more rigorous disclosure requirements on par with companies listed on U.S. and European exchanges.[98]

5. Congress should ban all federally funded research universities from engaging with Chinese entities in any manner that involves discussing strategic technology-related research, education, or employment.

As discussed earlier in the testimony, China's mercantilist policies also seek to take advantage of American universities and researchers. The federal government generously provides American universities with financial support for everything from student loans to research projects. This support should not indirectly feed into Chinese economic and military modernization. Congress should restrict the ability of federally funded institutions to engage with entities based in China. In particular, federally funded institutions should be prohibited from any communication, exchange, or joint program with Chinese firms, universities, researchers, and professors related to advanced technologies or national security related fields of academic study.

[98] Under the law, the Chinese government must allow the U.S. accounting oversight body - the Public Company Accounting Oversight Board (PCAOB) - to investigate and inspect the auditing process for Chinese firms listed on U.S. stock exchanges. More rigorous enforcement, and a broader mandate, is needed to protect American investors in Chinese companies.

6. Congress should enhance the Foreign Agent Registration Act and restrict Chinese social media companies' market access.

The Chinese government and its affiliates regularly attempt to influence debates within U.S. civil society and shape how Americans view China and US-China relations. Chinese state-owned newspapers take out full-page advertisements in local U.S. newspapers.[99] Parts of the Chinese government partner with American universities to establish "Confucius Institutes" that teach American college students Chinese language and culture through Chinese government-funded teachers who avoid "sensitive" topics like the Tiananmen Square Massacre.[100] Chinese donors contribute to major American non-profits that shape American political discourse. Additionally, the nominally "private" Chinese social media app TikTok manages algorithms that determine what its overwhelmingly young and impressionable American audience sees. Americans should not allow our primary adversary to pervasively influence our society.

Congress should act to put a stop to this. Congress should ban Chinese state-actors from purchasing advertisements in American newspapers and strengthen U.S. foreign donation laws to require all non-profits to publicly disclose the foreign money they receive. Congress should also expand our Foreign Agent Registration Act to require all individuals involved in political lobbying who have coordinated with Chinese entities to register themselves as foreign agents and report these activities to the U.S. government.

Congress should also take immediate steps to ban Tik Tok and other Chinese applications that can be used for spreading CCP propaganda or gathering sensitive American data. Beyond privacy and data security concerns, this is a matter of reciprocity. If American social media and other digital firms cannot operate in China, their firms should not be allowed to compete in the U.S. market.

7. Congress should strengthen American trade remedy laws to protect American companies from unfair Chinese trade practices.

Congress should also strengthen the legal remedies available for U.S. producers suffering from unfair Chinese trade practices. In addition to discretionary authorities like Section 301, our trade law regime contains a set of mandatory authorities that require the government to raise tariffs or block imports upon finding that a foreign company engages in certain unfair trade practices including dumping, subsidies, and intellectual property theft. U.S. companies affected by these practices can petition the Commerce Department and the International Trade Commission to investigate and take action to offset these practices.

[99] For an example of this, see "China Daily Takes Out Ads in U.S. Newspapers to Highlight Diaoyu Claims," South China Morning Post, September 30, 2012.
[100] Lee Edwards, "Confucius Institutes: China's Trojan Horse," Heritage Foundation, May 27, 2021.

Congress should start by strengthening U.S. anti-dumping and countervailing duty laws. These laws allow American producers to petition the Commerce Department and the International Trade Commission to raise tariffs on foreign imports to offset the impact of their below cost predatory pricing (anti-dumping duties) or government subsidies (countervailing duties). To strengthen these laws, Congress should consider bills like H.R. 6121, which would allow the Commerce Department to take new forms of subsidization into account and would expedite anti-dumping/countervailing duty investigations when the alleged trade law violator is a repeat offender.[101] Congress should also consider bringing back the Continued Dumping and Subsidy Offset Act (commonly called the Byrd Amendment), which allowed the Commerce Department to use the revenue raised by anti-dumping and countervailing duties to help American industries impacted by these practices.[102]

Congress should also reform U.S. laws designed to block imports of products based on stolen U.S. intellectual property. Currently, Section 337 of the Tariff Act of 1930 allows companies whose intellectual property was stolen to petition the Commerce Department to block imports based on that stolen intellectual property. If Commerce determines that a foreign exporter is using that company's intellectual property, it will block imports of that specific product. This penalty is too lenient. Congress should consider reforming Section 337 to enact stricter penalties, particularly for repeat offenders, and create a bigger deterrent to Chinese IP theft.

