HEARING ON COUNTERING CHINA'S TRADE AND INVESTMENT AGENDA: OPPORTUNITIES FOR AMERICAN LEADERSHIP

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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C O N T E N T S

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
April 11, 2023
No. TR-01

Chairman Jason Smith and Trade Subcommittee Chairman Adrian Smith Announce Subcommittee Hearing on Countering China's Trade and Investment Agenda: Opportunities for American Leadership

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Trade Subcommittee Chairman Adrian Smith (NE-03) announced today that the Subcommittee on Trade will hold a hearing on countering China's trade and investment agenda. The hearing will take place on **Tuesday, April 18, 2023, at 2:00pm in 1100 Longworth House Office Building**.

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

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Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMSubmission@mail.house.gov.

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Tuesday, May 2, 2023**. For questions, or if you encounter technical problems, please call (202) 225-3625.

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All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.
All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its facilities accessible to persons with disabilities. If you require accommodations, please call 202-225-3625 or request via email to WMSubmission@mail.house.gov in advance of the event (four business days' notice is requested). Questions regarding accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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CHINA'S TRADE AND INVESTMENT AGENDA: OPPORTUNITIES FOR AMERICAN LEADERSHIP

TUESDAY, APRIL 18, 2023

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:15 p.m., in Room 1100, Longworth House Office Building, Hon. Adrian Smith [chairman of the subcommittee] presiding.

Chairman SMITH of Nebraska. The subcommittee will come to order.

Good afternoon. The subcommittee I am glad to lead here. I appreciate the opportunity to work with all of you this Congress, especially Ranking Member Blumenauer and each member of this committee.

I would also like to thank our witnesses for being here today. This is, as you know, an important topic. Today's hearing examines why the United States must lead on trade, especially in the face of China's aggressive trade and investment agenda.

Concerns about the Chinese Communist Party's global influence and predatory trade practices are not only shared by every member of this committee. These concerns are bipartisan and bicameral. We have seen firsthand how China seeks to weaponize trade to expand its influence and undercut U.S. workers and values. These actions should create a mandate for the United States of America to lead on trade issues.

But unfortunately, such a mandate has seemingly gone unnoticed by the Administration. Across the board, China seeks to dominate global trade and supply chains. They are using all tools at their disposal to advance their Made in China 2025 initiative.

Today we will hear why the United States must lead from a position of strength. We can do this by addressing the CCP's practices directly, while simultaneously using trade programs, agreements, and other tools to show we are a reliable and attractive alternative for nations around the world.

The CCP seeks to erode America's competitive edge through intellectual property theft, discrimination against American exporters and investors, and a wide range of advantages provided to state-owned enterprises within China. They have made no secret of their desire to replace the United States as the dominant global power. We cannot and will not allow this to happen.

China continues to grow its global ambitions. Take, for example, the Belt and Road Initiative, which has become a tool for the CCP to trap partners in developing countries into endless cycles of debt and control. This is happening in every region of the world, from the Indo-Pacific to our own backyard right here, in the Western Hemisphere. No country is immune to this aggressive behavior. Partners like Australia, South Korea, and Lithuania have experienced this firsthand. While we can be encouraged these instances of attempted economic coercion backfired, Beijing continues its brazen attempts to bully nations into submission.

In my view, there is no treading water on trade matters. You are either moving ahead or you are losing ground. And right now we are losing ground while China forges ahead with a trade agenda that cheats to shape the global playing field in its favor.

Our trading partners around the world are hoping the U.S. will stand up and provide a unified, bipartisan American trade agenda to hold the CCP and other bad actors accountable. We can do this while partnering in a deeper and more consequential way with our allies.

The role of Congress cannot be ignored for this effort, which is why Congress must use its constitutionally-given authority to set deliverables and provide critical oversight of all trade matters. Crafting a Trade Promotion Authority bill to put Congress in the driver's seat, reauthorizing critical trade programs aimed at increasing American competitiveness, and continuing efforts to add consequences for trades—for China's trade practices are all things we can and should pursue right now.

Our trade policy is at its strongest, its most durable, effective, sustainable, and inclusive when elected representatives are driving and shaping it. We saw this firsthand as this committee reinvigorated our North American trading relationships through the United States-Mexico-Canada Agreement, USMCA. We need to build on and replicate this important work, and I am confident this committee can do so. I am excited to get to work.

Chairman SMITH of Nebraska. With that, I am pleased to recognize the ranking member from Oregon, Mr. Blumenauer, for his opening statement.

Mr. BLUMENAUER. Thank you much, Mr. Chairman. I agree with your enthusiasm and some of the optimistic things that we can do. We had similar hearings in the last Congress to highlight the Chinese Government's state-led, non-market, anti-competitive approach that threatens American workers and business. I hope we can all agree that now is the time to move from rhetoric to action.

We led efforts to pass forceful legislation in the trade title in the America COMPETES Act that helped workers and firms who have been displaced by offshoring to China. It incorporated many of the concepts and values that enjoyed the broad bipartisan support that you mentioned in terms of the NAFTA revisions. We would close the de minimis loophole, strengthen our trade remedy laws, create an outbound screen for Chinese investments, and update the miscellaneous tariff bill to exclude finished goods, more than half of which come from China and undercut American manufacturers. This legislation is meant to level the playing field so that American workers and businesses are no longer disadvantaged by the Chinese double standard.

For some reason, Mr. Chairman, we were unable to move this forward with Republican support in the last Congress. But I hope that we can do that now to match again the rhetoric with legislative action. American workers and businesses can no longer wait.

The USTR's report on Congress on China's WTO compliance makes clear that China has an abominable record: 20 years of WTO membership, and they still embrace a non-market approach, despite China's own commitments that it would pursue open-market-oriented policies. If anything, China has doubled down on its anti-competitive, trade-distorting practices.

Today China is the world's leading offender in creating non-market capacity, as evidenced by the severe and persistent excess capacity in several industries, particularly steel and aluminum. And of course, the Chinese production methods are some of the dirtiest in the world.

The resulting overproduction and pollution has distorted global markets and contributed to massive increase in carbon pollution, harming American workers and manufacturers, as well as third countries, where American exports of steel products compete with exports from China.

We will hear from one of our witnesses today, Roy Houseman from the United Steelworkers, and about legislation my friend, Terri Sewell, has introduced to address some of these unfair trade practices.

China continues to exploit the loophole in our customs laws. Some Chinese companies have developed a business model centered on exploiting the de minimis provision to evade oversight at the border, avoid paying duties, and undercutting American companies who are playing by the rules. Because of this loophole, there is no way to tell how many of the more than two million packages a day contain products made from self forced labor, intellectual property theft, or otherwise dangerous.

The Chinese textile industry benefits from the deplorable treatment and forced labor of the Uyghurs and other minorities in the Xinjiang region of China. Lack of oversight at the American border makes it even more difficult for CBP to intercept these shipments. And as noted by Mr. Houseman, the de minimis loophole can even allow evasion of the Uyghur Forced Labor Prevention Act. Closing the de minimis loophole and addressing forced labor, the fruits of modern-day slavery have no place in the American market.

This subcommittee can send a clear signal to China that the United States will unequivocally protect worker and human rights, and we must continue to encourage our allies to boldly respond to China's unfair practices. I stand ready to work with my Republican colleagues on China-related legislation and turn our rhetoric into action.

I appreciated the optimistic tone that you took, Mr. Chairman. I think there is a lot of common ground that we can build upon, and I look forward to working with you and the committee on that.

Chairman SMITH of Nebraska. Thank you. Now I am pleased to recognize the chairman of the full Ways and Means Committee, Chairman Smith, for his opening statement.

Chairman SMITH of Missouri. Thank you, Chairman Smith, Ranking Member Blumenauer, for holding this hearing.

Today's subcommittee hearing comes at a time when Americans are increasingly concerned about the Chinese Communist Party and its harmful influence around the world, especially here at home. Republicans and Democrats often talk about our differences, but today we are here to share a common message: the folks who fuel, feed, and build our country have become collateral damage in China's aggressive trade agenda; it's time we stood up for them; it's time to combat China's human rights abuses, predatory trade practices, espionage, and theft that for too long have threatened our supply chains and cheated American farmers, manufacturers, families, and workers.

As we sit here, the Communist—the Chinese Communist Party is unleashing a wide range of aggressive tactics in its attempt to dominate critical supply chains, including massive industrial subsidies, forced technology transfers, and intellectual property theft. The CCP is spreading its harmful influence across the globe. I saw this firsthand in South America, during my first international trip as Ways and Means Chairman.

China is increasingly active, including in our own backyard, and a bipartisan response is needed. I am concerned that the White House's decision to exclude Congress from trade only emboldens China, and ignores the voices of the American people. Frameworks and dialogues are no substitute for congressionally binding action on trade.

We ought to put workers and farmers at the center of American trade policy. Americans are still owed clarity and answers from the White House about China's compliance with Phase One obligations and plans to hold it accountable.

We should build on USMCA's progress through strong enforcement, including standing with Americans who are harmed when our trading partners do not live up to their end of the agreement.

We should be developing a plan to use our authority over trade, and to use our leverage as a nation to strengthen critical supply chains and reduce dependence on adversarial nations like China and Russia.

This is a bipartisan effort, and I am hopeful we can make headway today.

Chairman SMITH of Missouri. I yield back my time, Mr. Chairman.

Chairman SMITH of Nebraska. Thank you. I will now introduce our witnesses.

Today we are joined by five witnesses. First, Mark McHargue, president of none other than the Nebraska Farm Bureau.

It is great to have you before the subcommittee, to——

Mr. BLUMENAUER. The Nebraska Farm Bureau?

Chairman SMITH of Nebraska. That is right, the Nebraska Farm Bureau.

For your perspective, it is certainly helpful for you to be on the panel. Thank you for making the trip to Washington.

Second, we have Jamieson Greer, a partner at King and Spalding, and former USTR chief of staff.

Thank you for being here.

Third, we have Thomas Duesterberg, senior fellow at the Hudson Institute.

Fourth, we have Matthew Goodman, senior vice president and Simon chair in political economy at the Center for Strategic and International Studies, otherwise known as CSIS.

And fifth, we have Roy Houseman, the legislative director of the United Steelworkers.

Mr. McHargue, your written statement will be made a part of the record, and you are now recognized for five minutes.

STATEMENT OF MARK McHARGUE, PRESIDENT, NEBRASKA FARM BUREAU

Mr. MCHARGUE. Well, good afternoon, Chairman Smith, and Chairman Smith, and Ranking Member Blumenauer, and members of the subcommittee. Thank you for the opportunity to testify today.

My name is Mark McHargue. I am a conventional and organic row crop farmer and hog producer from Merrick County, Nebraska. I currently serve as president of Nebraska Farm Bureau, and I also serve on the board of American Farm Bureau, as well as serve on their trade committee. Nebraska Farm Bureau Federation is pleased to offer these comments on the current state of the agricultural trade relationship between the United States and China.

China remains a vital market for Nebraska goods, and is consistently a top-three market for Nebraska products year in and year out. At the same time, American and Nebraskan farmers and ranchers are also aware and are also concerned about the current geopolitical and national security concerns that exist between our nations.

Prior to 2018, Nebraska's agricultural exports to China ranged about $936 million to a little over a billion. Currently, that equates to about 15 percent of Nebraska's total exports. The value at that time, prior to 2018, was about $20,000 per farm. That would equate to my farm, as well. In 2022 we set a new record of selling agricultural goods into China at $40 billion or so. When you divide that by per farm, that's about $55,000 per farmer or rancher in Nebraska.

But I also need to point out that, despite these significant growths, U.S. market share in China's market remained relatively stagnant in 2022, and about 18 percent of the ag market was U.S. market. That has declined from about 22 percent from 2013 to 2017.

I run through all this data to highlight just how complex the relationship is between the significant competitor and customers. Farmers and ranchers have the same geopolitical and national security, copyright, and trade law concerns that most of you have and many in the industry have. At the same time, China's role as a significant consumer of raw U.S. commodities—not just high-value, processed foods, but raw commodities—they are also able to move grain and livestock markets any day by simply making an order or, in the case of 2018 or 2019, not placing an order.

Given everything happening in the world today, the United States should be actively working every day to diversify our list of trading partners. Quite frankly, the biggest disappointment that we in agriculture have with the Biden Administration has been their non-existent effort to find new trading partners and pursue negotiations on any new free trade agreement. If I had the opportunity to sit down with President Biden today, I would tell him two things as it relates to trade, specifically with China.

Number one, sitting back and allowing the rest of the world to finalize new free trade agreements that increase market access and lower tariffs isn't leading, and it sure doesn't send the right message to our competitors or allies. Rejoining the CPTPP and re-engaging with the UK, as well as countries like Kenya or—on actual free trade agreements would be a great place to start.

Whether we like it or not, number two, China is an important customer. Again, we need them; they need us. At the same time, we absolutely have to hold China accountable to their WTO trade obligations. Fixing market access issues that remain on several sanitary and phytosanitary issues on agricultural products such as the use of ractopamine in pork and protecting against issues like intellectual property theft are all key.

We must do what we can to ensure our own national security. We must ensure China is playing by the rules.

We must also ensure that we aren't continuing to lose access to vital markets.

In closing, I want to again thank you for the opportunity to testify today. Trade is a foundational issue that serves on the basis for our modern global economy. It is an issue that helps lift millions out of poverty, and it is an issue that helps U.S. farmers and ranchers feed billions of families around the globe. At this time of continued economic and geopolitical uncertainty, the United States must tell the world we are open for business.

Thank you for your time today.

[The statement of Mr. McHargue follows:]

NEBRASKA FARM BUREAU

TO THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON WAYS AND MEANS TRADE SUBCOMMITTEE HEARING ON:

"Countering China's Trade and Investment Agenda: Opportunities for American Leadership"

April 18, 2023

Presented By:
Mark McHargue
President, Nebraska Farm Bureau Federation
Board of Directors, American Farm Bureau Federation
American Farm Bureau Federation Trade Advisory Committee

P.O. Box 80299, Lincoln, NE 68501 | (402) 421-4400

Good afternoon. Chairman Smith, Ranking Member Blumenauer, members of the subcommittee thank you for the opportunity to testify today. My name is Mark McHargue. I am a conventional and organic row-crop farmer and hog producer from Merrick County, Nebraska. I currently serve as the President of the Nebraska Farm Bureau Federation (NEFB). I also serve on the Board of Directors of the American Farm Bureau Federation (AFBF) including as member of the American Farm Bureau Trade Advisory Committee.

The Nebraska Farm Bureau Federation is pleased to offer these comments on the current state of the agricultural trade relationship between the United States and China. China remains a vital market for Nebraska goods as a consistent top three market for Nebraska products, year in and year out. At the same time, American and Nebraska farmers and ranchers are also aware and are also concerned about the current geopolitical and national security concerns that exist between our nations.

Prior to 2018, Nebraska agricultural exports to China ranged from $936 million to $1.045 billion and generally equated to 15 percent of Nebraska's total agricultural exports. According to analysis conducted by the Nebraska Farm Bureau utilizing data from the United States Department of Agriculture, the value of exports to China over this time (prior to 2018) equaled roughly $19,300 per farm in Nebraska. Following substantial declines in 2018 and 2019, farmers and ranchers saw substantial growth return due to the U.S.-China Phase 1 Trade Agreement. In 2020, China imported approximately $28.7 billion worth of U.S. agriculture and food products and $35.6 billion in 2021. In 2022, a new record of $40.8 billion worth of U.S. agricultural and food products was exported into China, equating to $55,790 per farm and ranch in Nebraska. I should also point out that despite this significant growth, U.S. market share in the Chinese market remained relatively stagnant in 2022 at 18.8% as compared to 18.5% in 2021 and has declined from the average of 22 percent from 2013-2017. Meanwhile, China's ag exports from all destinations topped $216.9 billion in 2022, an increase of 5.5%, or $11.4 billion, from 2021. It is worth pointing out that Brazil's market share increased to 24.2% in 2022, up from 22.1% in 2021.

It is also important to note that Nebraska is "The Beef State" as the cattle sector remains the largest portion of Nebraska's number one industry, agriculture. Nebraska is among the top beef exporting states to China in the U.S. Obviously, the current struggles we've had have caused considerable concern to Nebraska cattle producers as we try to be the premier exporter to fulfill China's growing demand for high quality beef. Ensuring the Biden Administration lessen lingering trade barriers that China imposes on beef imports would be helpful in both an indirect way, and possibly a direct way, to improve U.S. and China trade relations that could open the door for improved relations on our geopolitical concerns.

I run through all of that data to highlight just how complex our relationship is with this significant competitor and customer. Farmers and ranchers have the same geopolitical, national security, copyright and trade law concerns that most of you and many industries have. At the same time, given China's role as a significant consumer of raw U.S. commodities, not just high value processed food products, but of raw commodities, they are also able to move grain and livestock markets on any day by simply making an order or in the case of 2018 and 2019, not purchasing U.S product. At this time, China needs our agricultural products, and we need them as a customer. However, China continues to make significant investments in other countries such as Brazil in an effort to move away from their dependence on U.S. agricultural and food products.

Given everything happening in the world today, the United States should be actively working each and every day to diversify our list trading partners. While farmers and ranchers could talk all day about the problems we have with taxes or new regulations, (and trust me we have plenty to complain about there), the biggest disappointment we have with the Biden Administration has been their nonexistent efforts to find new trading partners and pursue negotiations on any new free trade agreements.

If I had the opportunity to sit down with President Biden today, I'd tell him two things as it relates to trade and more specifically trade with China:

1. Sitting back and allowing the rest of the world to finalize new real free trade agreements that increase market access and lower tariffs isn't leading, and it sure doesn't send the right messages to our competitors or allies. Rejoining the CPTPP and reengaging with the UK as well as Kenya on actual free trade agreements would be good places to start.

2. Whether we like it or not, China is an important customer. Again, we need them and they need us. At the same time, holding China accountable to their WTO trade obligations, fixing market access issues that remain on several sanitary and phytosanitary issues on agricultural products such as the use of ractopamine in pork, and protecting against issues like intellectual property theft are all key. We must do what we can to ensure our own national security, we must ensure China is playing by the rules, but we also must ensure we aren't continuing to lose access to a vital market.

In closing, I want to again thank you for the opportunity to testify today. Trade is not and should not be a political issue. It's a foundational issue that serves as the basis for our modern global economy. It's an issue that has helped lift millions out of poverty. And it's an issue that has help U.S. farmers and ranchers feed billions of families around the globe. At this time of continued economic and geopolitical uncertainty, the United States must tell the rest of the world that we are open for business. Thank you again for your time today.

Chairman SMITH of Nebraska. Thank you.

Mr. Greer, you are recognized.

STATEMENT OF JAMIESON GREER, PARTNER, INTERNATIONAL TRADE, KING AND SPALDING

Mr. GREER. Good morning, Chairman, Ranking Member, and members.

As Ambassador Lighthizer's chief of staff, I had the opportunity to sit with him in many meetings with you in groups and individually and hear your nuanced and thoughtful views on trade. I am happy to be here today.

I should note before beginning that I am appearing in my personal capacity, and that none of my comments today can be attributed to any current or former employer or client.

This hearing is focused on how America can be successful in our competition with China in the face of its aggressive trade and investment policies.

Although certain companies or discrete industries have found some success in relying on China in their supply chains or export business, Chinese unfair trading practices have sapped the competitiveness of U.S. companies and workers, resulting in hundreds of billions of dollars in annual trade deficits with China. Economic studies estimate that at—that the U.S. has lost at least 3.7 million manufacturing jobs, tens of thousands of factories, following China's accession to the World Trade Organization.

WTO membership enabled China's meteoric rise, which has been fueled and funded by China's exports to and investment received from the United States. Thus, while our working classes have lost jobs and our supply chains have foundered, China's manufacturing base is incredibly robust, and its military position has strengthened. These trends have a direct impact on the global balances of power and international peace and security.

China has a plan to be the economic leader of the world, and then to use that position to export its own model of governance globally, and so we can't lose sight of that as we talk about trade and economic relationship with China. You will see this idea referred to in Chinese Government discourse by the term "the great rejuvenation of the Chinese nation." According to writings and speeches of Chinese officials, including Xi Jinping, the plan is to achieve overwhelming global hegemony by 2049. In describing this strategy, Xi Jinping has said that China is—and I quote—"building a socialism that is superior to capitalism, and laying the foundation for a future where we win the initiative, win the advantage, and win the future."

China's trade policies and practices are a key part of this. My written testimony goes into more detail, but they have a number of non-market practices that are harmful, including pursuing a strategy of dual circulation that prioritizes Chinese domestic production and discourages imports; massive subsidies to favored companies or industries regardless of their profitability, market demand, or natural comparative advantages; construction of excess capacity in key manufacturing industries; high, non-reciprocal tariffs on U.S. imports; non-tariff barriers on imports like pseudo-scientific requirements and other regulatory obstacles; forced technology transfer, which we could talk about for days; discrimination against U.S. goods and services; opaque and discriminatory government procurement programs; periodic currency manipulation. The list goes on.

As I noted, these practices have contributed to the hollowing out of our own manufacturing base. The question is, what do we do?

While many policies can affect our economy, such as tax, monetary, industrial policy, energy policy, trade policy plays a key role as well. We can talk about negotiations and market access, which are important, but I want to focus a little bit on enforcement.

In 2018, when I was at USTR, you will know that we started an investigation under Section 301 of forced technology transfer. After enforcing the results of that investigation, we ended up with substantial tariffs on Chinese imports, especially including those that benefited from forced technology transfer. And then we concluded with the Phase One agreement with China, where they allowed us to keep the tariffs in place, which gives us some room for leverage and enforcement, and importantly, where they also agree to substantive changes with respect to agricultural regulations, financial services, intellectual property. They made commitments.

And the important thing as well about the agreement is that it had an enforcement mechanism, one that was established where on a monthly, quarterly, and semiannual basis, leaders in the United States and China could get together to resolve these issues and resolve them before they became conflagrations. I haven't seen that enforcement mechanism being used, and maybe things are going on behind the scenes, but I don't know. I think it would behoove the government to do an assessment of Chinese compliance—or noncompliance, as the case may be—with the Phase One trade agreement, and how to enforce it.

There are a variety of other ways we can enforce. I would say we should consider either revoking permanent normal trade relations with China, or at least going back to a world where we look at where we were with the Jackson-Vanik amendment, an annual—on an annual basis, Congress and/or the President looking at whether China should continue to receive most favored nation status. And we should use sanctions on China where appropriate. We should continue to use export controls. We should use Section 301, Section 232, where appropriate. We should take actions in government procurement to ensure that we don't have products used in our contracts and programs from suspect Chinese companies.

I do want to note diversification of trade, which we just heard from Mr. McHargue, it is very important. I think we should engage in sectoral negotiations with places like the Philippines and Kenya and the United Kingdom to make sure we can get market access. We need to be very careful to the extent there are any trade agreements, they should incorporate the great things you all agreed to in the USMCA on labor and environment and rules of origin.

And I will yield back my time. Thank you.

[The statement of Mr. Greer follows:]

WRITTEN TESTIMONY OF JAMIESON L. GREER

BEFORE

THE U.S. HOUSE OF REPRESENTATIVES WAYS AND MEANS COMMITTEE

SUBCOMMITTEE ON TRADE

"COUNTERING CHINA'S TRADE AND INVESTMENT AGENDA: OPPORTUNITIES FOR AMERICAN LEADERSHIP"

APRIL 18, 2023

Today, I would like to discuss the legal and policy tools at our disposal to counter the negative aspects of China's trade and investment agenda.[1, 2] It is no secret that tensions between the United States and China are high, with respect to trade and even more serious matters of international security. Analysts generally agree that the next decade will be critical in U.S.-China relations, and the trade and investment relationship is no small part of this. U.S. trade and investment with China must be thoughtfully managed to protect core national interests of the United States while simultaneously ensuring that crises do not lead to conflagrations. From a defense perspective, it is critically important to restore the U.S. manufacturing base to ensure that the U.S. can credibly deter escalation by China and, if necessary, defend its national security interests at home and abroad. When we look back at this time ten or twenty years from now, we must be able to say that we stood firm in defending U.S. workers and our economy.

In dealing with China, my observation has been that it is best to set firm boundaries on unacceptable behavior, take deliberate and strong action, and respectfully consult with the Chinese where possible to manage tensions. I fear that this is not taking place right now for a variety of reason, and that, as a general matter, hot rhetoric has taken the place of meaningful action. I believe that strong trade enforcement is good medicine for the U.S.-China relationship, as it focuses minds on the most important matters and helps both sides understand issues of national importance. I do not subscribe to the myth that more trade reduces the likelihood of conflict, and continuing the move toward managed trade with China on a sectoral basis will be the most pragmatic way of dealing with its harmful economic behavior. I believe that good fences make good neighbors, and trade enforcement is an important part of establishing those fences.

Below, I first address China's approach to trade and investment, which goes well beyond promoting economic growth. Over many years, Chinese officials have articulated their intent to overtake the United States and dominate global markets in key sectors. I then address how these efforts have already injured U.S. workers and businesses and threaten to cause further deterioration in our industrial base, with disastrous consequences for our economic and national security. Finally, I discuss a number of ways that the United States can use U.S. trade laws and policy, including enforcement and negotiations, to counter China's unfair trading practices and support U.S. businesses and workers. I provide recommendations in a variety of areas for further exploration by Congress and the Administration.

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[1] I am appearing today in my personal capacity and not on behalf of any current or former employer or client.

[2] References to "China" are references to the government of the People's Republic of China ("PRC"), the Chinese Communist Party ("CCP"), or instrumentalities thereof, as appropriate.

<u>What Is China's Trade And Investment Agenda?</u>

The CCP's hold on power in China has been premised on increased economic growth and improved living standards for the Chinese people. China's trade and investment agenda is geared, in part, toward these goals. We often hear rote platitudes from Chinese economic officials and planning documents that China is focused on growing domestic demand, "opening up" their economy, and increasing productivity. Notionally, these goals are not objectionable and are not dissimilar from many governments' stated economic objectives.

But these are not the only economic objectives pursued by the CCP, nor are they the primary goals. Rather, the CCP has consistently stated that its goal is to achieve the "Great Rejuvenation of the Chinese Nation," and to do it by 2049.[3] This phrase is shorthand for a number of desired end states, one of which is for China to be the world's uncontested power center. For example, China seeks to dominate global manufacturing and technology to secure CCP leverage and control over the global economy and foreign governments.[4] China seeks to achieve economic dominance to support its goals of becoming the world's leading superpower that can act with impunity. This economic and technological dominance is expected to support Chinese military superiority through a long-established – and still developing – national strategy of Military-Civil Fusion.[5] The threat to the United States from China is real, it is acute, and it is existential. And our trade policy should be deployed to address this generational challenge.

These are not simply my personal observations. These are policies and objectives articulated and promoted by CCP officials. Chairman Xi Jinping of the CCP has been very clear that his intention is for Chinese socialism to overtake and subdue Western economies:

> Facts have repeatedly told us that Marx and Engels' analysis of the basic contradictions in capitalist society is not outdated, nor is the historical materialist view that capitalism is bound to die out and socialism is bound to win. This is an inevitable trend in social and historical

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[3] *See, e.g.*, Ken Moritsugu, Analysis: Communist Part Seeking China's 'Rejuvenation,' AP News (Mar. 9, 2021), *available at* https://apnews.com/article/technology-legislature-coronavirus-pandemic-china-asia-pacific-562b40c73740d97f8ddd3099f08fa0a4.

[4] Stewart Patterson, "For, by, and from the Party: Defining the parameters of Dual Circulation," Hinrich Foundation (Sept. 2021) at 8, *available at* https://research.hinrichfoundation.com/hubfs/White%20Paper%20PDFs/Defining%20the%20parameters%20of%20Dual%20Circulation%20(Stewart%20Paterson)/Defining%20the%20parameters%20of%20Dual%20Circulation%20-%20Stewart%20Paterson%20-%20Hinrich%20Foundation%20-%20September%202021%20(1).pdf?__hstc=251652889.fc5e1f00c449b8ae8f5876032ac43130.1681333173081.1681333173081.1681333173081.1&__hssc=251652889.10.1681333173081&__hsfp=1417353920.

[5] "How Should the U.S. Respond to China's Military-Civil Fusion Strategy?," ChinaFile (May 22, 2021), *available at* https://www.chinafile.com/conversation/how-should-us-respond-chinas-military-civil-fusion-strategy.

> development. But the road is tortuous. The eventual demise of capitalism and the ultimate victory of socialism will require a long historical process to reach completion. . . . Then we must diligently prepare for a long period of cooperation and of conflict between these two social systems in each of these domains.
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> Most importantly, we must concentrate our efforts on bettering our own affairs, continually broadening our comprehensive national power, improving the lives of our people, building a socialism that is superior to capitalism, and laying the foundation for a future where we win the initiative, win the advantage, win the future."[6]

This Committee is familiar with Chinese initiatives such as the "Made in China 2025" initiative to control key economic sectors (particularly in advanced manufacturing), the CCP's successive 5-year economic and industrial plans, and other programs to push Chinese economic growth and development regardless of principles of free and fair trade. China has a number of economic tools it employs in pursuit of its goal of becoming the center of global power, including forced technology transfer, import substitution through a "dual circulation" strategy, construction of excess capacity to overwhelm global markets and support domestic employment, massive subsidies for national champions and key industries, discrimination against U.S. goods and services, use of forced labor, currency management, economic coercion of other countries, domination of global shipping, and many other practices.