8. Congress should reform the de minimis to make it harder for Chinese imports to circumvent U.S. customs screening processes.

Congress also should lower the U.S. de minimis threshold. As currently structured, U.S. citizens or legal residents can import one package a day valued under $800 without paying import duties or using the normal import forms that trace an import's contents and place of origin.[103] Today, major importers like Amazon, Shein, and Temu work with cheap manufacturers in China to avoid our duties and import a massive amount of goods under the de minimis threshold by breaking out large shipments from abroad into direct mail to individual consumers. We have essentially given every country a free trade agreement for consumer goods without demanding any reciprocity. At the same time, we are harming brick-and-mortar stores who cannot compete with duty-free online businesses like Amazon or Shein. The de minimis also makes it harder to screen for illegal drugs and

[101] H.R. 6121, 117th Congress (2021-2022).

[102] In a case called *U.S. - Offset Act (Byrd Amendment)*, the WTO Appellate Body incorrectly ruled this law to be a violation of the WTO Treaty. In this ruling, the Appellate Body's interpretation of the Subsidies Agreement in effect created a new category of prohibited subsidies that was neither negotiated nor agreed to by WTO Members.

[103] The de minimis was initially enacted in 1938 with the idea that a citizen who wanted to import something like a small gift should be able to do so without a large burden. The initial threshold was $5 for a gift and $1 for everything else. No harm was done. After several interim steps, the amount was raised to $200 in 1994. Still, shipments were under control. The 2015 Trade Facilitation and Trade Enforcement Act, however, raised the threshold for duty-free treatment to $800. Legislators and President Obama did this to streamline lower duties and paperwork. Unintentionally though, this created an enormous loophole and de minimis imports reportedly went from $40 million in 2012 to $67 billion in 2020. For this, see: Josh Zumbrun, "The $67 Billion Tariff Dodge That's Undermining U.S. Trade Policy," *Wall Street Journal*, April 25, 2022.

counterfeits coming into our country, as de minimis packages come with no data about their contents or place of origin. No other country sets such a high de minimis. Canada has a de minimis threshold around $110, Mexico at around $50, the European Union at around $165, and China at a little over $7.[104]

The de minimis encourages a gaming of American customs laws. The Mexican company Baja Fulfillment, for instance, imports millions of dollars in Chinese imports, loads them in bonded trucks in Los Angeles, and brings the duty-free to Mexico. They technically never enter the U.S. customs area so they don't pay tariffs. The products are then stored in Mexico until they are sold directly to U.S. consumers duty free.[105] Meanwhile, Shein - a Chinese fast-fashion company - designed its business model around exploiting the de minimis to ship from China to individual Americans. As a result, it now controls almost 30 percent of the U.S. fast-fashion market.[106]

Congress should act to stop this. First, the de minimis should not apply to non-market countries like China. The United States should not permit China to ship billions of dollars of goods into the United States unmonitored and unreported. Second, Congress should lower the de minimis threshold back down closer to $200. This would put our de minimis threshold on par with other developed countries around the world.

Conclusion

While I have focused on the trade and economic issues in this statement, I want to stress that I believe that we must work with our allies on this strategy wherever possible. While we cannot delay action while we wait for multilateral agreement, we clearly are stronger when working together. We also need to engage with other countries in Asia. Closer relations with the Indo-Pacific will make us stronger and more likely to prevail in our competition with China.