It should also be noted that it seems like U.S. companies at times enable these practices by using the unfair, non-market practices available in China to out-compete domestic workers and businesses producing in the United States.

<u>How Does China's Trade And Investment Agenda Impact Americans?</u>

China's policies and practices have harmed and threaten further injury to U.S. economic security, which in turn affects our national security. The policies and practices noted above – coupled with the permanent normal trade relations ("PNTR") granted to China in 2000 – have had a number of serious negative effects on the U.S. economy and workers:

- ***Displacement of U.S. manufacturing capacity to China***. Many U.S. corporations moved their manufacturing operations to China following the United States' decision to grant China PNTR as part of its accession to the World

[6] Xi Jinping, "China's Guiding Ideology: Xi Jinping in Translation," trans. Tanner Greer, Palladium (May 31, 2019).

Trade Organization ("WTO"). This dramatic policy shift provided certainty of market access for China to the United States, accelerating the country's establishment as the world's manufacturing and export hub.[7]

- ***Loss of U.S. manufacturing and related jobs***. The movement of manufacturing capacity to China led to the "China Shock," whereby at least 3.7 million U.S. jobs were lost.[8] The negative effect of the China Shock has persisted, whereby such job losses have proved difficult to undo in the communities hardest hit by trade with China.[9] This has greatly harmed the American working and middle classes, with some researchers finding that increases in deaths of despair are linked to reduced economic opportunities in regions affected by the China Shock.[10]
- ***Elimination or loss of competitiveness in key manufacturing sectors***. Chinese trading practices have made it very difficult for U.S. workers and producers to compete against Chinese imports, leading to a loss of American leadership in sectors such as solar energy, machine tools, electric batteries, printed circuit boards, pharmaceutical precursors and medical devices, steel, and aluminum.[11]
- ***Erosion of the defense industrial base***. As a result of the loss of manufacturing jobs, capacity, and sectors, the U.S. defense industrial base is increasingly dependent on imported materials.[12] In fact, a 2022 Defense Industrial Base Report explained that the United States is reliant on China for critical defense materials such as critical minerals, energy storage, microelectronics, and castings and forgings.[13]
- ***Asymmetric market access between the United States and China***. The United States progressively opened its market to Chinese goods, services, and investment following normalization of relations, resulting in granting PNTR to

[7] Justin Pierce & Peter Schott, "The Surprisingly Swift Decline of U.S. Manufacturing Employment," American Economic Review (2016), pp. 1650-1654.

[8] David Autor, David Dorn, & Gordon Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," Annual Review of Economics (2016), vol 8(1); Robert E. Scott and Zane Mokhiber, "Growing China Trade Deficit Cost 3.7 Million American Jobs Between 2001 and 2018," Economic Policy Institute (Jan. 2020).

[9] David Autor, David Dorn, & Gordon Hanson, "On the Persistence of the China Shock," Brookings Papers on Economic Activity, vol 2021(2), pp. 381-476.

[10] *See, e.g.*, Justin R. Pierce & Peter K. Schott, "Trade Liberalization and Mortality: Evidence from U.S. Counties," American Economic Review: Insights (2020), 2 (1): 47-64 ("We find that areas more exposed to a plausibly exogenous change in international trade policy exhibit relative increases in fatal drug overdoses.").

[11] *See, e.g.*, Joel Yudken, "Manufacturing Insecurity: America's Manufacturing Crisis and the Erosion of the U.S. Defense Industrial Base," Cornell University Key Workplace Documents (Sept. 2010).

[12] *Id.*

[13] State of Competition within the Defense Industrial Base, Office of the Under Secretary of Defense for Acquisition and Sustainment (Feb. 2022), at pp. 18-23, *available at* https://media.defense.gov/2022/Feb/15/2002939087/-1/-1/1/STATE-OF-COMPETITION-WITHIN-THE-DEFENSE-INDUSTRIAL-BASE.PDF.

China. China, despite numerous obligations to open its market in a similar way to U.S. economic actors, has failed to provide fair and reliable access to its market over decades.[14] This creates a structural imbalance that has and will continue to lead to enormous U.S. trade deficits with China.

- ***Undermining U.S. intellectual property and trade secrets***. The 2018 report by the Office of the U.S. Trade Representative ("USTR"), "Technology: Protecting America's Competitive Edge" ("Section 301 Report"), identified several ways that China effectuates forced technology transfer. These include foreign ownership restrictions and administrative Review and licensing processes, discriminatory licensing restrictions, strategic outbound investment, and intrusion into U.S. commercial computer networks and cyber-enabled theft of intellectual property and sensitive commercial information.[15] China also achieves forced technology transfer through pretextual national security or cybersecurity measures, inadequate intellectual property protection, talent acquisition programs, and abuse of anti-monopoly and standardization laws.[16]

- ***Growing domination of traditional U.S. export markets***. China's practices do not only harm U.S. businesses and workers by export of unfairly traded goods to this market. Chinese practices such as subsidies and overcapacity have also taken over third-country markets where U.S. producers formerly enjoyed substantial market share. For example, China overtook the United States as Europe's largest trading partner in 2020.[17]

- ***Substantial and persistent U.S. trade deficit***. Following the imposition of tariffs under Section 301 of the Trade Act of 1974 ("Section 301"), the U.S. trade deficit with China decreased. Our deficit in goods with China was $418 billion in 2018 and dropped substantially to $343 billion in 2019. It fell again in 2020 to $308 billion.[18] This trend was particularly pronounced with respect to those items that were subject to the tariffs, showing that the action effectively reduced reliance on products from China in those sectors targeted for forced technology

[14] *See, e.g.*, 2022 Report to Congress on China's WTO Compliance, Office of the U.S. Trade Representative (2022), *available at* https://ustr.gov/sites/default/files/2023-02/2022%20USTR%20Report%20to%20Congress%20on%20China's%20WTO%20Compliance%20-%20Final.pdf; Stephen Ezell, "False Promises II: The Continuing Gap Between China's WTO Commitments and Its Practices," Information Technology & Innovation Foundation (July 26, 2021), *available at* https://itif.org/publications/2021/07/26/false-promises-ii-continuing-gap-between-chinas-wto-commitments-and-its/.
[15] Section 301 Report at 5 and 177-180.
[16] *Id.* at 180-182; Jamieson Greer, Written Testimony Before the U.S. House of Representatives Judiciary Committee, Subcommittee on Courts, Intellectual Property, and the Internet (Mar. 8, 2023), *available at* https://judiciary.house.gov/sites/evo-subsites/republicans-judiciary.house.gov/files/evo-media-document/greer-testimony.pdf.
[17] "China overtakes US as EU's Biggest Trading Partner," BBC News (Feb. 17, 2021), *available at* https://www.bbc.com/news/business-56093378.
[18] "Trade in Goods with China," U.S. Census Bureau, *available at* https://www.census.gov/foreign-trade/balance/c5700.html.

> transfer. However, the goods deficit with China began increasing again in 2021 and 2022, reaching $353 billion and $382 billion, respectively.[19] This worrisome imbalance is partially due to China's unfair trading practices and mercantilist approach to trade, although tax and monetary policy certainly play a role. Multinational corporations may not be concerned with trade deficits given their focus on overall profitability, for workers and U.S. domestic manufacturers, trade deficits represent production that, in part, could have been manufactured in the United States had our industrial base not been hollowed out.

It is worth noting that many of these problems are not due solely to trade with China. Many of the challenges we face from China on a large scale are also posed by other countries as well – even those we typically consider allies. Some analysts suggest that defending the U.S. economy from harmful trade policies and practices stops with China, and that we should have "business as usual" with other trading partners in the interest of amorphous concepts of free trade and a "rules-based international order." But countering Chinese trade practices should occur in the context of countering unfair trade practices from other economies as well, both friend and foe. The responsibility of U.S. policymakers with respect to trade policy toward China and any other country engaged in unfair trade practices is to protect the interests of U.S. economic and national security.

How Can The United States Counter The Negative Impacts Of China's Trade And Investment Agenda?

Understanding the Chinese approach to trade and investment and its impact on the United States leads us to the question at hand: what do we do to counter the negative effects on Americans of China's approach to trade? There are many policy tools at our disposal to address this, including tax policy, energy policy, foreign policy, our education and vocational systems, and of course our defense policy. But I am going to limit my thoughts on this topic to international trade and investment policy, emphasizing that these tools must work together with other smart policies to achieve a level of economic and national security that can withstand Chinese aggression over the coming years.

We often hear about the need for "new tools" to counter Chinese policies and practices. There is some truth to this, but in my experience, we have many existing tools that are underused. Perhaps most importantly, we do not appreciate the enormous value and leverage of access to the U.S. market, which is the prize for all export-driven economies – particularly China. The post-Cold War trade policy worked together with other dynamics to open up the United States market with few conditions and make us the "consumer of last resort." We are now in a position where we have lost the leverage of

[19] *Id.*

access to our market, and we need to regain leverage if we are to effectively counter unfair Chinese trading practices. I want to highlight the cornerstones of our trade policy architecture and how we can use these tools – including access to the U.S. market – to support U.S. workers and businesses in a world where China is seeking to overtake and subdue U.S. power. An overview of these tools is below.

1. ***Tariff Policy Toward China and PNTR***

The United States should ensure that its tariff policy regarding China is appropriate for the challenge we are facing. To that end, the Committee should strongly consider modifying or revoking PNTR with China.

For much of the nation's history, tariffs served a double purpose of supporting U.S. domestic manufacturing and funding the U.S. government. They were a pragmatic tool to be deployed as appropriate – either to defend U.S. industries and gather revenue or to be reduced or eliminated to obtain goods that can be more competitively obtained elsewhere through fair trade. Following World War II, U.S. policymakers for a variety of reasons pursued tariff liberalization across market economies. After the Cold War ended, this movement accelerated, with the United States liberalizing its tariffs to a huge portion of the world, even where trading partners failed to liberalize to the same degree. China benefitted from this tariff reduction.

However, for many years prior to China's WTO accession, Congress had the option, on an annual basis, to deny "most favored nation" tariff treatment to China. This annual decision occurred pursuant to the Jackson-Vanik amendment. During this time, because it was never quite certain that China would enjoy continued access to the U.S. market on a permanent, preferential basis, it was more difficult for businesses to make the economic case to move production operations to China for export of finished goods to the United States. But once the United States agreed to China's WTO accession and provided it with preferential market access, businesses had certainty that they could now use China as an export hub to target the U.S. market. The results, as described above, were devastating for American manufacturing base and our working class. Moreover, China continues to take advantage of our market while denying reciprocal access to theirs. China attempts to exert economic coercion on the United States and its allies and use its export-driven growth to support its military ambitions. the United States should take strong action to defend U.S. workers and businesses. Starting the process of revoking PNTR for China is a logical and proportionate response to this situation.

Revoking PNTR for China would mean that Chinese imports would no longer receive most favored nation tariff treatment, but would be subject to "Column 2" tariff rates in the Harmonized Tariff Schedule of the United States ("HTSUS"). Other countries subject to this tariff regime include Russia, Belarus, Cuba, and North Korea.

If Congress decides to revoke PNTR, this can be accomplished in a number of ways:

- Congress could eliminate the designation and immediately place China into Column 2 of the HTSUS.
- Congress could remove the "permanent" status of China's trade benefits and require a yearly reconsideration of China's tariff treatment, similar to the situation prior to China's WTO accession.
    - This yearly determination could be structured as an "opt in" or an "opt out," meaning that upon revocation, China could automatically receive MFN treatment for the year unless disapproved, or it could automatically receive HTSUS Column 2 treatment unless approved.
    - The yearly determination could be determined by a joint resolution of Congress or at the discretion of the President.
- Any annual tariff determination could be dependent on a number of factors, including whether China has ceased its unfair trade practices. Thus, if Congress passes a bill making China's U.S. tariff treatment subject to yearly approval or disapproval, this puts the onus on China to decide whether it will engage with the United States on a level playing field or not. And if China chooses to continue its approach, the United States can take appropriate action to deny the benefits of preferential duties, which should be reserved for those trading relationships characterized by fair and balance trade.
- A potential revocation of PNTR could also occur over time or in a phased-in way. This could give appropriate time for businesses to realign their supply chains. Many businesses have already been engaged in this work over the past few years due to the imposition of the Section 301 tariffs.
- Revoking PNTR should also be accompanied by some upward adjustment of Column 2 tariffs, which were determined decades ago. Indeed, many Column 2 tariff lines actually remain at zero. Congress could determine tariff lines itself through the bill, or it could delegate that task to the President or the U.S. International Trade Commission.

I recommend that Congress begin the process of revoking PNTR with China.

2. ***Economic and Trade Agreement Between the United States of American and the People's Republic of China ("Phase One Agreement")***

This Subcommittee is familiar with the Phase One Agreement and its history. In short, the Agreement was designed to stabilize and improve the U.S.-China trade relationship while maintaining U.S. remedial tariff measures imposed to discipline Chinese unfair trading practices identified as part of the Section 301 investigation regarding forced technology transfer. The Agreement was signed in January 2020 under the Trump Administration, and the current Administration has indicated that it views the agreement as the framework for U.S. trade relations with the Chinese.[20] The Phase One Agreement between the United States and China is historic in many ways:

- First, on a sectoral basis, China agreed to make substantial, favorable regulatory changes in a number of areas where the United States has a comparative advantage, such as agriculture, intellectual property, pharmaceuticals, and financial services. China began to implement many of these changes during the negotiations of the Agreement and in its first year. For example, China implemented dozens of measures to facilitate the import of U.S. agricultural products, including certifying U.S. agricultural facilities for export and approving the sale of many types of commodities into China.[21]
- Second, the Chinese signed on to the Agreement with the Section 301 tariffs largely still in place. In other words, the Chinese agreed to comply with the agreement without the condition that the tariffs be removed. At the same time, the Chinese introduced their own exclusion process to reduce retaliatory tariffs on the United States.[22] Maintaining tariffs on Chinese imports not only serves as a remedy for ongoing unfair trading practices by the Chinese, but it also provides an opportunity for enforcement.
- The WTO is poorly equipped to deal with China's global-scale mercantilism. Therefore, the Agreement sets out a unique enforcement mechanism to adjudicate violations of agreement obligations. This is called the Bilateral Evaluation and Dispute Resolution Arrangement. The Agreement requires each party to set up a Bilateral Evaluation and Dispute Resolution Office ("BEDRO"), at USTR and under a designated Chinese Vice Premier. These offices are required to meet at least monthly at the staff level, while high-level meetings between a Deputy USTR and a Chinese Vice Minister are expected to meet quarterly. The USTR and Chinese Vice Premier are to meet twice a year. This mechanism prioritizes open communication and negotiated solutions through consultations that escalate to higher-level officials as necessary. In

[20] *See, e.g.*, Remarks As Prepared for Delivery of Ambassador Katherine Tai Outlining the Biden-Harris Administration's "New Approach to the U.S.-China Trade Relationship," (Oct. 4, 2021), *available at* https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/october/remarks-prepared-delivery-ambassador-katherine-tai-outlining-biden-harris-administrations-new; Background Press Call by Senior Administration Officials on the Administration's Trade Approach to China (Oct. 4, 2021), *available at* https://www.whitehouse.gov/briefing-room/press-briefings/2021/10/04/background-press-call-by-senior-administration-officials-on-the-administrations-trade-approach-to-china/.

[21] *See* USDA and USTR Announce Continued Progress on Implementation of U.S.-China Phase One Agreement, (May 21, 2020), *available at* https://www.usda.gov/media/press-releases/2020/05/21/usda-and-ustr-announce-continued-progress-implementation-us-china.

[22] *Id.*

> this way, disputes can be resolved before they become unmanageable. If these meetings fail to resolve the problem, the United States is authorized to unilaterally suspend obligations of the Agreement in a way that is proportional to the violation. With respect to U.S. legal process, this suspension of obligations could occur through a modification of the existing Section 301 action, which could mean tariffs, quotas, fees or restrictions on services, and potentially other measures.

To my knowledge, this enforcement mechanism has not recently been used to resolve problems. It is not clear if there has been a formal assessment of China's compliance, although I am aware of specific instances where there have been violations or failure to take the necessary steps required under the agreement. The dispute settlement mechanism was designed to ensure continued discussion between the two parties, and to serve as a political release valve in the event of rising tensions. To be sure, there are many issue areas that fall outside the scope of the Phase One Agreement, including matters such as export controls, forced labor, and of course non-economic issues related to international security. But for some of our most significant economic issues, the Phase One Agreement dispute settlement mechanism can be a critical way to resolve problem. But it appears to be underused.

I recommend that the Committee ask for an assessment of China's compliance with the Phase One Agreement, as well as an accounting of activity under the dispute settlement mechanism. The United States should implement consultations and dispute settlement procedures for some of the most significant issues and, if this does not lead to an acceptable resolution, implement trade measures.

3. ***Trade Remedies***

We should also ensure that the U.S. government provides for strong enforcement of trade remedies such as antidumping and countervailing duty laws. Where courts or agencies have failed to protect domestic industries, Congress should improve the existing legal regime to deter repeat offenders, crack down on duty evasion, and account for market distortions that give foreign producers an edge over U.S. producers. Previously introduced bills such as the Leveling the Playing Field Act are a step in the right direction.

I recommend that Congress introduce and pass legislation strengthening U.S. trade remedy laws.

4. ***Section 301***

As noted above, the Phase One Agreement is premised on a Section 301 action, which authorizes the President to investigate suspected discriminatory, unreasonable, or burdensome trade practices and to impose trade measures in response to such practices. The statute, as amended for the WTO era, requires the USTR to pursue resolution of such issues under WTO or other FTA dispute settlement processes where available. However, where such practices are not subject to WTO or FTA enforcement – which reaches many of China's practices – the law allows the President to take unilateral responsive measures. The most common remedy under Section 301 is tariffs, but Section 301 also permits the use of other measures such as quotas, fees, or other restrictions, and these can apply to both goods and services. The President can also direct USTR to negotiate for the elimination of such practices, the idea being that the imposition of trade measures or the imposition thereof creates leverage necessary for such negotiations.

Section 301 has a very broad remit and can be used in very creative ways to respond to China. Many analysts suggest there is evidence that Chinese labor and environmental practices violate basic international norms and provide a non-market, artificial advantage for Chinese exporters. The Chinese government also provides enormous subsidies, resulting in many cases in excess capacity and excess production that distorts global markets.

Given the breadth of available remedies, the United States could address these non-market economic practices under Section 301 and take strong responsive actions. Tariffs of course are an option, but the U.S. government could also take steps such as barring certain Chinese services from operating in the United States or assessing fees on such services.

Section 301 has been most recently used to imposed tariffs on billions of dollars in goods imports from China. These were imposed following an investigation by USTR finding that Chinese forced technology transfer practices unreasonably burdens U.S. commerce. These tariffs have been effective in reducing imports goods from China subject to such tariffs and protecting U.S. industries and workers that are vulnerable to forced technology transfer.

I recommend that the Administration maintain the current Section 301 action against China and develop potential additional Section 301 actions for additional Chinese unfair trading practices.

5. ***Section 337 of the Tariff Act of 1930 ("Section 337")***

Section 337 makes unlawful the importation into the United States of articles that infringe a valid U.S. patent, trademark, copyright, or mask work. This is the most common use of Section 337, which is enforced by the U.S. International Trade Commission. However, the non-IP provision of section 337 also prohibits "[u]nfair methods of competition and unfair acts in the importation of articles ... into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is –

i. To destroy or substantially injure an industry in the United States;
ii. To prevent the establishment of such an industry; or
iii. To restrain or monopolize trade and commerce in the United States.

Section 337 is very broad and can be used to remedy unfair trade practices outside of the IP issue area. It provides a very strong remedy in excluding offending imports from entry into the United States. However, Section 337 is a private right of action. Thus, it is incumbent upon private actors to take advantage of the broad applicability of Section 337.

6. ***Section 232 of the Trade Expansion Act of 1962 ("Section 232")***

Under Section 232, the Commerce Department must assess the effect on national security of certain imported articles. The agency investigates whether the article is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. The Commerce Department considers factors such as the impact of foreign competition on the domestic industry; the importation of goods in terms of their quantities, availabilities, character, and use; displacement of domestic products; requirements of defense and essential civilian sector; and growth requirements of domestic industries. If the Commerce Department determines that imports of memory from Saturn pose a threat, the President may "adjust" such imports appropriately. Potential import adjustments are wide-ranging and can include tariffs, import prohibitions, negotiations with foreign governments or parties, studies, recommended legislation, or government legal action under other statutes. There is no need to prove unfair competition or an unfair trade practice; instead, the Commerce Department considers national security criteria, many of which are very relevant to this situation (e.g., impact of foreign competition on the domestic industry, growth requirements of domestic industries, etc.). Section 232 permits robust, flexible remedies with broad Presidential discretion, which has been confirmed by recent judicial rulings.

I recommend that the Administration consider additional Section 232 actions to address national security concerns raised by certain imports from China.

7. ***WTO dispute settlement***

Some analysts propose that the United States should "bundle up" all of its many problems with China and bring a massive dispute settlement case to the WTO. This would be a very ineffective way of dealing with the generational challenge of China. Ultimately, this would simply be a signaling effort, and it's not clear who the audience for this signaling would be. It seems to be an effort to appear to be doing something about the problem without actually making the hard choices and incurring potential costs of action that actually results in discipline on China or changes in our own economic system to reduce dependence on China. But we don't just need sound bites or moral high ground in dealing with this issue – we need real economic effects that protect out industries and secure our supply chains.

In the first place, many of the issues we are worried about – forced tech transfer, abuse of Chinese domestic legal processes, excess capacity, and labor and environmental practices – simply are not covered by any WTO agreements.

Even if these topics were proper subjects of WTO dispute settlement, WTO dispute settlement has not been an effective way of resolving U.S. market access or other problems. For some of the highest profile cases the United States has won at the WTO – such as EU subsidies for civil aircraft, Chinese discrimination against payment systems and films, and EU prohibitions on genetically-modified beef – the offenders have never made our industries whole or meaningfully changed their practices. The Chinese are not terribly worried about complying with WTO requirements. It is unrealistic to think that on issues of even more fundamental concern the Chinese will decide that this is the time for them to complete alter the basic structure of their economy. And the period of time for resolving such cases extends for many years and even decades, leaving the Chinese ample time to maximize the mercantilist practices and strengthen their drive toward hegemony. This underscores why dispute settlement under the Phase One Agreement is much preferable – it covers commitments on some of our most sensitive issues while empowering the United States to lawfully and unilaterally act as needed.

8. ***Enforcement Challenges***

Enforcement efforts should be undertaken in a clear-eyed way, and it is important to acknowledge challenges raised by enforcement. For example, I have found that there is a tendency for businesses or policymakers to advocate conceptually for enforcement of trade laws against China, but there is substantial hesitation to actually implement enforcement measures if consultations or negotiations have been exhausted without resolution. Specifically, many companies do not want to be seen as calling for the imposition of tariffs or other trade measures and do not want China to see them as an antagonistic party. Of course, the premise for calling for enforcement action is Chinese unfair treatment in the first place, and lack of support by industry can make it difficult for policymakers to take or sustain meaningful enforcement actions. This is not an irrational concern given the possibility of retaliation against specific companies or sectors, whether it is through blocking an industry's imports into China or taking action against company operations and employees in China. During the U.S.-China trade dispute, the U.S. Department of Agriculture used financial transfers to make whole agricultural exporters affected by unlawful Chinese retaliation until such time as the Chinese agreed to exclude agricultural products from additional duties and increase their purchases. In the future, perhaps such transfers could be funded to duties obtained any imported goods that are the subject of trade enforcement action.

This is where the leverage of the U.S. market comes into play. The enormity of the Chinese trade surplus with the United States makes it highly vulnerable to U.S. action. Indeed, it was the Section 301 action that drove the Chinese to the negotiating table for the Phase One Agreement and resulted in meaningful concessions as well as historic imports of U.S. agricultural products.[23]

Industry reluctance to support trade actions can also lead to a lack of information that hinders policymakers' enforcement efforts. As a result, it could make sense to require companies to disclose information regarding Chinese unfair trading practices or attempts at economic coercion. This would obligate companies to report such information to the government, while allowing them to point Chinese authorities to U.S. government legal requirements and potentially avoid retaliatory measures.

It should also be noted that there is some economic cost to taking an enforcement action against China, although it may be less than is suggested by certain economists or news outlets. Importantly, tariffs generally were not passed on to consumers, and economic indicators such as unemployment, inflation, and per capita GDP thrived during the height of the "trade war."[24] That said, limiting Chinese access to the U.S. market affects companies whose business model relies on Chinese imports. Meaningful enforcement may require supply chain realignment, which can be difficult and take time. But these relatively short-term costs should be understood in the broader context of our strategic competition with China: while an individual business may see a near-term cost or sourcing challenge, policymakers must act in the long-term interest of the country. Enforcement can create conditions for reducing U.S. dependence on China and ensuring that the United States has a robust and resilient manufacturing base for generations to come.

Another challenge involves the unwillingness of other countries to take enforcement action. They are more than willing to benefit from U.S. enforcement actions, but they

[23] *See, e.g.*, Trump's gift to Biden: Record ag exports to China, Politico (Feb. 18, 2021), *available at* https://www.politico.com/news/2021/02/18/trumps-gift-to-biden-record-ag-exports-to-china-469818.
[24] *See, e.g.*, Josh Zumbrun and Anthony DeBarros, "Trade Ware With China Took Toll on U.S., But Not Big One," Wall Street Journal (Jan. 12, 2020), *available at* https://www.wsj.com/articles/trade-war-with-china-took-toll-on-u-s-but-not-big-one-11578832381?mod=article_inline.

are not inclined to support them for fear of angering China. For example, the Section 301 tariffs on China have contributed to a significant increase in U.S. trade with Southeast Asian countries. A Princeton University study on trade reallocation found that those countries, along with Mexico, were some of the biggest beneficiaries of the U.S. enforcement action as supply chains moved south out of China.[25] They now have preferential duty access to the U.S. market relative to their largest economic competitor, China. However, despite this boost to their economies and their already substantial trade surpluses with the United States, we continue to hear that these countries expect even more improved market access to the United States if we expect their cooperation on China issues. Ideally, like-minded countries would also respond to Chinese unfair trading practices by proportionately limiting market access for Chinese goods and services rather than by pushing for even more favorable access to the U.S. market.

Given the above challenges, I recommend that Congress require U.S. companies to report the imposition of unfair trade measures or forced technology efforts by the Chinese government. Congress should consider ways to support companies and workers affected by Chinese retaliation incident to enforcement efforts, such as by using proceeds of tariffs on imports subject to enforcement actions to make whole any U.S. businesses and workers negatively affected by any Chinese retaliation. I also recommend that the U.S. government use diplomatic efforts with allies to encourage enforcement actions to help eliminate unfair trading practices by the Chinese.

9. *Other Trade-Related Tools*

It is important to note that the trade tools described above can and should be employed along with other tools that have both a trade and national security element. China is approaching its push for hegemony through a whole of government effort – we should be prepared to use this approach as well where it makes sense for our system and objectives.

- ***Export controls***

Congress has provided the Commerce Department and State Department the authority to regulate the export of U.S. commodities, software, services, and technology for defense articles and services as well as dual-use items. During the Obama

[25] The US-China Trade War and Global Reallocations, National Bureau of Economic Research (Dec. 2021) ("The authors' analysis uncovered several countries that managed to be strong substitutes for China's exports. This includes Mexico, Malaysia, and Thailand, each of which increased exports to both the U.S. and the rest of the world as a result of the trade war."), *available at* https://www.nber.org/papers/w29562.

Administration, these agencies undertook export control reform which, among other things, removed or reduced restrictions on exports.

We know that the Chinese government is particularly sensitive about export controls, and it is typically on Chinese lists of demands or complaints for the United States.[26] Under both the Trump and Biden Administrations, the Commerce Department in particular has become much more strategic in its use of export controls for items destined for China and particular Chinese end-users and end-uses. For example, the Commerce Department under the Trump Administration first used the Entity List in combination with the foreign direct product rule to expand prohibitions on the export of certain foreign-made products that use or incorporate U.S. technology to Entity List entities. Although a more robust approach to export controls can lead to some trial-and-error implementation given the complexity of supply chains, overall this is an effective way to prevent China from exploiting technologies that can further its Military Civil Fusion efforts.

I recommend continued use of export controls, particularly with respect to those items that China can use to fuel its Military Civilian Fusion efforts.

- ***Sanctions***

The Treasury Department for many years has led U.S. government efforts to impose and enforce economic sanctions on persons – both individuals and entities. The Treasury Department imposes sanctions for a number of reasons such as national security, human rights, narcotics, cybersecurity incidents, and terrorist financing. The Treasury Department manages its sanctions programs for specific countries and issue areas. The most recent high-profile example of the use of sanctions is the Treasury Department's response to Russia's further invasion of Ukraine, which has largely decoupled the U.S. economy from dealings with the major pillars of the Russian economy. Notably, with the exception of a handful of individuals sanctioned under an Executive Order regarding the repression of democracy in Hong Kong, the Treasury Department does not have a dedicated program for identifying Specially Designated Nationals in China despite extensive and long-standing concerns such as military expansionism in the South China Sea and elsewhere, forced labor, cyberhacking, and other major violations of human

[26] "Reality Check: Falsehoods in U.S. Perceptions of China," Ministry of Foreign Affairs of the People's Republic of China (June 19, 2022), *available at* https://www.fmprc.gov.cn/eng/wjbxw/202206/t20220619_10706059.html ("While claiming to uphold "peace" and "openness," the U.S. has been wantonly setting up technological barriers, piecing together the so-called "democratic technology alliance," politicizing science and technology and turning them into ideological issues, and forming exclusive small circles. Identifying nearly 20 categories as controlled critical technologies, including biotechnology and artificial intelligence, the U.S. has tightened up export control and investment scrutiny. It has also overstretched the concept of national security to contain and even stranglehold the development of high-tech industries in other countries, which severely violates the rights of developing countries in pursuing science and technology advancement.").

rights and threats to international security.[27] China, on the other hand, has imposed sanctions on many U.S. government officials.[28] To be sure, the Treasury Department has imposed sanctions on a number of Chinese persons, but this is typically done in the context of other sanctions programs targeting, for example, North Korea or Iran.

This appears to be a substantial means for leverage over unfair trading practices that fit within the International Emergency Economic Powers Act ("IEEPA"), the legal basis for most sanctions programs. There appears to be hesitation on the part of regulators to impose sanctions on Chinese persons even though these could be effective means to effect change and otherwise counter problematic Chinese behavior.

I recommend that the Treasury Department introduce a China-specific sanctions program based on a specific policies and practices related to international security, human rights, and other issues areas.

- ***Investment controls***

The Committee for Foreign Investment in the United States ("CFIUS") scrutinizes and regulates foreign investment that may raise national security concerns, including from China. CFIUS has become much more aggressive in recent years, due to the passage of the Foreign Investment Risk Review Modernization Act as well as an increase in institutional enforcement efforts and mindset. The most recent statistics issued by CFIUS show that number of filed cases involving Chinese investment increased from 2019 to 2021,[29] while analysts report that Chinese foreign direct investment has declined from $48 billion in 2016 to $7 billion in 2020.[30] Thus, Chinese investment appears to be declining even while CFIUS scrutiny is increasing. I believe this is due to the joint effort of Congress and successive administrations to strengthen foreign investment review.

There has also been legislation pending on Congress to scrutinize outbound investment from the United States, and I understand that the Administration is working on an executive order that would implement an outbound screening program. A key focus of such regulation will be China and sensitive sectors.

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[27] A minor exception is a non-SDN program prohibiting certain dealings in public securities of a short list of "Chinese Military Companies." *See generally* Chinese Military Companies Sanctions, *available at* https://ofac.treasury.gov/sanctions-programs-and-country-information/chinese-military-companies-sanctions.

[28] *See, e.g.*, PRC Sanctions on U.S. Officials (Jan. 10, 2011), *available at* https://www.state.gov/prc-sanctions-on-u-s-officials-2/#:~:text=The%20People%27s%20Republic%20of%20China%27s,PRC%20affront%20against%20universal%20rights..

[29] CFIUS Annual Report to Congress (August 2022) at 32, *available at* https://home.treasury.gov/system/files/206/CFIUS-Public-AnnualReporttoCongressCY2021.pdf.

[30] The U.S.-China Investment Hub, Rhodium Group, *available at* https://www.us-china-investment.org/fdi-data.

<u>CFIUS should continue to take a skeptical approach to Chinese investment in the United States, particularly in sensitive sectors. The U.S. government should follow-through on plans to review and control certain outbound U.S. investment, ensuring that U.S. persons and financing is not used to undermine U.S. economic and national security.</u>

- ***Internal market controls***

Various government agencies have implemented other controls on certain Chinese companies or products. For example, government procurement rules now require government contractors to certify that they do not have connected to their systems any technology sourced from certain named entities that pose a national security risk, such as Huawei and Hikvision.[31] The Federal Communications Commission has taken strong action, including revoking the operating licenses of China Telecom, China Unicom, and China Mobile[32] and requiring domestic telecoms networks to "rip and replace" equipment provided by Huawei and ZTE.[33] These types of actions are targeted and appear to have been successful in limiting U.S. market access for these companies.

<u>I recommend a review other domestic regulatory regimes, such as the Food and Drug Administration, Patent and Trademark Office, and Animal and Plant Health Inspection Service, to assess whether they can be used to address economic and security risks posed by China's access to the U.S. market.</u>

10. ***Diversify trade away from China***

U.S. exporters are vulnerable to trade with China because of the size of and opportunities theoretically presented by the Chinese market. The Chinese market is only partially open to U.S. companies, and access is not certain given the Chinese approach to trade and investment. Nevertheless, companies – as market actors – must take the economics of the situation into consideration. It would be far better, however, if U.S. producers were able to supply the U.S. market or, barring that, export to alternative markets. These opportunities would limit Chinese influence over U.S. companies and make it less costly to meaningfully enforce trade laws. The U.S.-Japan Trade Agreement is an example of a narrow, sectoral agreement that provides

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[31] Federal Acquisition Regulation: Prohibition on Contracting With Entities Using Certain Telecommunications and Video Surveillance Services or Equipment, 85 Fed. Reg. 42665 (July 14, 2020).
[32] *See, e.g.*, FCC Revokes China Unicom America's Authority to Provide Telecom Services In America (Jan. 27, 2022), *available at* file:///C:/Users/117321/AppData/Local/PRINTT~1/MicrosoftEdgeDownloads/a7142af1-8263-4504-8332-4e0d56fde5a2/DOC-379680A1.pdf.
[33] Secure and Trusted Communications Networks Reimbursement Program, *available at* https://www.fcc.gov/supplychain/reimbursement.

substantial access for certain U.S. exports while minimizing liberalization of sensitive U.S. tariffs. This is a model that could be implemented with other countries to seek bilateral, sectoral agreements to improve market access for U.S. companies and workers. Core U.S. interests would need to be treated very carefully, and agreements should prevent regulatory arbitrage that could result in off-shoring. Markets such as the United Kingdom, Kenya, the Philippines, and India may provide meaningful export opportunities for U.S. companies, and sectoral or narrow agreements could lead to mutually beneficial trade if done thoughtfully.

I would also note that the proposition of entering into broad, regional pacts continues to be an impractical approach, as it weakens the U.S. negotiating position to deal with many trading partners at once. It also introduces complex domestic politics as the numerous commitments and topic areas in a comprehensive agreement tend to limit progress and support. Moreover, years of data and results with the WTO demonstrate that the losses associated with such broad trade agreements can be very intense in important economic sectors, particularly where the agreement is with countries with lower labor and environmental standards or with substantial government support and intervention on behalf of manufacturing exports.

I recommend that the United States seek market access in non-Chinese markets in incremental, sectoral, and bilateral agreements with other countries. Focusing on trading partners such as the United Kingdom, Kenya, the Philippines, and India would be a good start.

Chairman SMITH of Nebraska. Thank you, Mr. Greer.

Mr. Duesterberg, please proceed. You want to turn on your microphone.

STATEMENT OF THOMAS DUESTERBERG, SENIOR FELLOW, HUDSON INSTITUTE

Mr. DUESTERBERG. Chairman Smith, Ranking Member Blumenauer, and members of the subcommittee, thanks for having me today to comment on this important topic.

I want to note first from the outset that China, under the leadership of Xi Jinping and the CCP, has pursued a policy of achieving economic independence and as much dominance in the world economy as possible. In a real sense they are pursuing a possible policy of decoupling using the tools of mercantilist policies which many of you have already noted.

They also want to free their economy from dependence on the dollar, so that economic sanctions using the financial system cannot be used against them. The economic impact on U.S. manufacturing and increasingly on the financial and digital commerce sectors is well known.

I want to emphasize in my work that the Chinese economy exhibits growing weaknesses under CCP leadership. The policies I will suggest to address the Chinese mercantilism are in part designed to take advantage of these weaknesses and undermine the ability of the Chinese leadership to achieve its economic and political goals.

The IMF and the World Bank are both projecting much weaker growth in China, and I believe they under-estimate this weakness. My written testimony has some detail about why I think the Chinese economy is weak.

Growth in China in the past has been driven by massive capital investment, growth in consumption, and aggressive exploitation of open global markets to create persistent trade surpluses. But in recent years investment returns have weakened, the housing bubble has burst, the government and banking balance sheets have been over-leveraged, and consumer spending constrained by the demographic decline and the need for precautionary savings to pay for education, health care, and old age.

In these circumstances, China is even more dependent on access to Western finance and foreign markets for driving growth. Because of this dependency, the U.S. trade and investment policies such as those already in place can and should be reinforced to take advantage of these growing weaknesses and, hopefully, to induce change in Chinese mercantilist policies.

The policies I want to emphasize first are in trade enforcement of WTO obligations and deployment of U.S. unilateral trade instruments. Mr. Greer and others have already commented on some of these. I agree that the Phase One agreement should be enforced, but also that many U.S.—because of the weaknesses of the WTO structure, we should continue to use unilateral tools available in the United States to pursue our goals.

Finally, I want to emphasize that the U.S. should reemphasize the WTO concept of reciprocity. Chinese protectionist practices, such as its failure to provide access to Western digital platforms, payment systems, and social media while its firms enjoy access to Western markets should be fought back against by prohibiting online retailers such as Alibaba and Shein to be banned, and also social platforms like TikTok and WeChat.

Finally, the United States should emphasize the creation and use of regional trade agreements. I think we need to be present on the playing field, including negotiating to rejoin the CPTPP.

In terms of investment tools, the U.S. should consider more vigorous efforts to discourage or prohibit investments in Chinese firms where national security is endangered. We do need a reverse CFIUS process. We should cover research projects and venture capital investment as part of the reverse CFIUS process.

We should also, in terms of financial policy, label Chinese—China as a currency manipulator. This action should undermine confidence in the renminbi as Beijing tries to attract more foreign investment and make it a bigger part of trade finance.

Finally, the United States should address the growing debt crisis in the developing world, which is linked in important ways to China's Belt and Road initiative. Nearly half of foreign debt in the developing world is now in the form of Chinese loans, which are normally at market rates and not subject to Paris Club negotiations. According to the IMF, up to 60 percent of the developing world countries show clear signs of financial distress. And at a minimum, the United States and allies should require China to participate in restructuring using Paris Club norms.

Thank you, Mr. Chairman.

[The statement of Mr. Duesterberg follows:]

Hudson Institute

Prepared statement by:

Thomas Duesterberg
Senior Fellow, Hudson Institute

Before the US House of Representatives, Committee on Ways and Means, Subcommittee on Trade

April 18, 2023

Hearing on Countering China's Trade and Investment Agenda:

Opportunities for American Leadership

My name is Thomas J. Duesterberg, and I am a senior fellow at Hudson Institute in Washington, DC. I have served in various positions in the Congress of the United States and as US assistant secretary of commerce for international economic policy in the George H. W. Bush administration. I have also served as president and CEO of the Manufacturers Alliance for Productivity and Innovation, as a senior fellow at the Aspen Institute, and on the Board of Advisors of the Manufacturing Policy Initiative at the O'Neill School of Public and Environmental Affairs at Indiana University. I would like to acknowledge the research assistance of Abby Fu, also of Hudson Institute. The views expressed in this testimony are mine alone and do not represent Hudson Institute or any other organization or firm.

Overview: The Need to Push Back against Chinese Mercantilism

The United States and many of its allies in recent years have come to better understand that the mercantilism pursued most openly by Xi Jinping since he rose to leadership of the People's Republic of China (PRC) is undermining their economic prosperity and global leadership. China's determination to pursue a long-term path toward economic autonomy has been evident since the Chinese Communist Party (CCP) came to power in 1949. Xi has broadened these ambitions to create an alternative economic and political order to challenge the post-war, rules-based system that has been largely successful in terms of economic prosperity and political stability.

Trade policy has been at the forefront of the growing clash between the two systems since China's entry into the World Trade Organization (WTO). China's participation in the WTO has greatly accelerated its growth path while undermining the very rules of the liberal economic order on which it is built. It has become increasingly clear under the rule of Xi that China will continue its drive toward economic self-sufficiency and its selective acceptance of WTO rules. It undermines the WTO by selectively enforcing the WTO bedrock principles of reciprocity, protection of intellectual property (IP), very limited use of state subsidies, and equal treatment of other members. China is effectively trying to decouple from the United States and other developed countries while erecting a zone of like-minded authoritarian countries. In so doing, China is undermining the principles of a rules-based global economic system based on market principles.

As it did so effectively after the global crisis of the 1930s and 1940s, the United States needs to rethink trade and other international economic policies to counter Chinese practices and build new, regionally based alliances of like-minded nations as China pursues its own path toward autarchy. While China tries to build its zone of authoritarian political and autarchic economic actors, the United States should lead other market-oriented actors toward an economic system founded on market orientation, protection of national sovereignty, and of individual freedom. This system should preserve as much of the existing order as is politically feasible with allies to counter Chinese mercantilism.

Understanding the Realities of the Chinese Economy

A starting point in better understanding how US policies might best counteract the Chinese challenge is a realistic assessment of the state of its economy and its growth model. While China has compiled an impressive record of economic growth, the pace of its advance and its sustainability have come into doubt in recent years. Glaring weaknesses in its model of growth have been exposed.

Deng Xiaoping's early success was in building a modern economy from the shambles of Mao Zedong's failed policies. Deng and his immediate successors deployed classic development tools such as repairing and expanding infrastructure and basic industries like steel and utilities, moving rural populations to cities to work in a budding manufacturing sector, and building housing for an expanding urban population. Low-cost labor propelled a low-cost manufacturing ecosystem that quickly became export-oriented as per capita income was constrained by the need to save for basic services in an economy weak in providing modern services like health care and pensions.

When China became a member of the WTO, foreign markets increasingly came to be a primary source of growth. By the time Xi Jinping became the PRC's paramount leader, he began to expand the reach of its export markets by starting the Belt and Road Initiative (BRI). While the fast growth period started by Deng relied on a growing private sector, the CCP increasingly became wary of alternative centers of economic power and the civil institutions of a market economy. Xi responded soon after his ascension to leadership by reinforcing a centralized command and control economy and systematically (and often forcefully) removing powerful company innovators and leaders from their positions.

In the previous five years, the accumulated weaknesses of the Chinese economy, mostly driven by official policies and by the imperatives of the CCP to maintain ironclad control of the state and society, have resulted in slower growth. Just a few weeks ago, the International Monetary Fund lowered its estimates of GDP growth in China to 4-5% for the next five years, far from the high single- and double-digit growth rates of the last 40 years. Growth in 2022 barely reached 3%. Many analysts project even slower growth. The most pressing economic problems on the Chinese agenda are the following:[1] demographic stagnation, with an aging population and declining workforce; an imploding real estate bubble; declining productivity and returns on capital investment; regulatory and disciplinary crackdowns on some of the most dynamic and innovative leaders and industries of the modern economy; high youth unemployment that hovers in the high teens; persistent rural poverty with poor health and education standards; wage gaps between men and women and between rural and urban workers; a deteriorating physical environment; overleveraged national and local government, corporate, and household finances (see figure 1 in the Appendix); and lack of progress in building a modern social safety net.

China's economic growth has been aided and, in many cases, abetted by Western countries' investments in production and research firms in China, by forced technology transfers and, in some cases, outright theft of valuable IP, by purchases of foreign technology and natural resources firms, and by research projects and academic exchanges with the United States and other developed countries. As Chinese government and corporate balance sheets have accumulated more and more leverage, the importance of foreign direct investment and portfolio investment, as well as of the issuance of debt denominated in dollars and euros in foreign markets, have become more important to maintaining financial stability and limiting domestic exposure to risk. Between 2016 and 2020 alone, US holdings of Chinese stocks and debt instruments rose from $368 billion to $1.15 trillion.[2] Several hundred Chinese firms with an aggregate market value nearing $2 trillion at their peak have been listed on US stock exchanges.

A few details help explain why the Chinese economy has few levers to achieve the type of growth needed to bring more of its population into the middle class and solve the many

[1] I have outlined these problems in *Economic Cracks in the Great Wall of China: Is China's Current Economic Model Sustainable?* (Washington, DC: Hudson Institute, December 2021), https://www.hudson.org/foreign-policy/economic-cracks-in-the-great-wall-of-china-is-china-s-current-economic-model-sustainable.

[2] See Derek Scissors "Will US Business Undermine China Policy Again?" American Enterprise Institute, June 16, 2022, https://www.aei.org/foreign-and-defense-policy/will-us-business-undermine-china-policy-again/.

problems of an underdeveloped social safety net. Average per capita income in urban areas in 2022 was nearly $7,000, while in rural areas it lagged at just under $3,000, far from what is considered middle class. As China industrialized and populations moved into cities, housing growth was imperative to maintaining social cohesion and maintaining strong growth. In the last two decades, according to economist Kenneth Rogoff, housing investment stimulated up to 30% of economic growth and 18% of urban employment in China.[3]

At the same time, local governments, which are responsible for providing education and health care as well as stimulating industrial production, came to rely on income from the sale of land for housing and industrial development. Income from these projects accounted for up to one-third or more of their revenues (see table 1). The housing boom also led families to put their savings into real estate. Up to three-fourths or more of total household savings went into this sector, which in boom times steadily increased in value and became a source of speculation. Real estate holdings also served as a hedge for spending on retirement and medical emergencies, as the social safety net rarely covered these major life outlays adequately. When real estate prices and construction activity tipped over into negative growth in the last few years, both local government and household finances became endangered.

As the economy slowed under Covid lockdowns and a worldwide recession, Xi and his government tried to stimulate growth through increased consumption. But these efforts have been unsuccessful even after the end of lockdowns due to the need for more precautionary savings. Average growth in per capita consumption slumped from over 6% in 2013 to 2019 to a range of 2 to 2.8% since the onset of Covid and the bursting of the real estate bubble.[4] Overall household savings rates have returned to more traditional levels hovering around 40% (for comparative purposes, US household savings rarely move above 8%). These developments have removed most of the oxygen from Xi's efforts to stimulate the economy and reduce China's dependence on foreign markets by increasing domestic consumption.

The second engine of growth employed by Chinese authorities, especially during the global recession of 2009 and later the Covid crisis, has been massive infrastructure investment. The gradual deterioration of local government finances due to the real estate crises, poor return on investment in state-owned industries, and the increase of debt on local and central government balance sheets have undermined the ability of infrastructure investment to drive

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[3] Kenneth Rogoff and Yuanchen Yang, "Peak China Housing" (National Bureau of Economic Research working paper 27697, National Bureau of Economic Research, Cambridge, MA, August 2020), https://www.nber.org/papers/w27697.

[4] Zongyuan Zoe Liu, "Beijing Needs to Junk its Economic Playbook," *Foreign Policy*, February 3, 2023, https://foreignpolicy.com/2023/02/02/beijing-economy-playbook-gdp-household-consumption.

growth in China. One telling indicator is that the average gain in one unit of GDP required only about two units of capital investment in the first decades of China's growth spurt, but has now risen to around nine units of capital investment.[5] Such investment inefficiency also contributes to an overall decline in productivity growth.

Figure 2 shows the principal drivers of economic growth in China in recent years. The data show that after Deng's opening of the economy, the major sources of growth were capital investment, consumption, and net trade, specifically a persistent trade surplus. Chinese goods exports to the United States have grown by over 500% since it entered the WTO (see figure 3). Its mercantilist policies have engineered such a large trade surplus, some 80% of which over time has been with the United States (see table 2). In more recent years, the various problems afflicting the Chinese economy have reduced its ability to rely on consumption spending and investment to produce GDP growth at high levels, although official policy remains directed toward these two tools. Since the Covid crisis, trade surpluses have accounted for 21% to 25% of overall growth; 44% to 59% of that surplus has been with the United States.

China has diversified its export markets in recent decades, largely to Europe and Southeast Asia. It has strategically deployed Xi's signature BRI to achieve this diversification. The multiple objectives of this program include gaining access to raw materials, such as iron ore, copper, grains, oil, and critical minerals that its economy desperately needs, and building transportation networks to facilitate trade and gain access to ports and military bases for its growing military presence. China has been successful in building new markets for its surplus manufacturing and construction industries. The BRI helped double its trade surplus with Europe and facilitated its capture of critical mineral mining in Africa, South Asia, and Latin America. A recent study of seven prominent BRI partners in the developing world shows a strong correlation between BRI investments and increasing Chinese trade surpluses with recipient countries. China now has a trade surplus with Africa approaching $40-50 billion each year despite also purchasing large amounts of oil and minerals from that continent.[6]

Policy Tools to Counter and Deter Chinese Mercantilism

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[5] See Martin Wolf, "The Economic Threat from China's Real Estate Bubble," *Financial Times,* October 5, 2021, https://www.ft.com/content/1abd9d4b-8d94-4797-bdd7-bee0f960746a.

[6] On BRI, see Thomas J. Duesterberg, "The Mixed Record of China's Belt and Road Initiative," Hudson Institute, October 2022, https://www.hudson.org/mixed-record-china-belt-road-initiative-tom-duesterberg.

The depth and political importance of the "economic cracks in the Great Wall of China" should not be underestimated in thinking about US policy responses. Political dissent is rigorously suppressed in China, but forms of unrest have appeared with some frequency in recent years: Xi was forced to back down on his zero-Covid policy by popular- and elite-level pushback; mortgage holders of unfinished housing units in major cities went on strike for repayments and forced some changes in payment terms; and workers at Foxconn's massive Apple plant rioted over harsh working conditions. Further discontent is likely as local governments' budgets suffer, municipal workers in some cities go unpaid for months, and cities reduce subventions for medical and pension insurance. A more digitally connected population is closely monitoring how Xi increasingly privileges CCP leaders and state-owned enterprises (SOEs) that crowd out capital available for private companies, is indifferent to youth unemployment and rural welfare, and cannot stop the unfolding economic slowdown.

US trade and investment policies in recent years to combat Chinese violations of WTO commitments—as well as US criticism of China's environmental, human rights policies, and exploitative investment and credit practices (both internally in regions like Xinjiang and Tibet and externally through the BRI)—have gotten the attention of Chinese leadership and provoked both bellicose rhetoric and "charm offensives." The United States has had some success in winning allies for its various trade and human rights actions, and surveys of public opinion around the world show some weakening of China's prestige and "soft power."[7] In short, aggressive use of policy tools can have an impact on the Chinese economy and Beijing's politics.

Enforcement of WTO Obligations and Deployment of US Unilateral Trade Instruments

Because of the importance of external trade, especially with the United States, to growth and the acquisition of modern technology, the United States should continue to bring cases to the WTO, such as antidumping and countervailing duty actions and challenges to Intellectual Property Protection (IP) violations and impairment of most favored nation (MFN) benefits. Due to its lengthy procedures and the rights of member countries accused of violations, it is unrealistic to expect much change in behavior by China due to these actions. But if like-minded allies can be convinced to cooperate, then efforts will sometimes be successful and can at least shine a light on China's mercantilist practices and outright violation of its commitments. Attention should be paid to rules on the reporting of subsidies

[7] On Chinese soft power, see Joshua Kurlantzick, *Beijings's Global Media Offensive: China's Uneven Campaign to Influence Asia and the World* (New York: Oxford University Press, 2023).

and to prohibited export controls. China has demonstrated its willingness to use export controls in the case of rare earths, and the US and its allies did secure a decision in the WTO to sanction this practice. Eventually, Beijing decided to lift the prohibition. But China's capture of rare earths and other critical minerals required for green technologies (see table 3) and its even greater dominance of the processing and production of these goods suggest that vigilance with allies, and indeed joint efforts to create alternative supply chains, are increasingly important. The United States should also work with allies to demand that China renounce its self-determination as a developing country under WTO rules.

The Trump administration relied on the use of Section 301, its national security authority, and other unilateral trade tools to combat Chinese practices not well covered by existing WTO rules and enforcement. Reform of the WTO in areas like industrial subsidies is no longer a realistic objective due to the obdurate opposition of China and some of its allies. But the United States ought at least to continue the trilateral dialogue with the European Union and Japan to continue to draw attention to this and other weaknesses in the WTO so that broader support against Chinese practices might develop in the medium to longer term.

Given the relative weakness of the WTO system, continued use of US trade law is warranted. Even though China failed in significant ways to honor its commitments in the Phase One trade agreement, this initiative had some impact on Chinese exports to the United States and focused global attention on the many ways in which China fails to honor its trade and economic commitments to a rules-based system.

Reciprocity Principle

One bedrock principle of the global trading system in its modern form is reciprocity, and this concept ought to be employed to combat the highly advantageous Chinese use of protecting its own markets from foreign competition as it builds up its technologies and scale advantages by tapping its huge internal mark. For example, China failed to honor its commitment under its WTO accession agreement to open its financial markets, delaying such an opening by 20 years or more to allow its domestic firms to develop new digital payment tools and other service offerings at a scale that eventually provided advantages of efficiency and size. At the same time, the United States has allowed the WeChat payment service to gain a foothold in its domestic market. The digital social and ecommerce platforms created in China and exported to the United States in recent years—such as TikTok and the Amazon competitors Alibaba, Shein, and CapCut—enjoyed the same early-mover advantage in China's closed domestic market. This advantage facilitated its success in the open US market, causing economic and political damage to US interests. Chinese digital companies such as TikTok and WeChat also collect enormous amounts of personal information that is valuable for artificial intelligence development, and they serve as news outlets for their American users. About 25% of all Americans have TikTok on their phones, and 25% of young Americans list TikTok as their primary source of news. This provides leverage for the Chinese owners who must answer to the CCP whenever it asks for data or the censorship of news. All of these Chinese digital platforms ought to be banned unilaterally (if allies do not join the effort) on national security grounds and on the basis of the simple concept of reciprocity.

Regional Trade Agreements

Because of the singular determination of Xi and the CCP to avoid any economic or technological dependence on the United States or its allies, and because of the PRC's efforts to build dependence on its own emerging economic sphere, the United States should be more assertive in building regional agreements, which in most instances are allowed by the WTO. During the last two administrations, attention to building new agreements has weakened considerably, as symbolized by the bipartisan rejection of the Trans-Pacific Partnership (TPP) since 2016. As a result, the United States is losing market share in East and Southeast Asia in trade sectors like agriculture because the TPP's successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), set up a favorable tariff regime for its members.

The path set out by Xi for as much autonomy as possible will not change in the foreseeable future, so the United States will need to support regional arrangements such as the CPTPP and perhaps some expansion of the United States–Mexico–Canada Agreement (USMCA) in the future. My fellow panelist Mr. Goodman has clarified some of the flaws in the CPTPP, especially related to IP protection. But with the entry of the United Kingdom into this agreement and the attempt of China to build out a competitive regional agreement or even join the CPTPP, the United States needs to show Southeast Asian and Pacific Rim nations that it is willing to renew its commitment to more open trade than it has exhibited in recent years, including in the ongoing Indo-Pacific Economic Framework (IPEF) talks. Without this commitment, the economic attraction of the huge Chinese market and Xi's coercive policies will make it difficult for nearby economies to avoid.

On the other hand, weakening the Chinese export-oriented growth model would be facilitated by the US joining the CPTPP after working with key allies like Japan, Australia, and the UK to address its weaknesses. The CPTPP has the added advantage of strong disciplines on state subsidies and a state-of-the-art digital economy that could be models for further expansion of a market-oriented trade area.

Investment Tools

The United States should also consider more vigorous efforts to discourage or prohibit investments in Chinese firms and markets where China does not abide by global trade, human rights, or environmental standards, and in which the firms produce technologies such as military or surveillance products that raise national security concerns. Increasingly in the age of digital technologies where a civil-military dichotomy is no longer viable, the scope of investment scrutiny has necessarily expanded. US policymakers also need to enact a program to examine—and where necessary block—outward-bound investments that compromise national security, as Senators Bob Casey and John Cornyn have promoted for several years. This could be done by executive action or, to lend it more weight and shield it from overzealous legal authorities, by new statutory authorities. In any case, policymakers should be prudent in limiting the scope of coverage to technologies that are clearly necessary to protect national security. Any new program should also cover basic research investments in China (or other adversary states) that develop technologies of national security concern.

In a broader sense, it is important to ensure that US investors are protected from fraudulent or opaque Chinese equity or bond issuers in the same ways investors are protected by transparent disclosure and auditing requirements for securities issued by US or other developed world firms. The Holding Foreign Companies Accountable Act signed into law in December 2020 should be rigorously enforced, and requirements for making reports by Chinese firms or bonds listed on US exchanges should be subject to the same accounting standards as those of US firms or bond issuers.

Additionally, as many pension funds, exchange-traded and mutual funds (including the Thrift Savings Plan, or TSP), and bond funds are including Chinese securities in their portfolios, it is important to require transparency regarding the Chinese firms included in them. At a minimum, transparency reporting ought to include verifiable information regarding the industries and their major suppliers of firms in these funds. Such transparency should clarify if any Chinese firms in the portfolios are linked to the military, the national surveillance state apparatus, or human rights–abusing firms such as the many identified in

Xinjiang.[8] Legislation offered by Senators Marco Rubio, Maggie Hassan, and Tommy Tuberville in the last two Congresses would prohibit the TSP from including the shares of Chinese firms implicated in these abuses or industries. President Joe Biden has appointed TSP board members who pledged to prohibit such investments. Congress ought to consider broadening this transparency requirement for all pension and mutual funds.