I do not, however, believe that joining the Trans Pacific Partnership (TPP) is part of the answer. Increased and balanced economic interaction with countries in Asia is important, but the unspoken argument that many TPP advocates make is that if we buy more from Asian countries and increase our trade deficit with them, they will ally themselves more with us than with China. I believe this is wrong for several reasons. First, greater American trade deficits are a transfer of our wealth and jobs overseas and that makes us weaker not stronger. The best thing we can do to help our allies and to draw others to us is to have the strongest economy and military possible. Second, we already have large trade deficits with most of these countries. If deficits led to allegiance, we would already have theirs. Third, the agreement is very poorly written. It would do substantial damage to many of our

[104] "De Minimis Value," Avalara, www.avalara.com/us/en/learn/cross-border-resources/de-minimis-threshold-table.html.
[105] Josh Zumbrun, "The $67 Billion Tariff Dodge That's Undermining U.S. Trade Policy," *Wall Street Journal*, April 25, 2022.
[106] Tatiana Walk-Morris, "Shein Surpasses H&M, Zara in U.S. Fast Fashion Sales," Retail Dive, July 12, 2021, https://www.retaildive.com/news/shein-surpasses-hm-zara-in-us-fast-fashion-sales/603160/.

businesses, risk more of our jobs and would, ironically, likely increase imports to the United States from China while enhancing Chinese influence with those same Asian countries.[107] Our objective should be to expand our involvement in the Indo-Pacific without risking American jobs. Some of the ideas under consideration in the Indo-Pacific Economic Framework, if done properly, could contribute to that. Finally, to the extent that we really want more imports from some TPP member countries without harming our workers, simply putting tariffs on China will make other Asian and Indo-Pacific suppliers more attractive and thus might be the best answer.

As a last thought, I would like to point out that my recommendations - a trade regime designed to help us and our workers, not transferring wealth to an adversary, striving for technology independence, regulating incoming and outgoing investment so that it benefits us - are essentially the policies that China has toward the United States. Their policies on trade, technology and investment are all designed to help only them. I'm really just advocating for a policy of reciprocity.

The recommendations made here are aggressive, but I believe that the gravity of the threat China poses to our country requires bold action. A comprehensive policy of strategic decoupling combined with many of the numerous other actions the Committee is considering in the areas of national security and technology will give the United States the best chance of prevailing in this all-important competition.

[107] It is critically important to understand, and fatal to the geopolitical case for the TPP, that the TPP would have minimal trade diversion effects on Chinese exports. Harvard Professor Mark Wu found that the total trade diversion from China as a result of the TPP would total approximately $1 billion, which is "a mere drop in the bucket for China, considering that it exported more than $2 trillion in 2015." Most of the Chinese exports actually threatened by competition from TPP nations are in so-called "sunset" industries, like footwear and apparel, that China is already transitioning away from as it moves up the value chain. Even worse, weak rules of origin requirements in the TPP (which define how much of a product needs to be made within the free trade zone to qualify for its market access benefits) would allow producers in industries including autos, auto parts, steel, and aluminum to qualify for preferential access to the U.S. market with a much higher percentage of Chinese components than they currently can. Since Mexico and Canada are parties to the TPP, moreover, many of the hard fought rules (like strict rules of origin) in the US-Mexico-Canada Agreement (USMCA), which was the first free trade agreement to truly prioritize American workers and industry, would be undercut by the much weaker provisions of the TPP. More broadly, many aspects of the TPP are poorly negotiated, and would enrich and empower Chinese suppliers within the TPP countries, instead of weakening them. China already has pre-existing free trade agreements with all the countries in the TPP except for the US, Japan, Canada, and Mexico - including through its Regional Comprehensive Economic Partnership (RCEP). As a result, Chinese SOEs are deeply ingrained in these countries' economies and would stand to benefit from their expanded access to the U.S. market. In sum, opening up our market to countries that are integrated into Chinese supply chains would make us more - not less - dependent on China. See Mark Wu, "Rethinking the Rise and Fall of the TPP: Why the Analysis of Trade Agreements Requires an Overhaul," Sept. 2017, https://www.inet.econ.cam.ac.uk/events-files/2017/copy7_of_DraftonlyRethinkingtheRiseandFalloftheTPPWhytheAnalysisofTradeAgreementsRequiresanOverhaul.pdf; "Chinese Companies are Moving Supply Chains out of China to Manage Risks, with India, Malaysia and Indonesia Benefiting," South China Morning Post, Apr. 23, 2023.