Currency Manipulation

In the Bush 41 and early Clinton administrations, the US Treasury designated China as a currency manipulator under the authority of the Trade Act of 1988. This action had no real implications except requesting consultations and drawing attention to this unfair trade practice. Since that time, China has consistently employed the "unfair currency practices" behind this designation without a firm response from the United States and its allies. China uses this tool partly to maintain its trade advantages and partly to lend some legitimacy to the renminbi as a stable currency. The latter goal presumably has the effect of boosting confidence among traders and investors both inside and outside China to hold the Chinese currency. The Xi regime is trying to increase the renminbi's role in trade transactions and in global holdings of foreign exchange reserves, which would require considerable confidence in the financial world in the stability of the currency. Such confidence is always in question since China steadfastly refuses to make the currency fully convertible.

In recent years, both the Trump and Biden administrations have refrained from labeling China as a currency manipulator, even though countries like Switzerland and India have received this designation. Given the fact that China increasingly relies on foreign investment, while at the same time refusing to make the currency convertible, returning it to the list of manipulators would help at least to raise questions about the longer-term stability and value of the currency, and weaken resolve to hold it or to use it in trade finance.

A large majority of Chinese foreign exchange transactions are conducted through banks in Hong Kong. Because of the destruction of Chinese democracy and growing evidence of massive money laundering of drug or other illicit trade transactions likely implicating the financial sector, both open and in the shadows through shadowy money transfer operations, Chinese democracy advocates have urged the sanctioning of the financial sector in Hong

[8] Laura T. Murphy, Kendyl Salcito, and Nyrola Elimä , *Financing & Genocide: Development Finance and the Crisis in the Uyghur Region* (Washington, DC: Atlantic Council, DFRLab, Nomogaia, and Sheffield Hall University, February 2022), https://www.atlanticcouncil.org/in-depth-research-reports/report/financing-and-genocide/.

Kong.[9] Hong Kong-based financial institutions, including Hong Kong Shanghai Bank (HSBC) and Fidelity have, on the orders of Beijing, frozen the pension assets held in trust by these institutions by more than 90,000 residents who have moved to the UK after the Chinese crackdown on democracy in Hong Kong.[10]

Growing evidence reveals the involvement of Chinese chemical suppliers and illicit money launderers operating in Mexico, the United States, and Europe who facilitate the repatriation of the billions of dollars of fentanyl and other drug sales in the transatlantic sphere. Massive money laundering schemes are also used to avoid capital export restrictions for wealthy Chinese. My Hudson colleagues Nate Sibley, director of Hudson's Kleptocracy Initiative, and David Asher have advocated for a broader application of sanctions to the entire Chinese financial sector. These and other advocates have noted that Section 311 of the USA Patriot Act of 2001 allows the US Treasury to identify foreign banks, companies, or even entire countries as "primary money launderers."[11] The Corporate Transparency Act could also be invoked to place Hong Kong or Chinese intermediaries for money laundering on sanction lists.

Cutting off Beijing's window to the Western financial world or more simply calling into question the stability and legitimacy of the renminbi would have grievous consequences for China's ability to access Western capital and maintain enough confidence in that currency to allow its expanded use.

Development Finance

As a final suggestion, the United States ought to address the growing debt crisis in the developing world, which is largely linked to China's development loans and investments.[12] China's assistance and BRI projects almost invariably are in repayable and collateralized debt at interest rates approaching or mirroring market rates, as opposed to the lower-than-market-rate loans and outright grants typical of Western development assistance. The Chinese assistance all too frequently saddles recipients with inefficient projects whose

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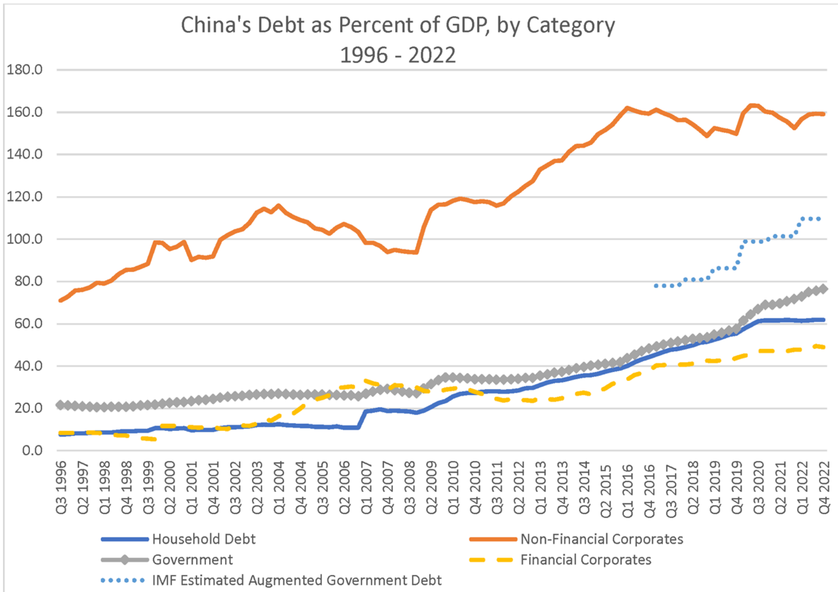
[9] Olivia Enos, "A Policy Roadmap to support the People of Hong Kong," Freedom Hong Kong, January 23, 2023, https://www.thecfhk.org/post/a-policy-roadmap-to-support-the-people-of-hong-kong.
[10] Primrose Riordan, "Hong Kong emigrants to UK blocked from addressing 2,2 bn (pounds) in pension," *Financial Times.* April 11, 2023.
[11] Nate Sibley, "Defunding the Deadly Fentanyl Trade," Hudson Institute, April 12, 2023, https://www.hudson.org/drug-policy/defunding-deadly-fentanyl-trade.
[12] Thomas J. Duesterberg and Rafael Marques de Morais, "The 'Odious' Legacy of Chinese Development Assistance in Africa: The Case of Angola," Hudson Institute, February 6, 2023, https://www.hudson.org/economics/odious-legacy-chinese-development-assistance-africa-case-angola.

returns are unable to cover loan repayments. China's assistance is indifferent to the nature of the regime it works with, often serving to support authoritarian regimes and often abetting or creating corruption. China refuses to participate in Paris Club debt restructuring and often demands World Bank or International Monetary Fund bailouts to bankrupt countries, which in effect implicates those institutions in partially subsidizing repayment to Chinese banks or development agencies. The United States should work with allies to demand China's participation in the Paris Club restructuring process, and even to invoke the legal concept of "odious debt" to nullify debts owed to corrupt borrowers.

All of these financial and investment measures would compromise the ability of China to rely on developed world financing of its own industries or to exploit developing world economies for its own benefit. Such policies would further weaken the Chinese growth model, which will eventually get the attention of Xi Jinping and other Chinese leaders.

Appendix

Figure 1.



Source: Institute of International Finance, IMF.

Note: IMF's augmented debt estimates expands parimeter of government debt to include government-guided funds and the activity of local government financing vehicles.

Table 1.

China's Total Local Government Revenue (Government Managed Funds + General Public Budget Revenue)										
(Percent of Total Revenue)										
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Land Use Related Revenue	20%	25%	24%	18%	19%	23%	26%	26%	26%	27%
Land-Related Taxes	8%	8%	8%	8%	8%	8%	8%	7%	7%	7%
Other Local Taxes	26%	25%	25%	27%	25%	23%	22%	20%	17%	19%
Transfers from Central Government Funds/Central Government	33%	30%	30%	32%	31%	30%	28%	27%	29%	26%
Local Government Special Debt Revenue				1%	2%	4%	5%	8%	12%	11%
All Others	14%	13%	13%	15%	14%	13%	11%	11%	10%	11%
Source: PRC Ministry of Finance.										

Figure 2.

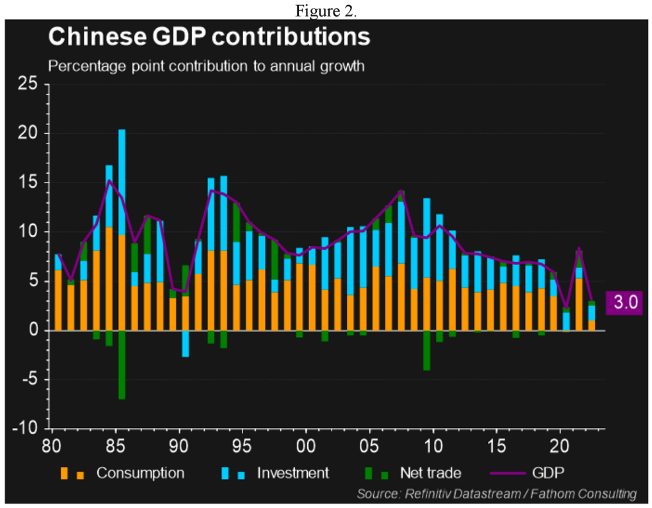


Figure 3.

Source: U.S. BEA.

Table 2.

US - China Trade in Exports and Trade Surplus/Deficit in Goods											
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
% of China's Total Exports Going to US	21%	20%	20%	21%	22%	22%	22%	18%	17%	15%	15%
% of US's Total Exports Going to China	7%	8%	8%	8%	8%	8%	7%	7%	9%	9%	7%
% of China's Total Trade Surplus with the US	137%	123%	90%	62%	68%	89%	119%	81%	59%	53%	44%
% of US's Total Trade Deficit with China	42%	46%	46%	48%	46%	47%	47%	40%	34%	32%	32%
Source: U.S. BEA, PRC GACC.											

Table 3.

Chinese Dominance of Renewables			
	% of Global Production	**% of US Import**	**% of EU Import**
Solar Panels	80%	63% *	75%
Wind Turbines	58%	14% **	84%
Rare Earths	60%	78%	98%
Lithium-Ion Batteries	79%	80%	68%

Sources: USGS Mineral Commodity Summaries 2022, Statista, EuroStat, IEA, European Council on Foreign Relations, S&P Global, U.S. Department of Energy, U.S. Energy Information Administration.

* This includes imports from China, Malaysia, Vietnam, Singapore and Taiwan.

** 7 or 8 of the top 10 wind turbine manufacturers are Chinese.

Chairman SMITH of Nebraska. Thank you.

Mr. Goodman, please proceed.

STATEMENT OF MATTHEW P. GOODMAN, SENIOR VICE PRESIDENT FOR ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. GOODMAN. Thank you, Mr. Chairman, Mr. Ranking Member, distinguished members of the subcommittee.

I was asked to talk about a recent CSIS report on China's economic coercion, and I will do that in a moment. But I would like to first make two broader points about trade, if I may.

The first is the United States needs trade. Trade creates growth. It creates jobs. It creates export opportunities for U.S. businesses, farmers, ranchers. Trade lowers costs for not only individual consumers, but for downstream producers that can then invest in more jobs. So, yes, trade does dislocate some jobs, and we need a more robust set of domestic policies, real adjustment assistance, worker retraining, incentives for investment, and new jobs to deal with that dislocation. But we should still trade.

We also need trade agreements to amplify the growth, jobs, and cost reduction benefits of trade itself, but also for strategic reasons, which leads to my second point. Frankly, we are losing ground in the critical Indo-Pacific region, which is what I mainly focus on, both economically and strategically, because we are not willing to negotiate formal trade agreements.

When I say losing ground, I mean not only to China, but also we are losing the confidence of our own allies and partners in the region. I hear this all the time. Yes, we have offered the Indo-Pacific Economic Framework or IPEF, which has some value, but our partners are skeptical about what's in it for them, and they want us back in formal trade negotiations.

China is doing trade agreements. It has even applied to join the successor to the Trans-Pacific Partnership, which we created. Almost everyone else in the region is doing trade agreements. The United States is standing on the sidelines while new rules are being set and markets are being divvied up by others. We need to get back in the game.

Another reason to do trade agreements, and the one I was asked to speak about today in particular, is to counter China's economic coercion. In our recent report we looked at eight case studies over the past decade-plus from Japan rare earths in 2010 to Lithuania today. And we concluded that China is a serial coercer, using its growing market power to take swipes at our allies and partners for perceived slights to Beijing's interests.

Although China's coercion often fails in its tactical aims, and can be counterproductive to Beijing's own strategic interests, pushing countries away from China and toward us, China's behavior is disruptive and divisive, and we need to do more to deter Beijing from doing it.

There are two basic ways to deter someone from doing something. One is to make them fear punishment, and the other is to make them fear failure. Tit for tat retaliation is tempting, but it has three big problems.

First, if it is proportional to China's typically low-level coercion, it isn't likely to change Chinese behavior.

But if we escalate, we lose credibility. How much of a cost are we realistically willing to pay to defend other countries' bananas or wine?

And finally, we found in our study that most of our trading partners don't want us to retaliate, since the bullying of them is likely to resume as soon as we leave the playground.

In the end, we were drawn to a counter strategy of resilience and relief, helping partners find new markets, which makes them less exposed to China, and offering them relief if they do get coerced. Trade policy plays a role in both resilience and relief. By negotiating trade agreements, we expand partners' options and make them less fearful of losing China's market. By offering trade relief we help offset the costs of coercion and persuade our allies that we have their back.

Combined with a number of other recommended policy responses in our report, we believe these resilience and relief measures will help persuade Beijing over time that its coercion won't succeed.

So to sum up my main three points: first, the United States needs trade to promote our economic interests; second, we need trade agreements to promote our economic and strategic interests, including countering China's coercion; and third, we need to get back in the business of negotiating trade agreements in the critical Indo-Pacific region.

Thank you for your attention. I am happy to take your questions.

[The statement of Mr. Goodman follows:]

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Statement before the House Ways and Means Committee, Subcommittee on Trade

"Countering China's Trade and Investment Agenda: Opportunities for American Leadership"

A Testimony by:

Matthew P. Goodman

Senior Vice President for Economics, CSIS

April 18, 2023

1100 Longworth House Office Building

Chairman Smith, Ranking Member Blumenauer, distinguished Members of the Subcommittee, thank you for this chance to offer my thoughts on opportunities for American leadership on trade and investment. The views represented in this testimony are my own and should not be taken as representing those of my current or former employers.

I have been asked to focus my remarks on China's economic coercion, a topic on which the CSIS Economics Program recently published a report entitled *Deny, Deflect, Deter: Countering China's Economic Coercion.*[1] I would like to frame my remarks by first talking about the broader economic and strategic benefits of trade and trade agreements to the United States, which include but are not limited to responding to China's coercion. I will put a particular emphasis on the Indo-Pacific region, where the stakes are arguably highest and the competition most intense.

Why Trade Matters

Trade is a driver of economic growth and prosperity for the United States.[2] In 2019, the United States exported goods worth approximately $1.646 trillion[3] and services worth $891.2 billion.[4] These exports create employment, supporting almost 10.5 million American jobs in 2019.[5] Access to foreign markets is important for a number of sectors of the U.S. economy but especially for agriculture, which sees nearly a quarter of its products by value exported annually.[6]

On the import side, international trade provides not only U.S. consumers but also downstream producers access to a wider variety of goods and services at more competitive prices, which enhances consumer welfare and helps control inflation. Increased competition with international firms and producers drives domestic innovation and encourages specialization, leading to a more efficient allocation of resources and contributing to a healthier, more productive economy.

While trade brings many economic benefits, it is important to recognize that there are also downsides. Indeed, the negative consequences of trade have been brought into sharp relief in recent years due to several factors, not least of which are China's rise and the supply chain disruptions engendered by the Covid-19 pandemic. The result has been a precipitous rise of protectionist sentiment in the United States dating to the 2016 election cycle and continuing through today. Where the benefits of trade are often diffuse—the average American is unlikely to notice their increased purchasing power due to trade—the costs of trade are often localized. Sectors and industries unable to compete are displaced by foreign competitors, resulting in job losses. Competition with lower-cost foreign labor may contribute to wage stagnation, while lax environmental regulations abroad contribute to harmful emissions and unfairly undercut U.S. firms and producers.

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[1] https://www.csis.org/analysis/deny-deflect-deter-countering-chinas-economic-coercion
[2] https://www.project-syndicate.org/magazine/biden-trade-agenda-emphasizes-resilience-by-janet-l-yellen-2022-12?barrier=accesspaylog
[3] https://www.census.gov/foreign-trade/statistics/highlights/top/top1912yr.html
[4] BEA Interactive Data Application
[5] Jobs Supported by U.S. Exports (trade.gov)
[6] Fast Facts About Agriculture & Food | American Farm Bureau Federation (fb.org)

However, while the costs of trade are real, they must be placed in context. For example, the 156,250 manufacturing jobs lost annually between 2001 and 2016 due to trade account for less than one percent of all annual job losses over that same period.[7] The solution for job dislocation and the other costs associated with trade, then, is not protectionism, which would deny us the benefits of trade. Instead, a greater focus on policies that help dislocated workers and industries adjust is needed, as are more robust environmental and labor standards in free trade agreements.

A useful analogy here is automobiles, which provide tremendous benefits to the economy and society but also have downside costs, including accidents and carbon emissions. The answer to those costs is not to ban driving, but to require seatbelts, driver's education, speed limits, emissions controls, and other steps that reduce the risks. Similarly, we should let trade flourish and provide growth, jobs, and lower costs, and then intervene directly to address the specific costs of trade through effective worker-retraining initiatives and other meaningful adjustment policies.

From a national security perspective, critics of trade also point out that the hollowing out of American manufacturing capabilities and dependency on foreign imports of certain critical goods and materials has weakened the U.S. strategic position vis-à-vis China. However, putting aside whether trade is to blame, this line of reasoning ignores the "positive strategic externalities" that are also generated for the United States through its engagement in global markets. Nowhere are these strategic benefits of trade more apparent than in the semiconductor sector.

The globalization of the semiconductor manufacturing supply chain has not only helped the United States and its allies maintain a significant lead over China in chips technology, but it has also created critical dependencies for China on the United States and its allies. This became evident when the Biden Administration implemented export controls on advanced semiconductors and semiconductor manufacturing equipment on October 7, 2022.[8] In other words, although the U.S. share of advanced semiconductor manufacturing has decreased, trade has facilitated the technology's rapid advancement and created new "chokepoints" that the United States can exploit. This development emerged not from a deliberate plan, but rather from the inherent logic of markets and comparative advantage, with firms in different countries such as the Netherlands, Germany, Taiwan, Japan, South Korea, and the United States each specializing in different areas along the semiconductor manufacturing supply chain.

Why Trade *Agreements* Matter

Trade agreements help amplify the economic benefits of trade and investment that I describe above. Moreover, like trade itself, trade agreements have powerful strategic value, in at least three ways.

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[7] The Payoff to America from Globalization: A Fresh Look with a Focus on Costs to Workers | PIIE

[8] https://public-inspection.federalregister.gov/2022-21658.pdf
https://public-inspection.federalregister.gov/2022-21714.pdf

Creating economic alliances

First, trade agreements strengthen existing alliances and partnerships with key countries and help build new ones. This was one of the central motivations for the Trans-Pacific Partnership (TPP) concluded by the United States and 11 countries in the Indo-Pacific region in 2016. Both Washington and regional partners saw the trade agreement as a way to lock the United States into deeper, more permanent economic ties with a critical region. Partners there value the strong U.S. military and diplomatic presence in the region but want that complemented with robust and durable American economic engagement. As former Secretary of Defense Ash Carter famously said, "Passing TPP is as important to me as another aircraft carrier."[9]

Vietnam is one emerging partner that highlights this first strategic point. This vibrant country of nearly 100 million people is one of the greatest economic success stories of recent times, rising from poverty to middle-income status in just the past 20 years.[10] To be sure, Vietnam is an authoritarian state with which the United States fought a bitter war just half a century ago. But it has enormous strategic value as a growing economy and production base at the heart of Southeast Asia—as well as a country with deep historical tensions with China. The Obama Administration used TPP to incentivize market-based reform in Vietnam, better labor standards, and closer strategic alignment with the United States.

Supporting U.S.-preferred rules

A second, related strategic benefit of trade agreements is their role in upholding and updating the rules of the global economic order. After World War II, the United States led the creation of the institutions and rules of that order, which produced decades of rising global prosperity unprecedented in human history.[11] Yet the global economic order has been under severe strain in recent years, as a result of two primary forces: first, dwindling support in the United States and other advanced countries for its institutions and rules, based on a perception that they are no longer delivering broad-based growth; and second, challenges to both the substantive rules and institutional leadership from large emerging countries like China. Moreover, there are significant gaps in the existing order, as global economic rules have not kept up with fast-moving developments such as the explosive growth of the digital economy.

Against this backdrop, other powers—friendly and otherwise—have been offering their preferred economic rules, norms, and standards while the United States has been pulling back from leadership in shaping new and existing rules that it favors. The European Union, for example, has taken the lead in setting the global standard for data privacy with its General Data Protection Regulation (GDPR).[12] China's offerings under its Belt and Road Initiative—which are often non-transparent and reinforce Beijing's preferred standards—are another example of countries

[9] https://thediplomat.com/2015/04/tpp-as-important-as-another-aircraft-carrier-us-defense-secretary/
[10] https://www.worldbank.org/en/country/vietnam/overview
[11] https://www.statista.com/topics/8096/post-wwii-economic-boom/#topicOverview
[12] https://gdpr-info.eu/

attempting to shape the global economic rulebook while the United States largely stays on the sidelines.[13]

This dynamic is particularly apparent in the Indo-Pacific region. In late 2020, a group of 15 countries—the 10 members of the Association of Southeast Asian Nations (ASEAN), plus China, Japan, South Korea, Australia, and New Zealand—signed the Regional Comprehensive Economic Partnership (RCEP), a shallow but far-reaching trade agreement that could shape regional trading patterns in ways unfavorable to the United States.[14] Meanwhile, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),[15] which replaced TPP after the United States withdrew in early 2017, is continuing to evolve, with the United Kingdom likely to join this year, and five other countries—including China—having applied for membership.[16] China has also applied to join the Digital Economy Partnership Agreement (DEPA), another regional rulemaking forum where the United States is not present.[17]

As these developments show, new trade and other economic rules are being set in ways that may undermine U.S. commercial and other interests. There is a compelling strategic case for the United States to get back in the game. Before discussing pathways for the United States to do this, let me lay out a third strategic rationale for trade agreements: responding to China's economic coercion.

Countering China's economic coercion

As laid out in our new report, Beijing has had a serial habit of pressuring other countries economically in response to perceived slights to its interests. In our study, we looked at eight cases of China's coercion, from suspension of rare-earth-element exports to Japan in 2010 to a *de facto* embargo imposed on Lithuania in 2021. From these case studies, we concluded that Beijing's actions are disruptive to the rules-based international order, can be costly for the companies and sectors affected, and likely deter countries from taking positions that may draw the ire of the Chinese Communist Party (CCP). We argued that this behavior needs to be deterred.

However, we also noted that China's economic coercion is often ineffective or counterproductive to its own interests. In most of the cases we studied, Beijing struggled to achieve its near-term tactical goals and frequently caused harm to its strategic interests—including by driving other countries toward the United States. Thus, China's coercion needs to be viewed with a sense of perspective and countered with an appropriate strategy and tools.

We considered a counterstrategy based on "deterrence by punishment"—tit-for-tat retaliation through increased tariffs or other sanctions—but noted that this comes with several challenges. Most important is credibility: because China rarely imposes significant macroeconomic costs on target countries, a proportional response by the United States would be unlikely to change

[13] https://www.csis.org/analysis/higher-road-forging-us-strategy-global-infrastructure-challenge
[14] https://crsreports.congress.gov/product/pdf/IF/IF11891
[15] https://crsreports.congress.gov/product/pdf/IF/IF12078
[16] https://www.csis.org/analysis/united-kingdom-joining-cptpp-what-comes-next
[17] https://www.csis.org/analysis/depa-and-path-back-tpp

China's behavior; yet a U.S. threat of escalation would quickly become non-credible given the rising costs to the United States relative to the limited costs imposed on partners. Moreover, our conversations with senior officials in countries targeted in our case studies made clear that partners are wary of U.S. retaliation, since Beijing would likely respond with further coercion of them rather than the United States. Finally, a U.S. retaliatory approach would risk ceding some of the moral high ground back to China.

Instead, we propose a U.S. counterstrategy based on "deterrence by denial"—attempting to deny Beijing success in its attempted coercion. We called for two lines of action in this regard: enhancing the *resilience* of vulnerable countries to China's coercion, essentially by helping them find new markets or sources of supply; and providing *relief* to partners—diplomatic, financial, or otherwise—when they are coerced. Together, credible efforts by the United States to promote resilience and offer relief are designed to persuade partners that we have their back, and Beijing that its pressure tactics will fail.

While several of the 11 policy recommendations in our report touch on trade, one is particularly relevant to today's hearing: We argue that the United States should negotiate free trade agreements with allies and partners at risk of economic coercion from China. The goal here is to reduce Beijing's leverage by giving vulnerable partners alternative market opportunities, whether in the United States or in other large economies joining plurilateral agreements, e.g., Japan, Canada, and Australia in the case of CPTPP. More free trade among partners would also speed market adjustments when coercion does occur. All of this would promote resilience and relief and, by lessening Beijing's chances of success, deter it from its coercive behavior over time.

Assessing IPEF

The Biden Administration has made clear that it is not interested for now in negotiating traditional trade agreements that might produce these economic and strategic benefits. Instead, it is offering frameworks for economic engagement with regional partners, including the U.S.-EU Trade and Technology Council (TTC),[18] the Indo-Pacific Economic Framework for Prosperity (IPEF),[19] and the Americas Partnership for Economic Prosperity (APEP).[20] Let me offer a brief assessment of IPEF, the framework with which I am most familiar.

IPEF was launched by President Biden nearly a year ago with the stated purpose of "expanding U.S. economic leadership" in the Indo-Pacific region; "enabl[ing] the United States and our allies to decide on rules of the road that ensure American workers, small businesses, and ranchers can compete in the Indo-Pacific"; and "tackling inflation…by making our supply chains more resilient in the long term." IPEF negotiations are now underway on four pillars:

1. Connected economy (trade)
2. Resilient economy (supply chains)

[18] https://www.whitehouse.gov/briefing-room/statements-releases/2022/12/05/u-s-eu-joint-statement-of-the-trade-and-technology-council/
[19] https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/
[20] https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/08/fact-sheet-president-biden-announces-the-americas-partnership-for-economic-prosperity/

3. Clean economy (clean energy, decarbonization, and infrastructure)
4. Fair economy (tax and anti-corruption)

There are three promising aspects of IPEF, in my view. First, the fact that 13 countries in the Indo-Pacific region—not just allies and other TPP partners but also India and Fiji—have joined the negotiations is a strong demand signal for U.S. economic engagement in the region. That by itself if useful.

Second, the IPEF agenda covers many of the critical issues that will shape the region's economic future, including digital trade, more resilient supply chains, clean energy solutions, and infrastructure. I expect that there will be meaningful agreements reached on some of these issues, especially in pillars 2 and 3, where there is arguably the greatest alignment of U.S. and partner interests. Progress is possible as soon as this fall, in the run-up to the annual Asia-Pacific Economic Cooperation (APEC) Leaders' Meeting in San Francisco in November.

The third promising aspect of IPEF runs through one of its major drawbacks, namely that it is being conducted as an executive undertaking rather than a formal trade negotiation subject to the authority and approval of the U.S. Congress. Among other problems, the lack of formal Congressional involvement deprives IPEF of two critical features: market access and durability. Only Congress can grant tariff reductions or other incentives for regional partners to agree to the high standards the United States is seeking. And only a treaty approved by Congress and other legislatures around the region will ensure the durability of IPEF commitments—and of the U.S. presence in the Indo-Pacific in the eyes of our regional partners.

Despite this shortcoming, if IPEF were to achieve greater alignment among Indo-Pacific partners on some of the issues it is addressing, the Framework could become an incubator for the kinds of provisions that might be included in a more formal regional trade agreement that includes the United States. The Biden Administration denies that this is the end goal of IPEF, but progress in elevating labor and environmental standards or establishing best practices on supply chains, for example, could *de facto* provide the building blocks for a new model trade agreement that would be more appealing to the United States than existing regional arrangements—and would do more to advance U.S. economic and strategic interests.

In a thoughtful paper for the Asia Society Policy Institute (ASPI) late last year,[21] Wendy Cutler and Clete Willems offers recommendations in 12 areas for improvements in CPTPP that could facilitate U.S. entry to the agreement. These include several of the areas under discussion in IPEF, including labor and environment standards, digital trade, and supply chain resilience. (The ASPI report also proposes adding provisions on economic coercion to an updated CPTPP.)

This approach is consistent with the idea of using IPEF as a pathway to a more formal regional trade agreement that the United States might eventually join. With TPP having become such a lightning rod for domestic criticism of trade agreements in general—and with China now having applied to join CPTPP—the latter may not be the most realistic vehicle for U.S. re-entry to the regional trade arena. Another possible approach would be to build on the U.S.-Mexico-Canada Agreement (USMCA), the last major trade agreement passed by the U.S. Congress (in a strongly

[21] https://asiasociety.org/policy-institute/reimaginingTPP

bipartisan vote). Or the United States might consider negotiating a formal trade agreement with Japan, which, despite remaining differences on automobiles and agriculture, is one of our closest allies and aligned with us on almost all economic rules and norms. A U.S.-Japan deal could perhaps then be stitched together with other bilateral agreements, including those with Singapore, Australia, and Korea.

Whatever the best vehicle, the point is that the United States needs to get back into the trade game in the Indo-Pacific. Others are moving ahead without us, establishing rules, norms, and standards that are likely to harm our economic and strategic interests. And our partners are looking for credible, durable U.S. economic engagement in the region that provides them tangible benefits as well.

Conclusion

Our report on economic coercion ends with the final paragraph of George Kennan's famous "Long Telegram" framing the Cold War with the Soviet Union, in which he admonished his countrymen to "have the courage and self-confidence to cling to our own methods and conceptions of human society."[22] More than 75 years later, the great diplomat's words still ring true today, even if the primary adversary has changed. Now, in the face of China's growing global economic influence, the United States must not lose confidence and turn inward, as doing so only cedes the playing field to China.[23] Instead, just as our market system proved superior to Soviet central planning, we must remain confident that what the United States has to offer today in our trade agreements is much better than what China is offering—especially its mix of coercion and non-transparent inducements. It is time for the United States to get back to an affirmative trade policy that advances U.S. economic and strategic interests.

Thank you for your attention.

[22] https://nsarchive2.gwu.edu/coldwar/documents/episode-1/kennan.htm
[23] https://www.csis.org/analysis/self-confidence-and-strategy

Chairman SMITH of Nebraska. Thank you.
Mr. Houseman, you are recognized.

STATEMENT OF ROY HOUSEMAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS

Mr. HOUSEMAN. Chairman Smith, Ranking Member Blumenauer, thank you for the opportunity to testify today.

The United Steelworkers, or USW, is the largest manufacturing union in North America, and our members mine and make everything from aluminum to zinc. Our union has highlighted for over 20 years concerns for U.S. workers, our local communities, and the weakening of our country's resilience caused by unfettered trade between the U.S. and the People's Republic of China, or PRC.

Countering the PRC's trade and investment agenda starts by ensuring the American labor movement is at the table in a tripartite collaboration with business and government. Working together we need to ensure our democratic ideals move across the globe as much as goods on ships and planes.

The challenge cannot be under-estimated, and we cannot compete against—compete using classic free trade tools developed in the 1970s with the naive hope that unfettered trade would push back authoritarian governments. Russia's invasion of the Ukraine and China's exports to Russia increasing by double digits last year expose the limits of outdated trade models.

Focusing on three broad categories, the union encourages Congress to modernize trade agreement rules; update our trade tools to better account for China's outward expansion; and at every step of the way ensure workers across the globe have democratic rights to freedom of association and independent labor unions.

Outgoing and recent trade—ongoing and recent trade initiatives provide building blocks for Congress to radically rework trade in a pro-worker manner. By focusing less on the immediate profits and more on building resilient communities, we must ensure goods and services across the globe are traded fairly.

My written testimony goes into detail, but future trade initiatives will need to include items like the USMCA—added in USMCA like the labor value content provisions and the rapid response mechanism.

Future agreements should also ensure American global financing initiatives support U.S. procurement over those goods from the PRC.

Other initiatives, like the Indo-Pacific Economic Framework, or IPEF, have significant potential to modernize and facilitate trade without having to change domestic tariff lines. The union sees the potential of the framework, but urges Congress to monitor negotiations to ensure we are defending U.S. workers, and not inadvertently exploiting foreign communities.

Another initiative Congress should also approach with an open mind is the steel and aluminum global arrangement. This negotiation between the EU and the U.S. has real potential to limit sales—limit state-fueled, non-market, and carbon-intensive steel and aluminum production from entering our market.

Countering the PRC's trade and investment strategy will also require retooling our trade enforcement regime to address China's third-country subsidies, commonly known as the Belt and Road Initiative. This includes passing legislation like the Leveling the Playing Field Act 2.0, introduced last Congress by Representative Sewell and Bill Johnson. It also means closely looking at the GSP program to ensure that we are not letting content from the PRC seep through GSP beneficiary countries.

This committee should also focus on how to defend against market concentration of commodities by the PRC. When nearly 100 million tons of PRC-funded steel projects, the equivalent of one year's U.S. production, are going into Southeast Asia using carbon intensive technology, and a new state-owned PRC entity will centralize iron ore buying to push down prices, we need to prepare tools to defend our country's modern steel industry against the PRC's market concentration.

Finally, I have in my hands here a TA petition from Waynesville workers in North Carolina. The state filed this petition for over 1,000 workers because of Chinese and other country imports idling their mill. Last Congress appropriated money for the TA program in a simple reauthorization, but this committee—but a simple reauthorization by this committee would mean this petition and for—and others for over 24,000 workers could be heard so that they can get job retraining benefits in their time of need. If we want to compete against China, it makes sense for us to provide robust job training benefits to workers negatively impacted by Chinese trade.

In conclusion, the largest difference between the U.S. and the PRC trade and investment agenda are the values we put behind our country's trade and expansion efforts. Ensuring our trade initiatives do not exploit workers globally and ensuring U.S. workers benefit from our country's trade initiatives must be at the forefront of policymakers' decisions. President Reagan recognized this in 1981 when workers in Poland rose up and fought to have their rights for an independent trade union.

Congress should begin to defend American workers through aproactive, pro-worker trade agenda built on fostering exports and deflecting China's market concentration in a host of goods being dumped on our shores.

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

[The statement of Mr. Houseman follows:]

Testimony

of

Roy Houseman, Jr.
Legislative Director
The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW)

for the

Subcommittee on Trade

of the

Committee on Ways and Means

Hearing on

"Countering China's Trade and Investment Agenda: Opportunities for American Leadership"

April 18, 2023

Introduction

Chairman Smith, Ranking Member Blumenauer thank you for the opportunity to testify at today's hearing and USW International President Tom Conway gives his regards. The United Steelworkers or USW is the largest manufacturing union in North America and our members mine and make everything from aluminum to zinc. Countering China's Trade and Investment Agenda will require USW members and the American labor movement at the table facilitating a collaboration between Business and Government, ensuring democratic values and our ideals move across the globe as much as goods on ships or planes.

This challenge is great and the union has long highlighted the problems with unfettered trade with the People's Republic of China (PRC) could have on workers, communities and our country's ability to compete.[1] Choices by past elected leaders fed American dollars into the PRC which allowed the Communist party regime to concentrate power and set economic plans which built manufacturing and mineral processing capacity that can now swing global markets and, without proper policy, undermine millions of American jobs.

The challenge cannot be underestimated and we cannot compete with classic free trade tools that were developed in the 1970's in a naïve hope that unfettered trade would push back authoritarian governments. Russia's invasion of the Ukraine and China's exports to Russia increasing by double digits in the last year expose the limits of this flawed model.

My testimony will focus on a number of issues falling under three broad categories including modernizing trade agreement rules, updating our trade tools to better account for China's outward expansion, and at every step of the way ensuring workers across the globe have similar democratic rights to freedom of association and independent labor unions.

Modernizing Trade Agreement Rules to Counter Authoritarianism

Updating how the U.S. approaches trade agreements requires Congress to dramatically rethink the tools it has traditionally used to pass trade agreements. The USW and the broader labor movement have long opposed Trade Promotion Authority or Fast Track procedures as a process that did not ensure adequate labor and environmental standards, limited debate, and gave too much authority over trade to the Executive Branch.

The U.S. withdrawal from the TPP, a flawed trade agreement, was finally a recognition that a new model on trade was needed. Setting aside the fact that seven of the countries in the TPP already have trade agreements with China, the rules of

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[1] https://www.govinfo.gov/content/pkg/CHRG-106shrg67840/html/CHRG-106shrg67840.htm

origin that the TPP contained provided significant access for China's manufactured goods. This committee produced a 2016 report highlighting that only 35 percent of a vehicle would had to originate in the TPP zone, meaning up to 65 percent of a vehicle's components could come from outside the party countries and from non-partner countries like China. The TPP and its successor the CPTPP show how weak that trade tool is at countering China as the country now looks to dock on to the agreement.[2]

Recent advancements regarding U.S. trade policy in this and the prior administration have sown significant potential that Congress could harvest to set a future trade agenda that increases market access, while limiting the negative impacts of trade for domestic workers. For the USW all future trade agreement discussions will need to include at a minimum:

- Rule of origin provisions which raise content thresholds and limit goods from countries of concern.
- Contain and improve upon the Labor Value Content (LCV) provisions which were built into the auto rule of origin in USMCA.
- Build on the Rapid Response Mechanism in the USMCA – this provision allows for targeted enforcement related to labor rights at a facility level.
- Clear enforceable commitments to ban child and forced labor.
- Disciplines on Non-Market Economy and excess capacity goods.
- U.S. financing initiatives which encourage U.S. Exports or indigenous production.
- Workers' rights provisions that ensure independent, democratic labor unions.

The labor movement has written extensively on a host of trade provisions over the years and I encourage the committee to review those comments as it continues to think on the future of trade negotiations.[3] In addition, below are brief comments regarding four trade initiatives that the Committee will need to consider and where USW has engaged in servicing our members. Each initiative has potential in countering the PRC's trade and investment agenda if completed properly.

Indo-Pacific Economic Framework (IPEF) – The United States Trade Representative and the Department of Commerce are leading this significant non-traditional trade engagement effort. USW President Conway as chair of the Labor Advisory Committee provided comments in 2022 and the union continues to be engaged in the negotiating process. [4] As this is a framework the administration has focused not on an old school market access agreement but on methods of improving

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[2] https://www.bloomberg.com/opinion/articles/2023-04-12/uk-s-deal-to-join-cptpp-sets-a-high-bar-for-china?sref=HEwoTbCT
[3] https://aflcio.org/sites/default/files/2017-11/LAC%20Report--Final%2012-2-15%20As%20Adopted.pdf
[4] https://www.regulations.gov/comment/USTR-2022-0002-1187

the flow of trade in a sustainable way. For example, getting party countries to modernize their customs forms and eliminating non-market barriers to trade will provide straightforward and common-sense reforms without the negative impacts related to traditional free trade agreements. The inclusion of labor rights throughout the various "pillars" currently in discussion is a positive development, and recognizes that many of our trading partners in IPEF will need to increase worker protections and economic freedoms enjoyed by U.S. workers.

Global Arrangement on Steel and Aluminum – The suspension of 232 duties against the European Union (EU) and the establishment of a tariff rate quota (TRQ) on steel and aluminum products coming from the EU was combined with a negotiation process to potentially limit non-market economy and carbon intensive steelmaking from entering the EU and U.S. Since these regions both have high import penetration, and some of the most modernized steel and aluminum industries, it is important we set a level playing field against non-market and dirty commodities. The USW continues to engage in this process with the relevant agencies and encourages Congress to engage thoughtfully in the negotiation process as well. There is real opportunity in these sectors to ensure economic security while accounting for the investments our respective markets have made at reducing greenhouse gas emissions and maintaining free and fair open markets. The arrangement is also an experiment at addressing trade in specific commodities that receive significant state support.

General Systems Preference/Miscellaneous Tariff Bill (GSP/MTB) – While efforts were made to renew these preference programs last Congress and the House bill in the 117th Congress contained a number of important updates on labor rights, the USW has done further analysis of the GSP preference program and sees the need for additional reforms to ensure American jobs are not undermined in key sectors. We must also ensure that the rules of origin standards do not let PRC content through GSP countries duty free.

The current rule of origin (ROO) provisions in the GSP preference program is set at 35 percent – meaning 65 percent of an article could come from non-GSP beneficiary countries, like China.[5] If we are trying to foster economic development in lower income countries through lower tariffs, then we should encourage higher GSP ROO standards that are 60 percent or greater.

Commodities that have faced trade impacts should also be added to the import sensitive list in GSP. As the largest union in tire manufacturing, the USW has taken the threat of dumped and subsidized tire imports seriously. The union has supported or led on five anti-dumping and countervailing (AD/CVD) duty cases and two recent

[5] https://ustr.gov/sites/default/files/GSP%20Guidebook%20Nov%202012.pdf

sunset reviews. The success of these petitions shows that dumped and subsidized imports of tire products have caused material injury to the domestic industry.

The impact of increased imports on the domestic tire industry has been well documented through International Trade Commission and Commerce Department investigations against specific countries. USW urges Congress in a GSP renewal to add tires to articles that may not be designated as eligible articles in section 19 U.S. Code § 2463(b)(1).

Regarding a possible MTB renewal, which generally allows for tariff exemptions of product components if they are not available in the United States, the union believes final manufactured products should not qualify for duty free status under this program. Historically, the MTB has been drafted only to allow components into the U.S. tariff-free if they were unavailable domestically but necessary for the production of final products manufactured here. The USW encourages Congress to maintain the historical standard.

Critical Minerals Agreements – Critical minerals will be vital in the changing economy and building supply chains which are not beholden to the PRC's influence requires active global engagement by the U.S. For example, it is estimated that the demand for nickel in EV vehicle batteries and stainless steel will increase 44 percent to 6.2 million tons by 2030.[6] Current U.S. and Canadian mining production alone is less than 200,000 tons per year and our reserves are not nearly as substantial as some of our other trading partners.[7] We will need trade allies in this new commodity race, but we must consider this effort a marathon not a sprint. While China has poured over $14 billion into developing nickel reserves in Indonesia, they have done so with little concern for the health and safety of the workers at those mines. The Indonesian Morowali Industrial Park has seen a horrifying rate of accidents and deaths every year.[8] When combined with the carbon intensive nature of the coal-reliant processing, deforestation, and pollution of waterways, there must be a dramatic re-centering of values that we expect from our trading partners.[9] Mining and processing development will need to address occupational health and safety and occupational disease rates along with labor and environmental standards to ensure we are not exploiting workers and communities like our trade competitors.

The USW strongly believes that critical mineral mining and processing should occur domestically and with high labor and environmental standards. The Critical Minerals Agreement negotiated with Japan has a limited number of critical minerals included

[6] https://www.reuters.com/markets/commodities/vale-sees-44-increase-global-nickel-demand-by-2030-2022-09-07/
[7] https://pubs.usgs.gov/periodicals/mcs2022/mcs2022-nickel.pdf
[8] https://www.industriall-union.org/urgent-need-to-stop-mine-accidents-at-indonesia-morowali-industrial-park
[9] https://www.brookings.edu/blog/up-front/2022/09/21/indonesias-electric-vehicle-batteries-dream-has-a-dirty-nickel-problem/

and a review mechanism. Congress and the Administration should cooperate to ensure implementation maximizes domestic job creation.

Domestic Trade Tools to Account for China's Outward Expansion and Market Concentration

The Ways and Means Committee will also need to strengthen the tools we use to defend against unfair trade practices and the committee should also consider the six proposals below to better account for the PRC's ability to negatively impact U.S. producers and workers. A number of legislative proposals already exist which could aid in defending American workers and employers. For example USW strongly supported Representative Terri Sewell and Bill Johnson in the last Congress introduced the "**Leveling the Playing Field Act 2.0**". The legislation would:

- Make it easier for U.S. workers/companies to stop repeat offenders and speeds the process so manufacturers, agriculture workers, and miners can focus on producing American made goods.
- Target "Belt and Road Initiative" Subsidies – right now China is spending billions out of the country to build factories that will dump into the U.S. and other markets.
- Improve enforcement – Importers constantly pull tricks to try and lower or evade duties. The Leveling the Playing Field Act 2.0 will clarify processes and timelines making government more efficient in stopping dumped and illegally subsidized goods.

De Minimis – Using another tool that would realign our de minimis threshold reducing direct trade from China should also be a priority. Currently, individual shipments into the U.S. are exempt from duties and tariffs so long as they are valued below the "de minimis" threshold of $800 USD. This threshold is far too high and has allowed a new model of direct-to-consumer imports, particularly from China which can allow circumvention of the Uyghur Forced Labor Prevention Act.

Reauthorize and improve on Trade Adjustment Assistance – Allowing U.S. workers to retool after a trade impact has been a priority of this government since the Kennedy Administration and will ensure U.S. workers reskill to compete against the PRC. Just this past month more than a thousand workers in Pactiv Evergreen in North Carolina worked with the state to file a TAA petition in the hopes that Congress will act. The petition highlights that imports from China and other countries have impacted their mill. The appropriations committee has even set aside over $490 million for the program for FY 2023. Nearly half a billion dollars in worker training dollars is sitting dormant, and workers' futures like those in Waynesville, North Carolina are just a little less secure because of an idle Congress.

National Critical Capabilities Defense Act – Another step to counter China's investment agenda is to ensure U.S. firms are not fostering and economically hindering future U.S. capabilities by passing legislation like the National Critical Capabilities Defense Act (NCCDA). The legislation would review a tailored set of outbound investments in specific sectors. This screening process for outbound investments and the offshoring of critical capacities and supply chains would ensure that the United States can quickly detect and address supply chain vulnerabilities and prevent the offshoring of critical production capacity and intellectual property to our foreign adversaries like the PRC and the Russian Federation.[10]

Foster domestic firms which are facing market concentration in the PRC. – Chinese shipyards now account for 45 percent of the global orderbook of shipyards.[11] These same shipyards are also producing military ships for the PRC's navy, including the type 003 aircraft carrier which is expected to be the largest and most advanced aircraft carrier ever built outside the U.S.[12] Meanwhile we disarmed our commercial subsidies, meaning our ability to build a merchant fleet if there was ever a larger conflict could lead to an inability to deploy resources.

Yet shipbuilding is not the only item where the PRC has an outsized role that can negatively impact U.S. firms. Recently, in large part because of Chinese firms swamping the global cobalt marketplace, an Idaho cobalt mining project was halted.[13] China currently processes about 80 percent of the world's cobalt and as such is effectively able to set the price at the expense of all other producers.[14] This sort of market concentration in a host of commodities including aluminum, steel, rare earths, fiber optics and a host of goods allows the country to quickly negatively impact producers, with small and medium sized businesses suffering the most.[15]

The CHIPS Act and the IRA are significant steps in retooling our economy to address market concentration in select sectors. We should make every effort to replicate the successes that come from these legislative tools in other sectors that face high market concentration by the PRC.

Ensure Air, Water, Labor Standards are Countervailable in Anti-Dumping and Countervailing Duty Investigations – The USW testified in December of last year on how land and water pollution from industrial sectors should be considered an

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[10] https://delauro.house.gov/media-center/press-releases/delauro-pascrell-fitzpatrick-spartz-introduce-national-critical

[11] https://maritime-executive.com/article/bimco-chinese-shipyards-achieve-market-share-record-in-2022

[12] https://www.csis.org/analysis/chinas-opaque-shipyards-should-raise-red-flags-foreign-companies

[13] https://missoulian.com/news/local/construction-stops-on-idaho-cobalt-mine-about-to-ship-ore/article_a902c284-ce6d-11ed-afd9-2f05ae9d45fa.html

[14] https://www.nationaldefensemagazine.org/articles/2022/8/3/united-states-seeking-alternatives-to-chinese-cobalt

[15] https://www.banking.senate.gov/imo/media/doc/Houseman%20Testimony%2012-16-20.pdf

illegal subsidy.[16] A steel beam made with no regard to the pollution it creates or without regard to workers' rights and safety should not be considered a "like product" in today's globalized world.

Conclusion

Among the largest differences between the U.S. and the PRC trade and investment agendas are the values we put behind our country's trade expansion efforts. Ensuring our trade initiatives do not exploit workers globally and that U.S. workers benefit from our country's trade initiatives must be at the forefront of policymakers' decisions. President Regan recognized this in 1981 when workers in Poland rose up and fought for their rights to have an independent trade union.[17] Congress should begin to defend American workers through a pro-active trade agenda that is built on fostering exports and deflecting China's market concentration in commodities from washing up on our shores.

Thank you for your time and I look forward to any questions you may have.

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[16] https://waysandmeans.house.gov/event/hearing-on-promoting-sustainable-environmental-practices-through-trade-policy/

[17] https://www.presidency.ucsb.edu/documents/radio-address-the-nation-solidarity-and-united-states-relations-with-poland

Chairman SMITH of Nebraska. Thank you. Thanks again to all of our panelists. Now we will move into the question-and-answer session, and I will begin with that. And again, I can't thank you enough for sharing your expertise.

Mr. McHargue, obviously you represent a great state, a vibrant agriculture sector. Incidentally, you live in the largest ag district in America, and I am grateful for your engagement.

You spoke about the need to diversify our exports, and identifying markets, and market access, and so that we don't become too reliant on any single trading partner. And I certainly agree. And we must increase market access in the Indo-Pacific Region, specifically. I do worry that the Administration just sees things much differently than that, unfortunately.

But could you highlight some examples of markets in the Indo-Pacific Region that would be great opportunities for growth in ag exports?

And do you believe that the Indo-Pacific Economic Framework, IPEF, will do enough to level the playing field for producers themselves?

Mr. MCHARGUE. Well, I think when we look at the Indo-Pacific Region, I think there is tremendous opportunity, quite frankly. And when we have these conversations about just agreeing to talk about trade, I think that just really falls short versus actually looking at true trade agreements.

You know, when we—when I visit with my farming neighbors, and we are at the coffee shop or we are having conversations about trade, many of them don't really understand the dynamics of trade and how it all works. They just know that when they hear on the radio that, for instance, China is in the market and they are purchasing grain, they know that the market goes up.

They also know that if there is a down day, a lot of times you will listen to the commentaries and there will be something related to one of our large trading partners deciding not to purchase product.

So when you think about the Indo-Pacific, you think about the population base, you think about the potential growth there. We need countries like that as well to, when they talk about doing a purchase of ag products, they move the market as well.

So when you think about the concept of possibly decoupling from China, within the agriculture sector the only way that that really works for me—when you think about our trade with China is $55,000 per farmer or rancher—what are we going to replace that with?

And I think we need to do it with regions like the Indo-Pacific, but you think about also Africa, Kenya. We need these countries that are actually purchasing raw commodity products.

So on our farm we sell commodities. We don't actually sell a processed food. So when we sell $1 million of raw commodities, that has a huge impact that is directly related to my farm. When we say $1 million of processed food, 10 percent of that may be going to the ag sector. So it is really important whoever we trade with, that—in the agriculture sector—that we talk about raw commodities. That is very different than some of these other trading types of products.

Chairman SMITH of Nebraska. Okay, thank you.

My next question, Mr. Greer, I appreciate you sharing your perspective, a unique and helpful perspective.

The Trump Administration rightly highlighted China's IP theft and forced technology transfer policies. China is also aggressively seeking to dominate global medical supply chains, as we know. In the face of this, it is deeply concerning that the Biden Administration has completely undermined, in my opinion, the American innovation through the TRIPS waiver.

It seems the Administration is content to see the medical supply chains shift abroad because of this. And so, given your perspective, how would you say the TRIPS waiver impacts our credibility when it comes to protecting our innovative edge?

And could you speak to China's ambitions in the greater medical sector?

Mr. GREER. Certainly, Mr. Smith. I will start with your last part.

China's ambitions, whether it is medical devices, or pharmaceuticals, or biologics, or other life sciences, this is an area where they want to take over the global economy. They want to corner the market on this, not just in the manufacture, but also in the innovation of these products. And intellectual property is key to this.

When I hear about a waiver of intellectual property protections, to me that sounds like the reverse of enforcement. Obviously, we are very sympathetic to the COVID–19 pandemic. And for that reason, the TRIPS agreement actually has an article built into it to allow for compulsory licensing in the event of such a pandemic, and something that should and could be used in these kinds of situations.

So I think that we want to be worried about enforcing rules using existing flexibilities, rather than trying to get rid of enforcement or weaken rules that in the end could actually benefit China.

Chairman SMITH of Nebraska. Thank you.

Mr. Duesterberg, you have extensively researched China's ambitions on the continent of Africa and its efforts to dominate global critical mineral production. Can you discuss how trade tools, including trade preference programs like AGOA and GSP, can support our efforts to counter China's influence in the region and across key supply chains?

Mr. DUESTERBERG. Thank you for that question, Mr. Chairman.

I think the AGOA bill could be potentially used somewhat for, you know, lowering tariffs on imported products. But really, the fundamental problem with China and Africa is that they have rather skillfully come to control basic mineral production, from mining through processing, through creation of final products.

Chairman SMITH of Nebraska. What would be your recommendation moving forward, then, on that?

Mr. DUESTERBERG. Well, my recommendation moving forward would be to use USAID, in conjunction with partners in like-minded countries to encourage and help finance U.S. and allied investments in basic production in Africa.

Now, the G7 last year adopted something. It is called the, I think, the Build Back Better World Program, which was designed to coordinate efforts of the G7 in areas like this. To my knowledge, there hasn't been much follow-through. The Japanese have the chairmanship of the G7 this year, and I think they are meeting next month. That might be a opportunity to reinforce the need for this.

But the fundamental need is really for our companies to get some assistance to be on the playing field, so to speak, in producing the raw minerals themselves.

Chairman SMITH of Nebraska. Okay, and thank you.

I now recognize Ranking Member Mr. Blumenauer for your questions.

Mr. BLUMENAUER. Thank you very much, Mr. Chairman, and I appreciate the testimony.

Mr. McHargue, your notion that we are looking at a complex set of inter-relationships, I think, is well taken. And the distinction between commodities and processed food, in terms of the value added for Americans, I think, is very important.

Mr. Greer, at some point I would look forward to being able to entertain your ideas for more aggressive enforcement. You indicated you had a number of them. I assume your extensive work with our friend, Mr. Lighthizer, gives you a sense of going forward on that. And it just, I must say, just continues to drive me crazy.

I was one of those people that took the Chinese representations at face value, voted to get them into the WTO. Watching now, 20 years later, they are doing this dual track, playing the developing country when it suits their purposes. It is maddening. And I am hopeful that our committee can focus on things that will make a difference to be able to hold them accountable and avoid this dual standard.

One of the things that I am interested in are some specific things we can do to undercut Chinese exploiting opportunities to take advantage of us. I have referenced and have put forward legislation on the de minimis loophole, where they are now importing directly over two million packages a day that escape any meaningful detection. No sense of defective products.

I am wondering, Mr. Houseman. Do you want to just elaborate for a moment from your perspective about the extent to which it would be important to close the de minimis loophole for the Chinese?

Mr. HOUSEMAN. Yes, Ranking Member Blumenauer. You know, this idea of an $800 de minimis, it allows for a significant amount of direct consumer shipments of goods from, you know, everything—you know, the most common that everyone knows is Shein, this clothing company, right? And this idea that, you know, China, for example, has a $10 de minimis—we aren't even able to compete on the same level from here in America on a de minimis level between the two countries.

And then you add into the fact that, you know, a lot of the clothing items that Shein is producing has the potential of cotton from the Xinjiang region, where forced labor practices and, as has been highlighted by the State Department, is the potential for genocide. I think that we need to really re-address the—this issue of an $800 de minimis with China, particularly.

Mr. BLUMENAUER. To say nothing about exploding bicycle batteries. There are some creative invoicing by these Chinese sources that will get the sum of money below $800.

Mr. HOUSEMAN. Yes.

Mr. BLUMENAUER. And this is an area, Mr. Chairman, I hope we can pursue.

But Mr. Houseman, taking advantage of the fact that you are representing employees who workers who are in the steel and aluminum industry. I wondered if you could just talk for a moment about the global arrangement for steel and aluminum, and a path forward to be able to deal more meaningfully with this wildly disparate over-production capacity that the Chinese have generated, and remedies that you would support.

Mr. HOUSEMAN. Yes, thank you, Chairman. And this is—you know, look. Global steel-making capacity has increased for the fourth year in a row, while utilization has shrunk globally, okay, which means that our plant—our plants aren't operating as efficiently as they can. And in large part, this is because of China's fueling of the global steel industry.

As I mentioned in my testimony, 100 million tons of new capacity is coming online in the Southeast Asian region, and it is primarily of a technology that is going to increase the carbon intensity by three times than its current levels in that region for steel-making.

Now, when you add in this idea between the EU and the U.S., who are the two largest import share markets coming in—you know, for steel commodities coming into the market, the U.S. has dealt with, like, a 20 to 30 percent import penetration for quite a while, over a decade. This idea that we could actually set up a club to allow us to push back on non-market and carbon-intensive steel-making products will allow our workers, who have—and our companies, which have modernized, are playing by the rules, and recognizing that we need to reduce carbon emissions, but also push out state-powered and fueled steel production.

Mr. BLUMENAUER. Thank you very much.

Thank you very much, Mr. Chairman. I appreciate this.

Chairman SMITH of Nebraska. Thank you.

Mr. Buchanan, you are recognized for five minutes.

Mr. BUCHANAN. Thank you, Mr. Chairman, and I want to thank all our witnesses.

And Mr. Greer, I got to tell you I really miss Ambassador Lighthizer. We are active, we are engaged on this committee, and there hasn't been much active or very engaged. If there is, nobody knows about it, from my standpoint.

Of course, we passed USMCA, so we know we are capable. I thought we would be lucky to get the 218 votes, and I think we got 380, a very bipartisan measure. But we had a lot of momentum. I know I did a trip with Chairman Paul Ryan at the time of this committee to Asia with other members, and there was—most of the countries that we met there wanted us to be active and engaged, to be a counterpunch to China. But obviously, we haven't done much in terms of that, either.

I guess—what is your thoughts as you sit back and you take a look at where we were, where we are today?

What is the difference in the Administration, just from your expertise, from where you were sitting?

I know leadership matters and that is big, but beside that.

Mr. GREER. Sure. Well, I will say we are in a position where I think the Administration has embraced certain aspects of the Trump Administration's trade policy. The Section 301 tariffs are in place. There seems to be a rhetorical, at least, agreement on the challenge with China. There has been, you know, good movement, I think, on export controls and other things.

Now, at the same time, we know that in order for—in order to have a pragmatic and robust trade policy, we have to balance a variety of stakeholders, right? We have our agricultural folks that we have heard are very dependent on export markets, not just China, all kinds of them. And then we have folks like the steelworkers who have been really severely harmed by trade agreements in the past. And so we have to balance these——

Mr. BUCHANAN. Mr. Greer, let me—I got one other question I wanted to ask you real quick.

According to the FBI estimates, China steals between 300 and 600 billion in intellectual properties, IP, from the U.S. every year. That is a staggering sum of money, and China steals it from us each and every year. Just last month New York Times published a very lengthy article which reported how skillfully and savvy the Communist Chinese Party is—has become in its effort to steal our IP.

I was there 20 years ago in Beijing with a business group, and it was one of the biggest issues 20 years ago, and we haven't made a hell of a lot of progress, it seems to me, in the last 20 years. What can we do to minimize that? Because that creates our—it takes a lot of money away from our companies, and we lose a lot of jobs as a result of it. And it is a very, very continuous big issue. What is your thoughts?

Mr. GREER. There are a couple of things we can do. First, we have a Phase One agreement in place where the Chinese have not only agreed not to do these things, which they have agreed many times before, but they have said we can enforce with that, and that doesn't necessarily have to be tariffs. Section 301 also allows fees on services, other restrictions on services. There are a variety of things you can do.

The second thing is I think U.S. companies sometimes are hesitant to share this kind of information. There needs to be some kind of either requirement or ability for confidential reporting, where they—they have to come forward to the U.S. Government, but on a confidential basis so we can get a better sense of the problem and how to deal with it directly.

Mr. BUCHANAN. Mr. Goodman, let me ask you. Like a lot of us, a competitor—I hate to see—I am all for free trade, but I want it to be fair. And to me, we get played by the Chinese in a very big way. I think we export—the number I have got is 200 billion. They import 563 billion, a $400 billion deficit difference. What is it—what more—what—how do we get this—level the playing field a little bit more, in your opinion? Because I think it is disastrous and outrageous.

You know, at the end of the day it needs to be somewhat in the ballpark, and this is clearly, for a lot of years, 20 years, hasn't been in the ballpark. If they are not buying one thing, they need to be working with our farmers and ranchers and everybody else. So there should be some sense of fairness, and I don't see that, and I haven't seen it for 20 years. What is your idea?

Mr. GOODMAN. Yes, thank you, Mr. Congressman. We certainly have a lot of work to do to make the Chinese market more open, more rules-based. And I think we should—need to continue to do that work to push them towards the direction that they were in 20 years ago when we bought this—bet on bringing them into the WTO of reform and opening. And we need to hold them to that approach.

I also think, you know, embedded in your question is our large dependence and other partners of China, trading partners—a huge dependence on China for just a wide range of—pretty much everything we are looking at has a China nexus. And I think part of what we are all talking about and looking at now is a way to reduce that excessive dependence while continuing to have, you know, fair and balanced trade with China.

Mr. BUCHANAN. Thank you, and I yield back.

Chairman SMITH of Nebraska. Thank you.

And pursuant to committee practice, we will proceed with two-to-one questioning, so we will begin that with Mr. LaHood and proceed to the other side after that.

Mr. LAHOOD. Thank you, Mr. Chairman.

I want to thank all of our witnesses today for your valuable testimony here today.

A robust trade policy is incredibly important to me and my constituents. As I think about my district, it is heavy agriculture and manufacturing, whose jobs and economic success rely on opportunities to send our great American products all over the world. However, when countries don't play by the same rules and standards as everyone else, this causes problems.

Non-market countries like China, who engage in malign and predatory trade and economic practices, must be held accountable. China plays the long game through coercive trade and economic agreements, pressuring countries around the world to cede to their terms for investment.

I also serve on the Intelligence Committee and the new Select Committee on China. And I learn every day about the growing threats from China. And I believe the Biden Administration is missing key opportunities to push back against and hold China accountable for their trade practices. The United States should be investing in substantive trade policy with partners and allies in the Indo-Pacific Region to strengthen global trade policy and make it harder for China to manipulate the system.

Mr. Duesterberg, I think we can all agree that China has outsized economic ambitions, but they manipulate the global economic system and multilateral institutions to get their way. It has been over 20 years since we allowed China into the WTO. In retrospect, was that a mistake? Why or why not?

Mr. DUESTERBERG. Well, I was one of the few on my side of the aisle to argue against letting them in in the first place. So I think it was a mistake.

So what do we do now? I can agree with Mr. Jamieson about possibly considering going to an annual renewal of MFN status, but I think it also is incumbent on us to think about alternative structures that exclude China.

China is a mercantilist nation. We have lots of friends. I wish we had more friends, more staunch friends for instance in Europe, who agree with us on things. But I do think that we should try to erect other trade agreements, and I have argued for regional agreements. We could expand NAFTA. I do still think that we should join the CPTPP. Mr. Jamieson mentioned sectoral agreements.

We need to have alternative structures that exclude China, because China is not a faithful enforcer of its own agreements.

Mr. LAHOOD. Thank you.

Mr. Goodman, I and many of my colleagues have expressed our concerns about IPEF—and you mentioned that—as an insufficient tool to counter China's influence in the Indo-Pacific Region, particularly because it has no enforcement mechanisms, in my view, non-market access.

How would you assess the regional—from a regional perspective, IPEF as a counter or an alternative to CPTPP?

Mr. GOODMAN. Thank you, Mr. Congressman. And I agree with you.

I think one of the problems with IPEF is that it does not have—it is not a formal trade agreement that is going to have an enforcement mechanism. And I have seen many of these executive agreements over the years that can do useful things, but they tend to get put in a drawer and then not followed up on. And so there is no substitute for having an agreement that is approved by Congress and then has built in enforcement mechanisms. So I think that is one of the reasons that we ought to be looking at things like CPTPP or some other arrangement that is more like a traditional formal trade agreement.

Can I just—in the answer on the other question I should have added IP and subsidies, huge issues in China, and we ought to be taking those on, including working with allies, as Representative—Ambassador Lighthizer was doing with this trilateral with Japan and Europe. That kind of effort is really important in getting China to address some of these practices that we are all troubled by.

Mr. LAHOOD. Thank you.

Mr. Greer, the question that I asked Mr. Duesterberg about whether it was a mistake 20 years ago to allow China into the WTO, do you have an answer on that, yes or no, and any other comments?

Mr. GREER. The answer is yes. And I think we have seen—we have data now, right? We have data. We can—at the time, like Mr. Duesterberg said, a lot of people said it was not a great idea, but went forward anyway. But now we have 20, 23 years of data, and we can see the jobs that were lost. We can see the factories that were lost.

And this isn't just fluff, right? There are economic studies from a variety of esteemed economists who have made this connection very clearly. So there is no question that it was a mistake, and it would be a mistake going forward to continue to think that we can somehow get them to change, absent some kind of strong enforcement.

Mr. LAHOOD. Thank you.

I yield back.

Chairman SMITH of Nebraska. Thank you.

Mr. Higgins from New York.

Mr. HIGGINS. Thank you, Mr. Chairman.

You know, I think most agree that what oil was to the 20th century electrification will be to the 21st century in terms of global dominance relative to the world economy.

China is 20 percent of the world's population. It is a $17 trillion economy. It is 19 percent of the world's economy. The United States is five percent of the world's population. It is a $25 trillion economy, which is 24 percent of the world's economy.

In this new era of global economic superiority, you are either the country that controls the supply chain or you are the country that is controlled by the country that controls the supply chain.

And the title of this hearing is "Countering China's Trade and Investment Agenda: Opportunities for American Leadership." You know, China cheats on their currency. They steal our intellectual property. They treat their people poorly, and they treat their environment poorly. We do have to be tougher on China, but the United States has to be tougher on ourselves about China.

What do I mean by that? China was investing $1 trillion in infrastructure in Africa 15 years ago not to help the people of Africa, but to exploit Africa, to position itself to become a superior economic force.

China mines or refines 68 percent of the world's nickel. China mines or refined 73 percent of the world's cobalt. China mines or refines 40 percent of the world's copper, and China mines and refines 59 percent of the lithium, which is also called white gold in the 21st century because of the emphasis on electrification. There are 200 mega-battery manufacturing plants that are either online or will be completed by 2030 for electric vehicles: 11 are in North America; 21 are in Europe; and 148 are in China. China has 80 percent of the global lithium-ion manufacturing capacity.

Not only are we being outpaced, we are getting clobbered. And unless and until Democrats and Republicans within the American Government make a decision to gain access to these raw materials, we can never catch up. And we will always, in the 21st century, be controlled by the country that controls the world supply chains.

So, Mr. Duesterberg, you had made reference to this relative to rare earth materials and minerals. Your thoughts on this?

Mr. DUESTERBERG. Well, it is not as if we don't have natural resources in the United States and in our countries that are very friendly to us, Canada and Australia especially.

The mistake we have made—I mean, China has been very aggressive about capturing these various resources.

Mr. HIGGINS. Yes.

Mr. DUESTERBERG. They put a huge amount of capital investment into this, not only in Africa but in Latin America, and they are actually buying lithium mines in Canada these days. We have been somewhat asleep at the switch, and allowed the subsidized Chinese industry to take over these industries.

We can and should start to exploit the resources that we and our allies in friendly countries have. We have started this in rare earths. We have a new mine, the old Mountain Pass Mine is up and running. We are working with Australia.

Mr. HIGGINS. Yes.

Mr. DUESTERBERG. We could do this on uranium, if we are ever going to reinvigorate the nuclear——

Mr. HIGGINS. Yes, my time is almost up. I am sorry to interrupt but let me just say this to you. There are 17 mines in Africa that mined rare earth minerals and metals. Fifteen of the seventeen in South Africa, Congo, Mozambique are either owned or controlled by China, seventeen of fifteen.

Now, there are mines throughout the world. I understand that. But at least we have to acknowledge that we are considerably behind. You can't just flip a switch and be ready to compete with what another country has done with its resources, regardless of how they have accumulated those resources 15 years ago. Because what Africa is rich with is precious metals and minerals. And they are way ahead of us. And I am just simply underscoring the need for America to be more aggressive in their competition.

Thank you, sir.

Chairman SMITH of Nebraska. Thank you.

Mr. Arrington from Texas.

Mr. ARRINGTON. Thank you, Mr. Chairman, witnesses. I want to follow on some of the comments and thought process from Mr. Higgins, my friend, with respect to China, and this very interesting—I have a hard time describing, quite frankly, the relationship we have with them. I come from one of the world's largest agricultural production centers, oil and gas—energy in general. I know how big and seductive their market is, but I have just got a few questions to sort this out in my head. I just seem to always be perplexed by this conundrum.

Mr. Goodman, is China one of the worst human rights violators in the world community?

Mr. GOODMAN. China's human rights are atrocious.

Mr. ARRINGTON. Atrocious. Do—does China steal our intellectual property, as has been reported, force some of these transfer agreements, et cetera? Do they steal our intellectual property?

Mr. GOODMAN. Yes, that has been a central part of their development strategy.

Mr. ARRINGTON. Do they spy on Americans?

Mr. GOODMAN. Yes.

Mr. ARRINGTON. Do they align with other malign actors, other countries that don't share our values and would probably be considered adversaries of the United States and our allies around the world?

Mr. GOODMAN. Yes.

Mr. ARRINGTON. Do you think China is our greatest adversarial threat?

Mr. GOODMAN. I think there is no question it is our biggest competitor and challenger, and in some cases an adversary that we could become enmeshed in serious problems with. And so it is our—yes, it is the—a generational challenge.

Mr. ARRINGTON. Are they a partner?

Mr. GOODMAN. Not right now, but we do depend on them. The reality is we depend on their market.

We depend on their inputs for—as I mentioned, everything we are looking at has some China nexus, and we do need to talk to them in part to avoid any miscalculation, misunderstanding, but also to talk about issues that affect everybody: pandemics, environmental challenges, terrorism, proliferation. There are many issues that we need to talk to them about.

Mr. ARRINGTON. It seems to be quite a precarious situation to answer the first set of questions in the way I would have answered them as well, and I suspect most of the panel would have answered. And then, when asked about their partnership, the response was, well, we need them.

I would say maybe the greatest challenge for—one of the greatest challenges for our country, not just this committee, is to need China less until China changes its behavior, if that is possible. We thought it would be possible when we welcomed them to the World Trade Organization table.

Mr. Greer, I was very impressed with Mr. Lighthizer and you and your team. I believe my Democrat colleagues are every bit as interested in continuing the good work we did with USMCA and having this free trade framework that we can then take throughout the world. We need to enforce it, and we need to replicate it, especially in the Indo-Pacific area, as has been discussed.

But it seems like the missing piece is having a president that is very assertive and has made this issue of trade a priority. When it comes to negotiating with China, I think we were all pretty stunned that we were able to get to these purchase agreements and these structural reforms like Phase One. What is the psychology of negotiating with China?

Just for the benefit of this committee, if the President were listening, how do we approach China to best undo some of the things we need to undo in terms of supply chain dependence, and then forge forward with enforcing some of the agreements we have, and then beyond?

And then I yield back after your response.

Mr. GREER. We have a saying in the United States where good fences make good neighbors. And I don't know if we will ever be good neighbors with China, but we found that they really respected strong action and not as much hot rhetoric, right? I mean, I think sometimes we get those reversed. I think sometimes we pound our fist and decry things that deserve to be decried, but then we don't take action.

I think, actually, the reverse works a lot better with the Chinese is to be polite, be respectful, talk to them, consult with them, and take really strong action. They did not think that we were going to impose tariffs on them. And then we did. And then they didn't think we were going to do it again. And then we did. And then they came to the table.

Chairman SMITH of Nebraska. Thank you.

Mr. Estes.

Mr. ESTES. Well, thank you, Mr. Chairman, for hosting this hearing. And thank you to our witnesses for joining us today.

You know, when it comes to China there is a lot of bipartisan support for holding the Chinese Communist Party accountable and tackling their sinister advancement into other nations around the globe. So as this committee discusses ways in which we can compete with the CCP, being competitive in our own tax code is one way to ensure the United States is positioned as a global leader and pushes back on our adversaries. This is especially true when it comes to research and development.

According to the R&D coalition, the U.S. share of global R&D investments in 2019 was 30 percent, down from 33 percent in 2009 and 40 percent in 1999. Unlike the United States, China's global share of R&D investment has gone up. It was 24 percent in 2019, a big jump from 5 percent in 2000, and 15 percent in 2009. That means Chinese—China's R&D investments have increased by 400 percent in just 2 decades.

And what did this—and what did they do to incentivize R&D? China has implemented a deduction of up to 200 percent on eligible R&D investments. And without actions to undo the U.S. research and development amortization tax provision that kicked in last year, China will go from having two-and-a-half times more favorable tax benefits for research and development to as high as 20 times more favorable than the United States.

Research and development is critical for our competitive—yet without the right incentives, the United States is ceding research and development and, in turn, jobs to the Chinese Communist Party. But today, on Tax Day, my colleagues and I are introducing much-needed legislation to fix the R&D tax code that, when passed, will provide greater economic opportunities and reduce our dependence on foreign adversaries.

The American Innovation and R&D Competitiveness Act allows for immediate expensing of eligible R&D costs, bringing us back to where we were just two years ago, and securing our dominance in research and development. The legislation is a bipartisan solution that I have introduced with my Ways and Means colleague, Congressman John Larson of Connecticut, as well as several Republicans and Democrat colleagues on the Trade Subcommittee today.

Mr. Duesterberg, do you agree that having China continue advanced research and development while the United States slows R&D harms our economy and American workers?

And is there a correlation between where R&D occurs and where jobs and manufacturing follows?

Mr. DUESTERBERG. Well, Congressman, I do agree with the sentiment, and I agree with the need for your bill. I agree that R&D does produce results in terms of manufacturing and jobs, especially.

But I would just caution people to not over-estimate the efficiency of Chinese research and development and their scientific research. I think we are much better at that than they are.

I would also note that it would be useful, I think, to continue the trend towards more support for basic research and development. Most Chinese research is in the area of development. We are still world leaders, and the benefits that we received in the—for instance, in the 1950s and the 1960s, when we were by and—far and away the world leader in basic research, you know, paid rich dividends in terms of manufacturing things like semiconductors, aerospace technology for many years to come. So I would also emphasize, in addition to the R&D tax credit, the need to continue robust support for basic research in the United States.

Mr. ESTES. And yes, there is always that trade-off between basic research and applied research and application.

So, you know, in addition to talking about research and development, we know China has been stealing American innovation and technology. And now the Biden Administration is working to give away our vaccine innovation through the WTO TRIPS waivers.

Mr. Greer, you mentioned earlier, talking about our intellectual property—what are some more concerns, or do you have anything else to add to—and particularly your assessment of the Biden Administration's stance on waivers and support for U.S. intellectual property?

Mr. GREER. Certainly, Congressman. With respect to intellectual property, generally, you will recall that intellectual property was actually at the heart of the Section 301 investigation that gave rise to the current tariff regime on China. So that was something where everyone agreed that this was a problem, and we should deal with it.

With respect to now, with the proposed waiver, which I mentioned before, we have existing tools to deal with, you know, pandemic-style needs. And moreover, you know, I think rich countries—the quickest—if we have an issue with vaccination, the quickest way is for rich countries to donate and get the vaccine to the countries, right? Thinking that we can parachute IP for free into a less developed country, and a vaccine facility is going to spring up there, I mean, that just doesn't make a lot of economic sense. So I think we need to think of other tools to help these countries.

Mr. ESTES. Thank you.

And I yield back, Mr. Chairman.

Chairman SMITH of Nebraska. Thank you. Next I will recognize Mr. Panetta for five minutes.

Mr. PANETTA. Thank you, Mr. Chairman, Ranking Member.

Mr. Goodman, let me talk to you real quick. Your organization has provided a number of examples how China seeks to use economic coercion to control its trading partners. That can impact small countries and our allies, as well. It has boycotted Korean automakers over missile defense agreements with the United States; blockaded Norwegian goods over Nobel Peace Prize awardees; and cut off infrastructure investments in Mongolia, based on a visit by the Dalai Lama.

In some cases, especially for smaller countries, a coercion works. However, you also note that these moves can backfire, causing more distrust of China.

A couple of questions here.

In what ways can economic coercion have unintended consequences for China?

What can we do to capitalize off of these blunders?

And what are some of the ways in which we can increase the resilience of those countries that are so vulnerable to China's economic coercion?

Mr. GOODMAN. Thank you, Mr. Congressman. And yes, we looked at all this in this report that we put out a few weeks ago, and concluded that a lot of times China is trying to do something in the short term tactically to get somebody to take a sign off a door, or not have a particular person visit their capital, and they don't even succeed at that level often.

But certainly, this longer-term strategic effect that you are referencing tends to drive partners away. And I would say, you know, the Korean Government has leaned into us. You could draw a straight line from the coercion of Australia, the blocking of their coal, their wine, their lobster to the AUKUS agreement, the Australia-UK-US agreement. I think that was the result of this. It was largely, at least, pushed hard by this coercion.

So I think it is—there is no question that China is its own worst enemy when it comes to this coercion, and we should find a way to take advantage of that. And the answer that we came up with was, to your other point, building resilience, helping our partners be less vulnerable, and less subject to that kind of coercion from China, and to show them that we are a more trusted partner, both economically and strategically.

Mr. PANETTA. Great, thank you.

Mr. Greer, you suggested that Congress consider ending PNTR with China, given their history of unfair trade practices and non-market behaviors.

Obviously, we have got a lot of issues with China, but I am concerned kind of that we have seen how this can play out. And what I mean is I know their support for the Phase One agreement with China. But I would note that, despite some agricultural reforms, China has not taken meaningful action on agricultural biotechnology and required risk assessments for beef and pork.

Now, you note that revoking PNTR will give us time to review China's status and put the onus on China to decide if it will change its ways or not. But given the history of our 301 tariffs, don't you think that this strategy will be successful? Do you think it will be successful?

And why do we still have 301 tariffs, and why haven't those tariffs changed China's behavior enough to be rescinded?

Mr. GREER. Yes, Mr. Congressman, I think everything we have heard today has really sharpened that we have a very unhealthy dependence on China.

When you look at the section 301 tariffs, our imports from China with respect to those items on which the tariffs are subject have decreased substantially. So we are now less dependent on China for those items. That is the kind of direction that we want to go in.

You are exactly right, that we want to worry about retaliation and things like that. It is not an easy answer, and I don't want to suggest that it is. But I think we need to make sure our exporters and agricultural folks are taken care of, and that we are able to maintain that balance that is needed.

Mr. PANETTA. All right, Mr. Goodman, what are your thoughts on revoking PNTR, and what impacts do you think it would have on the U.S. economy?

Mr. GOODMAN. I mean, I think this is a very complex issue because we are so dependent on China on the export and import side.

And I think a—if what you are suggesting ultimately is a kind of a broader decoupling, I think that would be very costly for us. I think what we need to be doing is focusing on targeted areas where we have real risks and threats. That is why I think that the October 7th measures on semiconductor, advanced semiconductor and equipment were appropriate, because we were trying to really effectively decouple and degrade China's capability.

I think that is the approach we should be taking, is trying to find areas where we have specific risks and threats, and finding ways to mitigate those.

Mr. PANETTA. Thanks.

Mr. McHargue, just real quickly. Sorry I am giving you a little bit of time. What SBS challenges are you facing specifically in Nebraska with China and other countries that we could diversify our export markets?

Mr. MCHARGUE. Well, ractopamine is one of the products that we think that is completely safe, that is usable that we are not using right now. I think that is one example.

Mr. PANETTA. Great. Thank you. Thanks to all of you. I yield back.

Chairman SMITH of Nebraska. Thank you. Next I will recognize Mrs. Miller from West Virginia.

Mrs. MILLER. Thank you, Chairman Smith, and thank you all for being here today.

Last month a bipartisan group of my colleagues visited Mexico, Ecuador, and Guyana to learn more about the trade challenges and other issues that are facing our bilateral relationships in Latin America. The one issue that came up in each of these countries is the rise of Communist—China's Communist Party's influence throughout the region.

When Ambassador Tai testified in front of our committee, I told her that the CCP is out-maneuvering us when it comes to trade deals in the Indo-Pacific, as well as our neighbors in our own hemisphere. Unfortunately, the Biden Administration is failing to react strategically and successfully challenge the growing Chinese influence across the globe. That is why I have been diligently working in Congress with my Ways and Means colleagues to develop policy solutions that will press the Administration into action.

We are working on redeveloping the U.S. trade leadership in the Indo-Pacific Act (sic) to put America back in the driver's seat in regional trade deals in the—in Asia. I am a lead sponsor of the Made in America Act, which will reshore pharmaceutical supply chains from China to opportunity zones in the United States. With these policies and many more, it is clear that the Republican majority is ready to act. Now we need President Biden to step up and deliver for the American people.

Mr. Goodman, I am concerned major trade deals in the Indo-Pacific, like the Regional Comprehensive Economic Partnership and the CPTPP are putting U.S. exports, businesses, and workers at a major disadvantage. Both of these agreements are phasing in tariff cuts throughout the region, proving that every year the U.S. does not negotiate a real trade agreement, that we are falling farther and farther behind.

Do you think IPEF goes far enough to help the United States compete economically with countries like China in the Indo-Pacific? And if not, what would you recommend we do better to compete?

Mr. GOODMAN. Thank you, Madam Congressman—woman, and I agree with your analysis that I think we are losing ground, and an agreement like the Regional Comprehensive Economic Partnership is diverting trade away from us and towards China, other countries in the region. And so we need to be back in this game.

I think the Indo-Pacific Economic Framework has some promise. It is good. Thirteen countries have joined us. The agenda is not bad. And if these discussions can lead to kind of be the tributary for us to get back into the major river of major formal trade agreements—in other words, they can develop the standards and the best practices that could then feed into an updated regional trade agreement—then I think it could be useful.

But in and of itself, as an executive agreement that is not going to have enforcement mechanisms, it is not going to have the incentives for our partners to want to aspire to these higher standards that we are seeking, I am concerned it is not going to be enough. So we need to think about it as a way to feed into a formal trade agreement.

Mrs. MILLER. That is a nice way to put it, but it is still just a polite suggestion.

Mr. Greer, on our trip to Latin America we learned the region is ripe for American leadership. Central America, in particular, can play a key role in countering China's trade and investment agenda. While I support CAFTA, I am disappointed with the lack of growth under the agreement. The apparel trade has steadily declined over the life of CAFTA, while apparel imports from China have doubled, proving that CAFTA has left some sectors uncompetitive.

What can we do to make apparel supply chains in the Western Hemisphere more competitive and resilient?

And how can we support more growth and job creation in the region?

Mr. GREER. Congresswoman, as you mentioned, we already have a series of strong FTAs in the region. You could have a situation where you upgrade some of these agreements, like with CAFTA. Perhaps you can modernize it and add on new chapters.

You know, I know I sound like a broken record, but with Section 301 we put tariffs on China, actually giving preferential tariff treatment to all other kinds of partners relative to China, who is their major competitor. So they should be poised to take advantage of that. They should be poised to take advantage of this preferential tariff treatment relative to China, take advantage of CAFTA, and look at modernizing it, as you might suggest.

Mrs. MILLER. On a different topic, this week a video from a country (sic) called JA Solar leaked where the chief financial officer openly bragged to potential American investors that the company was essentially port shopping to evade the groundbreaking human rights law that was signed into law in 2021, the Uyghur Forced

Labor Prevention Act. That bill was designed to ensure strict enforcement of our existing ban on imports made with forced labor, including the systematic use of ethnic minorities for slave labor.

In my home state of West Virginia we have a Customs and Border Patrol Advanced Training Center, and I would hope that preparing to enforce our forced labor law would be a priority at the facility. Do you have any sense of whether the CBP or other U.S. law enforcement agencies have the training and resources to ensure compliance with this law?

Mr. GREER. Well, I could say that they certainly are moving forward on it. I am in the private sector, and I hear from companies very frequently that they are trying to come into compliance.

I think CBP could use additional resources for enforcement. I think it would also benefit the trade to have a better sense of what CBP expects with respect to proving up that you are in compliance, and having some kind of a safe harbor where you can actually actively go in and say, "Here is where I am, here is everything I am doing, I am trying to do the right thing under the law. Can you please work with me?" I think that would be helpful to CBP.

Mrs. MILLER. Thank you.

I yield back.

Chairman SMITH of Nebraska. Thank you.

Mr. Smucker.

Mr. SMUCKER. Thank you, Mr. Chairman, and I would like to thank each of the witnesses for being here for what I think has been a really great discussion with a lot of consensus on where we stand with China, the potential threats of China, certainly their goals, and what they want to see us accomplish.

I do want to go back to some of the discussions that—the questions that Mr. Panetta had asked in regards to PNTS (sic). And Mr. Greer, I think he asked you this question. You have advocated for revoking PNTR completely. I guess I would like to understand that a little more.

Certainly, we want to counter China in every way we can, but, you know, the fact of the matter is they are still also one of our largest trading partners. Someone else, I think, had mentioned, you know, how complicated the issue is because we have American businesses who rely on China for market for their products, and we certainly still receive a lot of goods, as well. So can you explain to me what you mean by revoking PNTR?

Are you looking for a complete decoupling of trade with China at some point, or what is the practicality of revoking PNTR?

Mr. GREER. So it is hard to imagine a world where we are completely decoupled from China, absent some significant geopolitical event.

But before China had PNTR, they were subject to an annual certification under the Jackson-Vanik amendment, where you, Congress, and the president together, if I recall correctly, had to decide whether or not—it was Congress who had to decide whether or not China was going to continue to receive most favored nation treatment. And so, going back to that situation where China no longer benefits from complete certainty all the time, that brings an element of discipline.

Before 2000, before PNTR was granted, we didn't have manufacturers going over to China as much and putting their factories there, and exporting back here because they didn't know that they would always have certainty of access to this market. Going back to that situation would discipline the Chinese. It wouldn't raise the tariffs right away. It would put the hands—it would put in your hands to decide on a yearly basis whether you, Congress, think that we should continue to have normal trade relations with China.

Mr. SMUCKER. Have you looked—and again, I am not disagreeing with what you are saying, just trying to evaluate whether that makes sense—have you looked at the domestic economic impact? For instance, you know, what impact would it have on the business community and on U.S. jobs?

Mr. GREER. So if you went back to a Jackson-Vanik-style yearly amendment, nothing would happen unless you decided, okay? So if you say we are going to go back to a yearly certification, nothing immediately happens to those tariffs. You are still in a situation where you are under control. What happens is you get leverage.

The problem we have always had with—whether it is China or other trading partners, is you, Congress, you have given away a lot of the tariffs over years for a lot of different reasons, good or bad, and you have lost some of that leverage.

If you go back to this situation where China, on a yearly basis, has to yearly get an approval to continue to have the same tariff regime they are enjoying—301 aside—that gives you leverage with China to try to get the kind of market access behavior that we would want, without immediately raising all these tariffs, and you can have that in your pocket if you need to.

Mr. SMUCKER. Thank you. I have also a slightly different question, but somewhat related, of course.

But I have heard the comment "rules-based system," and I think part of the problem with China is that they choose not to follow the rules that are generally followed internationally. And we have trade tools that are available to us that can be used to counter that. But in many cases, the Biden Administration's decision to abandon those tools has left us with very little. And, you know, instead, in some ways the Administration has chosen to mimic China's aggressive economic subsidies to promote domestic production.

And maybe, Mr. Duesterberg, I will ask you the question. Does that work? What message does that approach send to our allies? Do you think that these actions may encourage our trading partners to abandon a rules-based system of trade?

Mr. DUESTERBERG. Well, it is—the adoption of what, in effect, is a targeted industrial policy in the United States has had a couple of impacts. One of them is that our many—our friends—and I keep saying "our friends," hoping that the Europeans remain our friends with regard to actions on China, but it has stimulated a sort of a competitive industrial policy—they are going to adopt subsidies for their green industries and other industries.

Japan has adopted a subsidy regime to try to get their own companies into the game. So another impact of that is that our credibility in trying to gain WTO reform on the subsidy code is really shot to pieces because we are doing what we are trying to get China and have been trying to get China to do, or——

Mr. SMUCKER. Not to do, yes.

Mr. DUESTERBERG [continuing]. To renounce for two decades. So all in all, it is a problem.

You know, China is not going to change its behavior. And so that is why I have advocated trying to create alternative rules-based agreements that basically exclude China.

Mr. SMUCKER. Thank you.

Chairman SMITH of Nebraska. Thank you.

Mr. Beyer——

Mr. BEYER. Mr. Chairman——

Chairman SMITH of Nebraska [continuing]. You are recognized.

Mr. BEYER. Thank you very much. And Mr. Chairman and Ranking Member, thank you for putting this on. And I have really enjoyed the testimony and learned a great deal from it.

Mr. Goodman, I truly appreciated your testimony. We discussed the importance of U.S. economic engagement and trade with our partners and allies in the Indo-Pacific. Your explanation of the motivations behind TPP, that it was intended to strengthen the existing alliances in a key region, help build new relationships echoes my own belief that withdrawing from the TPP was one of the enormous strategic mistakes of the last 20 years, and a mistake that we will pay for, for years to come, particularly in the context of the Chinese efforts to economically dominate the region.

You mentioned that the successor to TPP, CPTPP, is continuing to evolve. China has applied to it. Assuming that our trade ambitions don't grow beyond the IPEF (sic) and China enters the CPTPP, what should we expect the consequences to be?

And please describe how China could take advantage of writing the rules of the road, something that should be our responsibility?

Mr. GOODMAN. Well, again, I couldn't agree more with your analysis, Mr. Congressman. I think it was a catastrophic mistake to pull out of TPP, and I think it would be an even greater catastrophe if China were in CPTPP and we weren't in anything over there.

So I think, you know, our allies, Japan, Australia and others who are in CPTPP are going to hold off China's application as long as possible. But at some point I think they are going to have to entertain that, especially now the UK seems likely to join. And so I think it is not unrealistic to think that two or three years from now China could be on the road to acceding to CPTPP, which would be just devastating to our interests, because they would be in there trying to shape and probably undermine some of the good rules that are in TPP.

And so we need to have something, and that is why I am—I just feel it is so important for us to use IPEF as a way to get back into something—a higher standard.

And I just throw out here—which is probably risky for me to do, but since you all, in a very bipartisan support—with bipartisan support, passed the USMCA not three years ago, it seems to me that could be—I know it has got unique elements to it, but that is the sort of tested model of a trade agreement that maybe could be updated, built on, expanded in the region if that is our more comfortable approach than going back to this TPP.

Mr. BEYER. And thank you for bringing up USMCA, because I'm never tired of pointing out that USMCA, which was bipartisan, celebrated, one of the major achievements of the last number of years during the Trump Administration, 80 percent of it has showed up in what was directly taken, word for word, from TPP.

Mr. Houseman, in your testimony you mentioned how U.S. and Canadian production of minerals critical for the manufacture of EVs isn't nearly sufficient if we are going to compete with China in the future. Now, we know the Administration is pursuing a number of side agreements, and I appreciate the intent of the agreements. We don't like that Congress is left out. But are you concerned about the relative weakness in terms of environmental and labor protections?

Mr. HOUSEMAN. Thank you for the question. Yes. I mean, I—for USW, the importance here for critical minerals is that—how we mine and process those materials.

Right now, in Indonesia, where China has invested $16 billion in nickel processing, the environmental degradation there is extreme. Annually, 1,400 workers are injured there and 5 are being killed, according to Indonesian unions there. Is that really the type of trade agreement or trade arrangement that we want to set up with our trading partners, where we are exploiting workers and allowing them to be killed?

Like, this is the kind of system that we need to set up, and this is why I am so concerned about when we talk about the rules of origin. In the TPP, for example, up to 65 percent of a vehicle could have been made with Chinese content and shipped into the U.S. market because we only had a 35 percent rule of origin standard in the TPP. That was one of the reasons why the United Steelworkers opposed the agreement.

The idea of how our trade rules are set up, to ensure that we have standards and the ability of enforcing those standards and ensuring that the rules of origin are set as a way to our American goods are going to be prioritized in the manufacture and distribution so that our members, union members and also workers across all of—non-union or non-union (sic)—can benefit.

And I think those are the reasons why, you know, we look at—when we have, for example, in cobalt, where USW has miners up in Canada, and have worked with a facility here in North Dakota, there is—nearly 80 percent of the world's cobalt is processed in China. And, you know, they are able to effectively swamp the market. They actually stopped a cobalt mine here in Idaho in part by just dumping into the market and depressing the price so much that this Idaho project couldn't move forward.

So there are opportunities here, but we are going to have to invest, which I think you are kind of hearing here a bit, is this idea that we need to actually provide a bit of fiscal support and the protections necessary to allow firms that—private firms to develop their mines.

Mr. BEYER. Great, great, thank you.

Mr. Chairman, I yield back.

Chairman SMITH of Nebraska. Thank you. Mr. Murphy is recognized.

Dr. MURPHY. Thank you, Mr. Chairman, and thank you all for coming today. It is obviously a huge issue for us in this country.

It is obviously clear that China is trying to dominate the world: Belt and Road Initiative, economic coercion, predatory trade practices, espionage balloons, police stations. We can go on and on and on. All wars are not kinetic. And it is obviously that this is a war of attrition, if you were, as far as trade goes.

America is suffering because of it. The farmers, manufacturers are being cheated. In 2018 the Commerce Department found there were two separate cases that Chinese exporters had significantly undersold and subsidized cast-iron soil pipe and cast-iron fittings in the United States, one.

At the same time, AD/CVD duties were being imposed to counteract China's unfair trade practices, but U.S. businesses had to devote extensive time, money, resources toward remedies under U.S. trade laws that are still supposed to—are supposed to be designed to hide those—to hold those accountable.

And even when relief is granted, China and other trade partners commonly engage in evasive tactics to avoid penalties. They just move around. It is whack-a-mole, and we are losing the global contest at the expense of U.S. taxpayers.

So let me just shift to the China solar issue just for a minute. In spite of all that we have discussed—and I am sure that the Biden Administration is cognizant of what is going on—the President issued an emergency declaration to allow imports of unfairly traded solar products from China into the U.S. with no additional tariffs for two years. That hadn't been done since 1946, when President Truman brought in wood so he could build houses after World War II.

Mr. Greer, I am an original cosponsor of the bipartisan resolution of disapproval, which would reverse the Administration's emergency declaration that suspends tariffs, suspends these tariffs on Chinese solar products that are circumventing U.S. trade laws through four other countries. Given that we have all said today, can you help me understand why we would embolden China to destroy American jobs and cheat American manufacturers?

Mr. GREER. I can't help you understand that, because it doesn't make sense to me either. And I think that we need to make sure that our domestic producers in any kind of sector need to have the certainty that when they get trade relief through trade remedies, they can count on it.

Dr. MURPHY. It is just unconscionable. We are literally selling ourselves out while we know we are selling ourselves out.

Let me ask you one other question. China—Chinese domestic consumption is really weak compared—for a modern economy, and its internal market consumes a surprisingly small share of the goods that it produces. It has relied on the U.S. consumers for growth in its export-oriented growth strategy. In other words, we are the ones paying, and their own people are not buying. The U.S. is, by far, China's biggest export market. No other country has expressed a willingness or ability to absorb China's subsidized forced labor overproduction. Are we funding China's economic and military growth?

Mr. GREER. There is no question about that, sir. Again, it is something that, to me, seems unbelievable that we are doing. I think we will always have some kind of trade with China, but we have to manage it. It has to be in the appropriate sectors. It has to be balanced. We have these gross persistent trade deficits. We are funding our strategic adversary.

Dr. MURPHY. Absolutely. And I don't say—I don't care, Republican, Democrat, we are asleep at the wheel, and it is staring us right in the face.

So if we repealed most favored nation status and increasingly denied China our market, our market to fund their growth, specifically military growth, wouldn't China's growth slow and stagnate?

Mr. GREER. It could. We have a global market, and they may find other ways to dump all of their stuff. But we are, as you—you know, I like to call us—we are the consumer of last resort. That is what we are. And so I think that we could help control that relationship if we change our approach.

Dr. MURPHY. President Reagan's strategy to win the Cold War was not military. It was economic. And this is exactly what we did to Russia as we starved them economically. And I would submit to my Republican colleagues and my Democratic colleagues that we wake up, and we begin the same thing. Because if not, we are going to wake up very, very soon and either be speaking Mandarin or have every economy of ours devoted to China.

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

Chairman SMITH of Nebraska. Thank you, Mr. Murphy. Next, Mr. Steube.

Mr. STEUBE. Thank you, Mr. Chairman.

We need a worker-focused trade policy, not a corporate-price-centered one. And we need to take every step necessary to achieve balanced trade and eliminate the trade deficits that are bleeding our economy to death. We should use tariffs strategically to stop unfair trade in our market and to ensure the elimination of trade deficits.

We have been running deficits of hundreds of billions of dollars year in and year out for decades. These trillions of dollars come back in the form of foreigners owing—owning American assets permanently. The United States net international investment is an astonishing negative 16 trillion. Foreigners own 16 trillion more here than we do around the world. Foreigners, including China, own these assets and the future income from these assets.

China has engaged in economic aggression against the United States for years. It has a mercantilist policy designed to build its economy at the expense of others, including ours, using a largely closed market and massive subsidies. It has stolen our technology, manipulated its currency, infiltrated our infrastructure, hacked our businesses and personal databases, engaged in cyber attacks on our private and governmental systems, undertaken espionage against our businesses and our government. China accounts for 80 percent of all counterfeits coming into America, and their IP theft alone has been estimated to cost us $300 billion annually.

In short, it has conducted—China has conducted economic warfare on us and the West, and has done it for decades. And we are losing because of Biden's trade policies.

As a result of our own foolish trade policies of the past, we have lost millions of jobs and much of our technology leadership, and have transferred trillions of dollars to China. These huge annual trade deficits have built their military and developed their industry and technology at our expense. Their economy has grown from about $1.2 trillion in 2000, when ours was $10 trillion, to about $16 trillion now, when ours is about $22 trillion. In this period our cumulative trade deficits in goods with them has amounted to more than $6 trillion. The United States has not faced a foe with economic power this close to our own in over 130 years.

Our trade and economic integration must be balanced and on terms that help America and our workers, not China. We should not link our technology sectors with China, and we should have no trade or industrial cooperation in the security or joint use technology sectors, period. We need to limit Chinese investment in the U.S. economy, and to regulate outward investment to China. We should put tariffs on all products imported from China until we achieve balanced trade, and we must insist that they buy our products if they want access to our markets.

In the remaining time I have, Mr. Greer, if there is anything that I stated that you would like to expand upon, I will yield my remainder of time to you.

Mr. GREER. Certainly, I am happy to do that, and I think that your policy prescriptions are things that we need to strongly consider.

And I—you know, coupled with Dr. Murphy's comments, policy prescriptions for dealing with China depend on what you think about the threat. So if our premise is China is a threat, they are generational challenge, we think that they are preparing for military conflict with their neighbors or, heaven forbid, even us, if that is the case, then we need to be thinking about our trade relationship in a way that strengthens our manufacturing and defense industrial base, maybe at almost any cost.

If you think that that threat is overblown, or you think that people are being alarmist, then your ideas on what the policy prescriptions are going to be will be different. So I think we need to have a conversation about that.

I fall in the first camp, that I am concerned that we are on a knife edge right now, and that we need to make sure our trade policy reflects that. But I think we need to talk to China. I think we need to be clear with them. I think we need to set ground rules. I think we need to do enforcement so that we can avoid that kind of situation, that we can have a strong base.

The strongest thing we can do for our allies is have a strong industrial base here in the United States, and be the arsenal of democracy. We can't do that if we are sending our manufacturing overseas.

Mr. STEUBE. I agree with you 100 percent, and I think COVID taught us that when we were struggling to get products in from all over the world to solve some of those industrial problems. And it is time—we are in an economic war with China, and we are losing, and we have been losing. And it is time for us to change the trade policy to an America-first agenda to focus on American products and ensure that we are focusing on the safety and security of the American people first and China last.

Thank you for your time. I yield back.

Chairman SMITH of Nebraska. Thank you. I next recognize Ms. Sánchez, five minutes.

Ms. SÁNCHEZ. Thank you, Mr. Chairman and to our Ranking Member Blumenauer.

I just want to remind my colleagues that many of us worked hard to pass strong trade legislation in COMPETES last year that would have confronted China's unfair trade practices. House Democrats led on COMPETES, the CHIPS Act, and the Uyghur Forced Labor Prevention Act. Unfortunately, Republicans chose not to join us across the board on those pieces of legislation.

The conversation, it seems to me, needs to be about competition. We are trying to slow China down, but instead we need to focus on speeding ourselves up and continuing to look ahead to ways in which we can stay competitive in various industries.

Mr. Houseman, in your testimony you briefly discuss the importance of ensuring air, water, and labor standards are considered and measured in anti-dumping and countervailing duty investigations. And I agree that American workers and their employers should not have to compete against countries like China that enable environmental degradation and forced labor. Could you elaborate on why it is crucial to level the playing field for American workers and industries regarding other countries' labor and environmental practices?

And do you have an example of how considering these factors would play out in anti-dumping or countervailing duties investigations?

Mr. HOUSEMAN. Sure. Thank you for the question, Ms. Sánchez, Representative Sánchez.

You know, 75 percent of Vietnam's industrial wastewater isn't treated. The idea that we passed the Clean Water Act so that I can go fishing in Montana, where I used to work at a paper mill, and not see the discharge out from the mill and know that it is clean, versus in Vietnam right now people's water—you know, or Indonesia, where there—we are talking about nickel mining, and, literally, the waterways and the fishing in the local communities there has been completely degraded and eroded, like, this idea that that nickel is then being processed and then sent to the United States for further processing is—you know, comes at the expense of U.S. furnaces in Pennsylvania.

This idea that we shouldn't be able to, like, countervail against this sort of, you know, built-in process, these are not like products. If you have a steel beam, one made with high carbon, no concern to environmental standards, and killing workers versus U.S. standards, we should be able to account for that economic cost. Those aren't like products. And so, you know, that is one of the reasons why the USW has been really out there and pushing on this idea to—and we can account for it.

I mean, literally, we send inspectors to look at tomatoes in Mexico to make sure that they are abiding by health FDA standards.

Ms. SÁNCHEZ. I appreciate the answer.

Mr. Goodman, Mr. Greer has recommended that the U.S. should revoke permanent normal trade relations with China. And this is building on the questions that Mr. Panetta and Mr. Smucker asked earlier. Experts maintain that the tools we have to address these issues are limited when dealing with a country. Let's be honest, that lacks transparency or doesn't adhere to a rules-based trading system.

But other people talk about the disruption that PNTR would have on the global economy if we were to repeal it. Can you share your perspectives on revoking PNTR, and the alternatives that we might have to address the challenges posed by China, while still protecting good-paying American jobs?

Mr. GOODMAN. Well, as you captured in your question, Madam Congresswoman, this is a very complicated issue because it is easy to understand why there would be an argument for not having a kind of normal trade relationship with a country with these practices.

But on the other hand, the reality is we do have this complex and large relationship, and it would be very—the fact is it would be very disruptive if we move sharply away from that.

But there are things we can do, I think, both to deal with specific risks, as I say, where we can use targeted efforts like these semiconductor controls, which I think were appropriate, or working with allies. As I mentioned, Ambassador Lighthizer, when he was U.S. trade representative, organized this trilateral grouping on industrial policies—on China's industrial policies and IP and other issues. And I think we should revive that and be working with allies to try to push China on those issues.

But finally, I think at the end of the day it comes back to China is going to be China. We have to do the stuff that we have to do. You know, invest in ourselves. We have to have a trade policy that makes us competitive and advances our economic and strategic interests. So I think that is where I would put most of our focus. But there are things we need to do that are targeted to deal with the China risks.

Ms. SÁNCHEZ. I appreciate your answers.

And I yield back.

Chairman SMITH of Nebraska. Thank you. Next Mrs. Fischbach is recognized.

Mrs. FISCHBACH. Thank you, Mr. Chair, and thank you to all of the witnesses for being here today.

I would like to focus on a little bit—Mr. McHargue, I appreciate your comments in your testimony regarding the nuanced relationship between Nebraska agriculture, the Chinese market, and the broader geopolitical dynamics.

Agriculture in my state currently has a very similar relationship. I am from Minnesota, heavily ag district, exporting roughly $1.5 billion of ag product every year, and representing a market for nearly a quarter of our ag exports. This competitor-customer dynamic is important to consider, given national security concerns and other larger factors beyond agricultural exports.

With that in mind, can you share your perspective on—of the appropriate balance between expanding the Chinese market access and diversifying ag export opportunities through additional trade agreements?

Mr. McHARGUE. Yes, I certainly appreciate that question, because it really gets at the heart of a lot of this discussion we are actually having this afternoon.

And again, as I mentioned earlier, I think one of the ways that we can help that conversation is by continuing to establish other markets. And so then it is not quite as much about China, and it is more about how do we, as America, an agricultural powerhouse in the world, continue to sell our products that we do so well. And one of the things that we do really well is producing, I would say, probably one of the lowest-carbon-footprint ag products in the world. And we need to develop those other countries.

But I think, with China, as I have those conversations and I think about the people that I do business with even in my hometown, it is still important that we do business with people that need our product. It is very clear that China is growing in their need for grains. Just this last year they came—became one of the largest grain importers in the world. So that indicates to me that they are going to continue to need our products.

And so I think that gives us the leverage, quite frankly, to have some of these conversations that we are having here this afternoon. If they don't need our products and we don't have the ability to trade with them, I think we lose a lot of that leverage to actually deal with some of the things that we have talked about today.

Mrs. FISCHBACH. And Mr. McHargue, maybe as just as kind of a follow-up, but in terms of opportunity cost, what does the Biden Administration's lack of negotiations mean to you, your members at the farm level?

Mr. McHARGUE. Yes. Again, we do such a good job producing our products. And if we don't have the world out there—I think we do actually have the world out there that needs it. But every single day that goes by, I think we are at a disadvantage. And so to keep the U.S. in the position that we are in, I would say every day that this Administration is not working on trade is a day that we are losing.

Mrs. FISCHBACH. Thank you very much. And maybe I will just throw this out with my additional—or with my last minute-and-a-half for Mr. Duesterberg or for Mr. Greer.

How do we appropriately balance these factors with the broader national security concerns of an increasingly aggressive Chinese economic agenda?

Whoever wants to, go first.

Mr. DUESTERBERG. Well, it is awfully clear that China has benefited from acquisition of U.S. technology in much of what they have done in terms of developing—and advanced military capabilities has been at the expense of U.S. producers.

But also it is a result, in some part, of Chinese ability to access American technology and know-how through access to the American academic system. They send 300,000 or 400,000 students over here. They—some of them work in industry, they return to China, they bring secrets of one sort or another with them.

So I don't know what the solution to that is. We need to reflect on that. But certainly, America has been crucial in China's development of an advanced military system, and we have to find ways to—selectively, at least—stop investments, stop their ability to be in programs that are directly related to military technology.

And I would also suggest to anything associated with Chinese exports of their authoritarian state surveillance technology and the like.

Mrs. FISCHBACH. Well, thank you very much.

And my time is expired. I yield back.

Chairman SMITH of Nebraska. Thank you. Mr. Kustoff is recognized for five minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman. Thank you for convening today's hearing. And thank you to the witnesses for appearing today.

Mr. Greer, thank you also for appearing, and for your former public service. If I can, to you, I would like to talk about intellectual property theft. And I know that other people, including Congressman Buchanan, have talked about that, and talked about the study that showed that Chinese IP theft has cost our country anywhere from $225 billion to $600 billion a year. And I know that is a big span, and those numbers are a little expansive. But the fact of the matter is it is substantial.

If I can, Tennessee is home to one of the largest manufacturers of charcoal barbecue grills in the U.S., the Meco Corporation, M–E–C–O. Now, about 20 years ago Meco employed about 900 Tennesseans. That number is down to about 200 at the same factory today, and that is because China has used IP theft to unfairly capture most of the domestic charcoal grill market, importing grills that are virtually identical to the grill that the Meco had patented.

[Slide]

Mr. KUSTOFF. If I can, I want to show you this poster. The top, if you can see up there, is Meco's grill. And that grill hit the market in 1999 under patent. The below grill is a Chinese knockoff, and that showed up in the market in 2018, when the Meco grill was still under patent. The model, the coloring, the design, they are all the same. In fact, the two grills are really indistinguishable from one another.

There is also evidence of Meco's grills being used for presentation in China's showrooms, and the Meco's grill photography was used by a competitor to sell knockoff grills on Alibaba, and the Meco grill photography being used in Chinese factory catalogs. We all know that this situation with Meco is not unique.

So my question: in your written testimony you talk about this 2018 report that USTR did, and I assume you were there in 2018 as chief of staff. If you were still there today, based on the report, and assuming that what I have represented to you is correct, which it is, what tools in the arsenals at USTR would you propose that we take advantage of to either punish or push back the Chinese?

Mr. GREER. There are two things I would do off the top of my head, and I could probably think of more if you give me a few minutes.

But the first thing I would do is I would tell Meco, "You should look into Section 337 of the Trade Act," because this is something that gives you a right to ban the import of items that take away—that are a theft of your trade secrets, or your trade dress, or anything like that, or your trademarks. There is all kinds of protections, and that is a private right of action, where you can get an exclusion order. So that is the first thing I would tell them.

The second thing I would say at USTR is this is the kind of thing where, under the Phase One dispute settlement arrangement, there are supposed to be monthly, quarterly, semiannual meetings where you can take this to the Chinese. And the whole purpose of these meetings are to identify these issues and resolve them before they blow up into bigger issues and end up in tariffs escalating, and that kind of thing.

And those are the kinds of processes that I would expect to see.

Mr. KUSTOFF. Thank you for that. Of course, you are not there any longer.

Based on the current makeup, if Meco did what you suggested, would there be any retribution? Would there be any relief?

Mr. GREER. So it depends. So first of all, with the Section 337, if you—if your case is successful, you can get an exclusion order, where those things are not allowed to come into the United States. So that is a strong relief.

With respect to the Phase One agreement enforcement, the whole purpose is to go to the Chinese, say, "Here is the problem. Go to your people and have them fix it." And because they are authoritarian, it is a little easier for them to do that than it might be for us.

So there are ways to secure relief. It is not always easy, but there are processes you can go through to pursue it.

Mr. KUSTOFF. Thank you, Mr. Greer. And of course, that would—not only Meco, that would apply to any other similarly situated company with the same circumstances.

Mr. GREER. That is correct, sir.

Mr. KUSTOFF. Thank you. Thank you very much.

Thank you, Mr. Chairman. I yield back.

Chairman SMITH of Nebraska. Thank you. Next, Ms. Sewell from Alabama.

Ms. SEWELL. Thank you, Mr. Chairman and Ranking Member.

I first would like to thank our witnesses for their testimony today. In order for us to truly address the People's Republic of China's harmful tax, I mean trade policies, we need more than rhetoric. We need action. I think all of you on this panel would agree on that.

I am proud that the Biden Administration has taken decisive action. First, we in the Congress, under President Biden, took a major step to combat China's growing influence by passing the historic Infrastructure Investment and Jobs Act. By modernizing our infrastructure for the 21st century and investing in working families, America will be better positioned to compete with China for decades to come.

Also, congressional Democrats and President Biden passed the America COMPETES Act, which is the boldest legislation in our country's history to directly confront China's anti-free trade policies and practices, and to promote American workers.

As we have continued to advance a worker-centered trade agenda, Congress must be more active in combating China's anti-free market practices and ensure that our steelworkers can compete on a level playing field. That is why I will soon be reintroducing the Leveling the Playing Field Act 2.0. This bipartisan legislation will modernize our anti-dumping and countervailing duty enforcement laws to push back against China's Belt and Road Initiative, combat China's circumvention of U.S. laws, and target repeat offenders. These are common-sense bipartisan solutions to protect American workers and get tough on China's anti-market free market practices.

Moreover, today I am joining my colleague, Representative Bost, to introduce the bipartisan Fighting Trade Cheaters Act, which will increase civil penalties for fraudulent and grossly negligent violations of the U.S. trade laws.

These two bills are concrete examples of legislation that will directly combat the People's Republic of China's illegal trade practices, and I hope that my colleagues on both sides of the aisle will sign onto the bills and, more importantly, get them passed.

Mr. Houseman, can you explain or expand on how the steelworkers have been impacted by some of the current loopholes in the anti-dumping and countervailing duties laws?

And do you think that the passage of the Leveling the Playing Field 2.0 would be helpful to steelworkers and other workers in my district and across the United States?

Mr. HOUSEMAN. Thank you for the question, Representative.

Yes, the United Steelworkers were strong supporters of Leveling the Playing Field Act 2.0 in the 117th Congress. And when the bill is introduced, I am pretty sure we will endorse again.

And one of the reasons is, for example, tire workers. You know, we have—we represent—we are the largest union in tire manufacturing. We represent over half of domestic passenger vehicle light truck duty tires. And we have been—we have had to do five anti-dumping and countervailing duty cases, including two on PVLT.

The first one was against China. Successful. We, hands down, proved that 50 million tires were coming into the market, you know, and just dumped at below costs just to kind of capture market share and negatively impact—we lost 5,000 workers in that industry during that period of time. We were successful there.

But then, three years later, the union had—a few years later the union had to put out another AD/CVD case. And it was—we saw imports rise very quickly from companies that also, quite frankly, have parent companies that are based in China. And so they just basically shifted production to third-party countries, and just started shifting—putting those tires back into the market. We filed that case, and we are successful in that anti-dumping and countervailing duty case, as well.

But it would have been easier with your Leveling the Playing Field Act 2.0. These successive cases, and particularly third-country subsidies from China, are key items to address.

And then, you know, the union is familiar with your—the Fighting Trade Cheats bill, which was introduced by Senators Brown and Tillis over on the Senate side. And, you know, look, we think the idea of enhanced penalties for bad actors is a right idea.

I mean, the idea that these importers continuously evade and break the law—like, for example, in—you know, there has been three requests, investigations that have found evidence of a Chinese-owned company operating in the Dominican Republic, where they brought in aluminum extrusions and trans-shipped through the Dominican Republic to avoid duties, multiple cases now. We should be able to attack and address those sorts of repeat offenders and repeat importers, and provide meaningful penalties to—and potentially knock them off the list from being able to import.

Sorry. I know I went over.

Ms. SEWELL. Thank you.

Thank you, Mr. Chairman, and thank you so much for allowing him to go a little bit over.

And I would encourage my colleagues on both sides of the aisle to look into both of those bills. Thanks.

Chairman SMITH of Nebraska. Thank you very much.

Again, thank you to our witnesses for participating here today. I think a timely discussion, one that focuses on solutions, as well. So thank you for sharing your expertise, your insight, your ideas, and solutions.

Please be advised that members have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be made a part of the formal hearing record.

With that, the subcommittee stands adjourned.

[Whereupon, at 4:25 p.m., the subcommittee was adjourned.]

PUBLIC SUBMISSIONS FOR THE RECORD

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Chair Smith, Ranking Member Neal, Chair Smith, and Ranking Member Blumenauer,

Thank you so much for holding the April 18, 2023 hearing entitled, "Hearing on Countering China's Trade and Investment Agenda: Opportunities for American Leadership." My name is Michael Robbins, and I am the Chief Advocacy Officer for the Association for Uncrewed Vehicle Systems International (AUVSI). We appreciate the opportunity to submit this testimony for the record on this very important hearing.

AUVSI is the world's largest non-profit organization dedicated to the advancement of uncrewed systems, autonomy, and robotics. We represent corporations and professionals from more than 60 countries that are involved in industry, government, and academia. AUVSI's primary markets span the defense, civil, and commercial industries. Uncrewed systems represent an expansive market within the transportation system, and it is our mission to ensure all types of uncrewed systems, autonomy, and robotics companies that work with us have access to the resources they need to be successful in such a highly competitive industry.

For 120 years, since December 17, 1903, when Orville and Wilbur Wright launched the first crewed flight on a hill in Kitty Hawk, North Carolina, the United States has been the world-leader in aviation.[1] The U.S. leads in commercial, business, and general aviation manufacturing and has a combined workforce of more than half a million people.[2] The segment of the aviation industry that the United States is not leading, however, is in Uncrewed Aircraft Systems (UAS) and domestic drone manufacturing. While the U.S. has been content to maintain leadership of traditional segments in the aviation industry, China has seen the tremendous opportunities the uncrewed industry holds and has moved rapidly and aggressively to dominate manufacturing and technology for UAS.

In 2015, China launched "Made in China 2025," a ten-year whole-of-society effort to invest in key industries, primarily in the technology area, to ensure China's world leadership and market

[1] 1903-The First Flight - Wright Brothers National Memorial (U.S. National Park Service) (nps.gov)
[2] https://datausa.io/profile/naics/aircraft-parts-manufacturing

dominance.[3] In a sort of role-reversal with high-tech capitalist economies in the west, China has aggressively removed red tape to development while enabling sophisticated market mechanisms to spur rapid growth. While much of the discussion around Chinese government involvement in the industry has centered around direct subsidization, the scope of their support is far greater and more robust. No Chinese company or investment firm is free of Chinese Communist Party (CCP) involvement. The CCP has used its influence to:[4]

- Direct investment firms to invest heavily in drones and component parts;[5]
- Direct banks to provide low-interest loans to industry participants;
- Direct companies to build domestic supply chains;
- Direct companies to buy domestically to meet domestic market share targets;
- Direct companies to spend a high percentage of their revenue on research and development;
- Direct companies to partner with high-tech industry to ensure an end-market; and
- Direct state-owned companies to acquire and transfer western technology.[6]

While this infrastructure has developed a robust internal industry for uncrewed systems in China, it has also allowed them to project their influence abroad and use their monopolistic position to put U.S. manufacturers at a disadvantage by flooding the global market with subsidized drones. This is an illegal trade practice the U.S. Department of Commerce (DOC) labels as "dumping."[7] In 2019, the U.S. Undersecretary for Defense, Ellen Lord, highlighted this challenge, noting, "We don't have much of a small UAS industrial base because DJI dumped so many low-price quadcopters on the market, and we then became dependent on them."[8] This monopolistic position has also created barriers to the development of U.S. supply chains for the autonomous industry by effectively excluding them from the largest markets.

The results of the Chinese drone dumping into the U.S. market have been devastating to the U.S. drone manufacturing industry. The flooding of inexpensive drones to the U.S. has resulted in Chinese drones accounting for more than 90% of the consumer market,[9] 70% of the enterprise market (drones used as industrial tools),[10] and 92% of the first responder market.[11]

From the perspective of U.S. competitiveness and security, enabling U.S. leadership in the drone industry represents a strategic imperative in a market long characterized by state-subsidized companies based in China that have access to virtually unlimited free to low-cost capital. As this paper will lay out, China has used its monopolistic position to flood the U.S. with subsidized drones, distorting the marketplace in favor of Chinese drones, stifling competition, and inhibiting

[3] https://www.csis.org/analysis/made-china-2025
[4] Made-in-China-Backgrounder.pdf (isdp.eu)
[5] https://www.washingtonpost.com/national-security/2022/02/01/china-funding-drones-dji-us-regulators/
[6] China Bought Italian Military-Drone Maker Without Authorities' Knowledge - WSJ
[7] https://www.trade.gov/us-antidumping-and-countervailing-duties: Unfair foreign pricing and government subsidies distort the free flow of goods and adversely affect American business in the global marketplace. Enforcement and Compliance, within the International Trade Administration of the Department of Commerce, enforces laws and agreements to protect U.S. businesses from unfair competition within the United States, resulting from unfair pricing by foreign companies and unfair subsidies to foreign companies by their governments.
[8] https://foreignpolicy.com/2019/08/27/pentagon-seeks-to-counter-chinas-drone-edge/
[9] https://www.reuters.com/article/us-usa-china-tech-dji-insight/game-of-drones-chinese-giant-dji-hit-by-u-s-tensions-staff-defections-idUSKBN2AZ0PV
[10] Ibid
[11] https://www.droneresponders.org/2019-chinese-uas-technology

new entrants. Further, by preventing access of U.S. component manufacturers into industry supply chains, and without the same robust industry infrastructure and support, China is able to stifle U.S. development of critical technology in autonomous systems. This has resulted in an emerging series of threats to United States – including threats to national security, the nation's position as a global leader in aviation, to its aviation workforce, and to its democratic values and fundamental principles of human rights.

AUVSI accordingly asks the U.S. government, specifically Congress, to take resolute action to level the playing field for U.S. drone manufacturers, and their component suppliers This testimony sets forth the case for action and offers concrete policies to ensure U.S. companies can compete and win in the marketplace. Further, the policies will enable change for markets beyond drones, including other autonomous and uncrewed vehicles, as well as other emerging technologies, which often use many of the same components and technology stacks. Lastly, consistent with AUVSI's standing as an international organization, the recommendations in this paper will open supply chains for electronic components and rare earth materials that can be utilized by other international drone and electronics markets outside the United States that are also struggling to compete with subsidized Chinese competition and its dominance of the global electronics supply chain.

China Flooding the U.S. Market with Subsidized Drones

As noted, the flooding of inexpensive drones to the U.S. has resulted in Chinese drones accounting for more than 90% of the consumer market, 70% of the industrial drone market, and 92% of the first responder market. These figures account for all Chinese drones in the United States; however one drone company in particular dominates the U.S. and global market. Shenzhen-based Da Jing Innovations, or DJI as it is commonly known, has been a major beneficiary of the "Made in China 2025" policy and the resulting subsidies into its operations. Accordingly, DJI is the world's largest drone manufacturer, and has a dominant share of the U.S. and global drone market. According to a 2020 report from the Center for the Study of the Drone at Bard College, in 2020 DJI alone accounted for 77% of the U.S. hobby drone market and 90% of the commercial drone service provider market.[12]

In a February 2022 report, *The Washington Post* found that DJI's investors included at least four Chinese investments firms with close ties to the People's Republic of China (PRC) government.[13] Specifically, this included "China Chengtong Holdings Group, which is directly administered by Beijing's State-owned Assets Supervision and Administration Commission (SASAC), a ministerial-level organization tasked by China's State Council to manage the country's state-owned enterprises."[14] According to the *Post* report, "Other funds that list DJI as an investment include the Shanghai Venture Capital Guidance Fund, which is administered under the Shanghai Municipal Government. Guidance funds in China mix state assets with private funds to advance Beijing's industrial development goals in emerging industries. A Chinese-language S&P global report released in March 2021 says that state-run Guangdong Hengjian Investment Holding invested in DJI alongside SenseTime, which was also added to a sanctions list in December by the Biden administration over alleged rights abuses in Xinjiang. SDIC Unity Capital a fund

[12] https://dronecenter.bard.edu/files/2020/03/CSD-Public-Safety-Drones-3rd-Edition-Web.pdf
[13] https://www.washingtonpost.com/national-security/2022/02/01/china-funding-drones-dji-us-regulators/
[14] Ibid

administered by the State Development & Investment Corporation (SDIC), a state-owned investment holding company approved by China's State Council, also lists DJI as an investment on its website."[15]

Threat to U.S. National Security

China's dominance of the global drone market poses multiple challenges for the United States. First and foremost is the threat to U.S. national security. The U.S. government has raised multiple security threats associated with Chinese drone companies, which are obligated to comply with China's national security laws.[16] In 2019, the United States Congress prohibited the Department of Defense (DoD) from purchasing drones made by companies based in China in Section 848 of the Fiscal Year 2020 National Defense Authorization Act (NDAA).[17] In 2022, in Section 817 of the Fiscal Year 2023 NDAA, Congress expanded Section 848 to prohibit private companies working with DoD from using insecure drones in their course of federal contracts.[18] In the same legislation, Congress also directed the U.S. Coast Guard to transition their drone fleet to secure systems within 90 days.[19] Congress is also considering legislation to mandate the Federal Communications Commission (FCC) to list DJI on the List of Equipment and Services Covered by Section 2 of The Secure Networks Act, which consists of companies deemed to pose an unacceptable risk to the national security of the United States.[20] That action is supported publicly by at least one FCC Commissioner. [21]

In addition to Congressional action, in the Administrations of both President Trump and President Biden, actions have been taken to address security concerns from Chinese drones. In October 2020, the U.S. Department of Justice (DOJ) banned the use of agency grants for purchasing Chinese drones citing national security concerns, noting the drones are "subject to or vulnerable to extrajudicial direction from a foreign government."[22] President Biden has been implementing Executive Order 13981, which makes it U.S. policy to "prohibit the use of taxpayer dollars to procure UAS that present unacceptable risks and are manufactured by…foreign adversaries, and to encourage the use of domestically produced UAS."[23] Specific to DJI, in July 2021, DoD labeled the company as posing "potential threats to national security" in a statement dedicated to the Pentagon's concerns about DJI.[24] Further, in October 2022, the DoD identified DJI as a "Chinese military company" operating in the U.S. under Section 1260H of the Fiscal Year 2021 NDAA.[25] The Section 1260H list catalogs companies that DoD believes contribute to the modernization goals of the People's Liberation Army, ensuring its access to advanced technologies as part of China's military-civil fusion strategy.

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15 Ibid
16 https://www.wsj.com/articles/china-adopts-sweeping-national-security-law-1435757589 / Article 7 of National Security Law of China states "All organizations and citizens shall support, assist, and cooperate with national intelligence efforts in accordance with law, and shall protect national intelligence work secrets they are aware of."
17 https://www.congress.gov/bill/116th-congress/senate-bill/1790/text
18 https://www.congress.gov/bill/117th-congress/house-bill/7776/text
19 Ibid
20 https://www.rubio.senate.gov/public/index.cfm/2022/2/rubio-scott-cotton-stefanik-introduce-legislation-to-counter-chinese-drones & https://gallagher.house.gov/media/press-releases/gallagher-calls-us-take-swift-action-against-chinese-drone-maker-dji
21 https://www.fcc.gov/document/carr-calls-review-dji-citing-national-security-risks
22 https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/ojporderfundingdrones.pdf
23 https://www.federalregister.gov/documents/2021/01/22/2021-01646/protecting-the-united-states-from-certain-unmanned-aircraft-systems
24 https://www.defense.gov/News/Releases/Release/Article/2706082/department-statement-on-dji-systems/
25 https://www.defense.gov/News/Releases/Release/Article/3180636/dod-releases-list-of-peoples-republic-of-china-prc-military-companies-in-accord/

China has also been supplying Russia with DJI drones, as well as drones from other Chinese manufacturers, to aid Russia's illegal invasion and war against Ukraine. *The New York Times* noted "In the year since Russia's invasion of Ukraine, China has sold more than $12 million in drones and drone parts to the country, according to official Russian customs data from a third-party data provider."[26] The *Times* highlighted that these sales include "a mix of products from DJI, the world's best-known drone maker, and an array of smaller companies."[27] Showcasing the broader supply chain complications, the *Times* wrote, "American efforts to isolate Russia from much-needed technology and cash have been complicated by China's dominance of the global electronics supply chain. The United States has sought to undercut some Chinese companies through export controls in recent years, but the world remains heavily reliant on China's city-size assembly plants and clusters of specialized component makers."[28]

The United States government – the White House, DoD, DOJ, and Congress – have all deemed Chinese-made drones as a whole, and DJI specifically, as a threat to national security. China's dominance of the electronics supply chain, including drones, is harming U.S. national security interests. Accordingly, actions must be taken for the U.S. drone market to compete on a level playing field and grow to meet demand of the U.S. military and commercial industries.

Threat to U.S. Aviation Leadership & Workforce

The U.S. must also recognize that in addition to the national security concerns, China's subsidized drone market is also harming the U.S. workforce, and ultimately our standing as the global leader in aviation. Drones are already playing an important role in the economy, and that role will continue to grow as they are increasingly used as industrial tools and to conduct lifesaving operations in the hands of first responders. The future of aviation is in autonomy, and the United States must invest in building the knowledge base, workforce, and manufacturing capacity to lead. If we cede leadership in autonomy to other nations, specifically China, we are posturing ourselves poorly on the world stage and opening the door for even greater national security risks.

American drone manufacturers face multiple challenges when competing against subsidized foreign competition. Critical components, rare earth materials, and supply chains outside of China can be difficult to access, and often, if available, at a significantly higher cost due to Chinese subsidization. Chinese drone companies have also been accused of stealing U.S. drone manufacturers intellectual property; Textron is currently seeking damages against DJI over two patent infringements.[29] Furthermore, with the ability to flood the U.S. with subsidized Chinese-made drones, China has artificially lowered the price of drones, making it challenging for U.S. manufacturers, who compete in the commercial marketplace without government subsidies, to be competitive on price. This ultimately drives sales away from commercial U.S. companies and into subsidized Chinese companies, fulfilling the goal of Made in China 2025. This harms the U.S. industry's ability to attract capital, investment, and workforce and ultimately stifles innovation and growth of the U.S. market. This vicious cycle can be upended through targeted government action,

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[26] https://www.nytimes.com/2023/03/21/business/russia-china-drones-ukraine-war.html
[27] Ibid
[28] Ibid
[29] *Bloomberg Government*, "Textron Seeks $367 Million From Blacklisted Chinese Drone Maker," Michael Shapiro, April 17, 2023

including tax incentives, grant programs, and other efforts, to level the playing field for U.S. manufacturers.

Threat to U.S. Values & Fundamental Human Rights

In addition to posing threats to U.S. national security and distorting the economic marketplace by flooding the U.S. with subsidized drones, it is also widely understood the DJI has been alleged to support human rights abuses. The U.S. DOC placed DJI on the Entity List,[30] and the U.S. Department of the Treasury placed DJI on the Office of Foreign Assets Control (OFAC) list of Chinese tech firms that are part of the Chinese military-industrial complex.[31] These lists restrict U.S. investments in DJI based on allegations of support of human rights abuses against the Uighur people. Specifically, the Department of the Treasury noted, "SZ DJI Technology Co., Ltd. (SZ DJI) operates or has operated in the surveillance technology sector of the economy of the PRC. SZ DJI has provided drones to the Xinjiang Public Security Bureau, which are used to surveil Uyghurs in Xinjiang. The Xinjiang Public Security Bureau was previously designated in July 2020, pursuant to E.O. 13818, for being a foreign person responsible for, or complicit in, or that has directly or indirectly engaged in, serious human rights abuse."[32]

It is U.S. government policy to combat forced labor in Xinjiang and strengthen international coordination against this egregious violation of human rights. Accordingly, to be consistent with this policy, and American values, the U.S. must move away from Chinese drones, specifically DJI drones, that have been found by the U.S. government to facilitate the human rights abuses against the Uighur people.

U.S. Drone Manufacturing Competitiveness & Security

From the perspective of U.S. competitiveness and security, enabling U.S. leadership in the drone industry – the focal point of a new era of aviation – represents a strategic imperative in a market long characterized by state-subsidized companies based in China. AUVSI believes it is essential to advance security and competitiveness in a thoughtful way that respects existing investments while building toward a more secure, sustainable future that puts the U.S. interests – including security, the economy, and overarching values – first. By addressing these issues in a measured manner, we believe we can help to balance competing interests and facilitate sound policy.

Leveling the Playing Field for U.S. Drone Manufacturing

U.S. drone manufacturers, and their component supply chain, have struggled to compete against foreign subsidized competition, which hinders the availability of American-made UAS on the market and harms the potential for workforce growth and investment. Accordingly, the U.S. government must foster a more competitive and fair playing field for U.S.-based drone manufacturers. AUVSI is advocating for specific proposals that would generate demand for U.S.-made drones and supply-side measures that level the

[30] https://www.bis.doc.gov/index.php/documents/regulations-docs/2326-supplement-no-4-to-part-744-entity-list-4/file
[31] https://sanctionssearch.ofac.treas.gov
[32] https://home.treasury.gov/news/press-releases/jy0538

playing field for U.S. drone and component manufacturers against subsidized competition and dumping practices.

Bolstering new drone manufacturing capabilities and the associated workforce will require infrastructure and capital expenditures. Providing tax incentives and other mechanisms to spur that spending would accelerate growth and development that would have otherwise been delayed or denied. Manufacturers tax credits for the production and sale of certain UAS equipment and components produced and sold in the U.S. would benefit the industry and its competitiveness and would decrease a reliance on subsidized foreign drones. This has worked in other industries. According to the *Financial Times*, U.S. manufacturing commitments doubled – to more than $200 billion, creating 82,000 jobs – based on the success of tax incentive programs for other industries, including solar panels, semiconductors, electric vehicles, and other clean technologies.[33]

- To promote domestic drone manufacturing capacity, Congress should develop a tax incentive program for drone manufacturing modeled upon the Solar Energy Manufacturing for America Act (SEMA) or modeled around language included in the House's Bioeconomy Research and Development Act of 2021 (America Creating Opportunities for Manufacturing, Pre-Eminence in Technology and Economic Strength (COMPETES) Act of 2022) and the Senate's United States Innovation and Competition Act (USICA) on semiconductors and other technologies.
- In addition to tax incentives, to promote competitiveness against subsidized Chinese competition, Congress should develop a program of loan guarantees to U.S. drone and component manufacturers modeled around language included in the Advanced Technology Vehicles Manufacturing Direct Loan Program.
- Access to rare earth driven components is a challenge to U.S. drone and component manufacturers. Congress should enact legislation along the lines of H.R. 8981, the Securing America's Mineral Supply Chains Act, from the 117th Congress. It would be highly beneficial to the American drone industry by helping ensure the domestic availability of critical materials that are required in the manufacturing of UAS and their components.

Federal Market Demand Programs

Programs focused on U.S.-made drone acquisition incentives, specifically grants, would signal to investors the market opportunity for U.S. drones, thereby stimulating investment into U.S. drone and component manufacturing. These programs are also fair and market-driven, maximizing public choice, as the government would not be picking winners and losers in the marketplace.

Federal Grants for Infrastructure Inspection

- Congress should enact the Drone Infrastructure Inspection Grant (DIIG) Act, which would create a $100 million grant program for local, state, and tribal

[33] https://www.ft.com/content/b1079606-5543-4fc5-acae-2c6c84b3a49f

governments to use U.S.-made drones for critical infrastructure inspection and construction projects.

  - The DIIG Act also provides $100 million in grant funding for workforce development programs, coupling with community colleges and four-year institutions, to enable the future workforce required for the U.S. to remain a global aviation leader.
    - The DIIG Act would enhance U.S. drone competitiveness by spurring investment in the U.S. drone industry and worker training and provide tangible benefits for infrastructure inspection.
- U.S. Department of Transportation (DOT) programs that enable the use of drones for infrastructure inspection, such as the Every Day Counts (EDC) program, should incentive the use of U.S. manufactured drones.

Federal Grants for First Responders

According to a 2019 survey by Droneresponders, 92% of first responders in the U.S. are using drones made by China.[34] This is the direct consequence of Chinese subsidization of the drones, driving down costs, and a program to donate DJI drones to first responders.[35] The Droneresponders survey also noted that 88% of first responder agencies would prefer to use U.S. drones, however, cost is a major factor in being able to transition away from the subsidized Chinese drones to market-based U.S. drones.[36]

- Congress should enhance existing first responder grant programs within the U.S. to allow federal agencies, as well as local, state, and tribal governments, to utilize U.S.-made drones. Ideally the increased funding would be dedicated solely to agencies using U.S.-made drones, providing them a period of time to phase out foreign-made drones and phase in domestic ones.
  - This should include the Department of Homeland Security's (DHS) Urban Areas Security Initiative (UASI) Program.
  - The Federal Emergency Management Agency's Assistance to Firefighters Grants (AFG) Program must be opened up to allow grant money to be used on UAS. Currently, UAS are excluded, and opening this program up presents significant opportunity to spur production in the U.S. market while meeting important needs.

Trusted Capital Marketplace

The DoD has established the Trusted Capital (TC) Program to "strengthen the defense industrial base and limit threats to national security posed by adversarial capital."[37] The TC Program provides qualifying small to medium-sized technology capability

[34] https://www.droneresponders.org/2019-chinese-uas-technology
[35] https://www.newsweek.com/lawmakers-request-federal-inquiry-over-concerns-drones-donated-china-are-being-used-spy-us-1504222
[36] https://www.droneresponders.org/2019-chinese-uas-technology
[37] https://www.acq.osd.mil/tc/

providers with a range of capital solutions via "trusted" capital providers.[38] This program should be expanded upon to be better utilized by our domestic UAS manufacturers.

Drone Cybersecurity

- The Federal Aviation Administration (FAA) should consider cybersecurity standards for drones as part of the Special Airworthiness Criteria (SAC).
    - A measured approach to phase in standards to ensure trust, integrity, and availability of data collected by drones should be a considered addition to the SAC process.
- AUVSI, through its Trusted Cyber Program Working Group, made up of nearly forty companies in the uncrewed and autonomy industry, has developed a framework for cyber standards for drones.
- In conjunction with the DoD's Defense Innovation Unit (DIU), AUVSI brought to market the Green UAS compliance program to assess and verify commercial drones to ensure that they meet the highest levels of cybersecurity and NDAA supply chain requirements.
    - This is accomplished through a security controls assessment and vulnerability and penetration test.
    - The Green UAS cleared list of drones will meet updated levels of security requirements of the DIU's Blue UAS 2.0 Program.

Country of Origin Restrictions on Drones

AUVSI has developed targeted principles for legislative or executive measures designed to advance the use of trustworthy systems made in the U.S. and allied nations in a responsible, measured manner. Our principles for country of origin restrictions are as follows:

- Ensure any restrictions on UAS are reasonably related to national security, cybersecurity, human rights concerns, and address only companies who are tied to certain governments that provide their UAS companies with significant subsidies and are tied to unacceptable practices such as military-civil fusion. This may include referencing sources such as:
    - The Consolidated Screening List (International Trade Administration), Entity List (U.S. DOC, Bureau of Industry and Security), Entities identified by the DoD as military companies from countries of concern operating directly or indirectly in the United States, and other such lists managed, maintained, and regularly updated by the U.S. government.
- With respect to components, limit any restrictions to security-critical components (and omit passive components). These types of restrictions are best exemplified by the American Security Drone Act (ASDA), a legislative initiative which limits

[38] https://www.defense.gov/News/Releases/Release/Article/2470485/department-of-defense-announces-establishment-of-the-trusted-capital-digital-ma/

component restrictions to two components (communications links and the controller).

    - Include, ideally, affirmative measures designed to support a timely, low-friction transition, which may include grants or other incentives to end users or pathways designed to support the domestic manufacturing of trustworthy UAS systems.
        - Following the transition period, those mechanisms must remain in place in an effort to foster a more competitive and fair playing field for domestic, United States-based manufacturers.
- Afford end users suitable transition periods with respect to the use of products that may be restricted in the future. This is important for companies who already utilize foreign-made UAS, notably those from China.
- Plus-up existing grant programs within the United States to allow federal agencies to utilize U.S.-made drones. Ideally the increased funding would be dedicated solely to agencies transitioning to U.S.-made drones and providing them a period of time to phase out foreign-made drones and phase in domestic ones.
- Open up existing grant programs within the United States to allow federal agencies to utilize U.S.-made drones.

Thank you so much again for holding this important hearing and for considering this testimony for the record. We welcome questions and would be happy to meet with House Ways and Means Committee bipartisan staff at any time.

Sincerely,

Michael Robbins

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NATIONAL ASSOCIATION OF Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

Statement for the Record

National Association of Manufacturers
733 10th Street, NW, Suite 700
Washington, DC 20001

House Committee on Ways and Means
Subcommittee on Trade
Hearing on "Countering China's Trade and Investment Agenda"

April 18, 2023

Statement for the Record

House Committee on Ways and Means
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April 18, 2023

The National Association of Manufacturers is pleased to provide the following statement to the House Committee on Ways and Means on "Countering China's Trade and Investment Agenda."

Manufacturing employs roughly 13 million Americans and contributes $2.81 trillion to the U.S. economy annually. Taken alone, that output would make it the eighth-largest economy in the world. Manufacturers have one of the largest sectoral multipliers in the economy and provide well-paying jobs, with manufacturing employees earning $95,990 on average, including pay and benefits, bolstering the economic security of American families.

Much of this success is possible thanks to fair, open and predictable trade that delivers results for manufacturers and workers in America. Exports fuel more than half of all U.S. manufacturing production and support the jobs of more than 6 million manufacturing workers. Workers in export-intensive sectors earn 26% more on average than in other sectors. Small and medium-sized manufacturers especially benefit from export opportunities, as 95% of all exporting businesses are SMMs.[1]

Unfortunately, U.S. economic leadership is at risk in the increasingly competitive global economy, as our commercial rivals like China seek to set the rules for global trade and negotiate new agreements that lock in advantages for their businesses at the expense of ours.

To counter China's trade and investment agenda, it is vital that the U.S. advance a robust, ambitious trade approach that will promote growth and opportunity for manufacturers, workers and the broader American economy.

1. **Pursue Renewal of Trade Promotion Authority to Enable New, Ambitious, High-Standard U.S. Trade Agreements**

Manufacturers must be able to compete in a global economy by selling not only to U.S. consumers but also to the 95% of the global population living outside of the U.S. That points to the urgent need for an ambitious, market-opening trade agenda, including the negotiation and implementation of robust trade agreements that strengthen manufacturers in America, the jobs they create and the communities they support.

As NAM President and CEO Jay Timmons underscored in a March 2023 letter to President Biden, trade agreements play a critical role in promoting U.S. global economic leadership, promoting American values, deepening economic ties with friends and allies, comprehensively opening markets for American-made goods and diversifying and securing supply chains. Without such agreements, manufacturers in the U.S. risk being

[1] U.S. Census Bureau, "Profile of U.S. Importing and Exporting Companies: 2020-2021," Oct. 5, 2022.

left behind while our global competitors actively negotiate new agreements that exclude us.

Manufacturers respectfully urge Congress and the Biden administration to prioritize congressional passage of Trade Promotion Authority to enable the U.S. negotiation of new, cutting-edge trade agreements. Such an agenda must comprehensively open markets, support U.S. technology leadership and innovation, promote strong investment rules, raise global standards, facilitate trade and ensure that manufacturers benefit from principles such as nondiscrimination, fairness, equal opportunity and competition.

The Biden administration's efforts to negotiate a range of economic frameworks, such as the Indo-Pacific Economic Framework, the Americas Partnership for Economic Prosperity and bilateral frameworks with Kenya and Taiwan, indicate that the U.S. is willing to prioritize some areas of importance to manufacturers, including digital trade and supply chains. There is also ample opportunity to expand these deals so that they reach their full potential. That can be done by eliminating tariffs and nontariff barriers and strengthening standards in areas such as intellectual property, investment and regulatory trade.

In addition to strengthening our transatlantic alliances by negotiating comprehensive trade agreements with our partners in Europe, including the European Union, the United Kingdom and Ukraine, manufacturers are urging the launch of discussions to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which would allow the U.S. to counter China's influence in the region.

2. **Ensure Broad Commercial Enforcement of Existing U.S. Trade Agreements such as the United States–Mexico–Canada Agreement**

Manufacturers need to see strong and comprehensive enforcement of our existing agreements, as our industry faces continued trade barriers and other obstacles that raise concerns about Mexico's adherence with both the letter and spirit of the United States–Mexico–Canada Agreement. As NAM President and CEO Jay Timmons laid out in a June 2022 letter to President Biden, manufacturers are facing a broad array of commercial challenges in Mexico that merit stronger attention and advocacy from Congress and the administration, including:

- Energy and power generation policies that favor the interests of Mexican state-owned entities over U.S. companies;
- Government delays in issuing permits for energy activities in Mexico, such as permits that allow major U.S. investors to open service stations;
- Expanded food-labeling requirements that impact U.S. food and agricultural exports;
- The failure of Mexico's regulators to promote competition in the telecommunications market;
- Measures that would require overly costly and complicated electronic waybills (the "Carta Porte" issue);
- Delayed approvals of biopharmaceuticals; and
- Bans on the sale of certain goods including chemicals and genetically modified corn.

Manufacturers respectfully urge Congress, through its consultation and oversight roles, to ensure that the U.S. is pursuing broad commercial enforcement of U.S. trade agreements such as the USMCA, and as appropriate, to press our trading partners to live up to their commitments. Failure to ensure broad trade enforcement, including commercial enforcement, will undermine the long-term credibility of U.S. trade agreements.

3. **Pass Critical Bipartisan Legislation to Reauthorize the Miscellaneous Tariff Bill and Generalized System of Preferences**

As manufacturers work to build, grow and invest here at home at a time of economic turbulence, access to goods that are not available in the U.S. and critical inputs needed to support U.S.-based manufacturing is crucial. However, the Miscellaneous Tariff Bill and the Generalized System of Preferences, bipartisan trade preference programs that are critical for manufacturers in the U.S., expired in December 2020.

The MTB temporarily eliminates or reduces tariffs on goods that are not available in sufficient quantities in the U.S. and thus directly supports manufacturers' ability to remain competitive. Since its expiration, manufacturers and other businesses have paid more than $1 billion in anticompetitive tariffs, or $1.3 million per day, on goods that are not available in the U.S., which is harmful to manufacturers, especially small- and medium-sized manufacturers. Without the MTB, these anticompetitive tariffs make it harder for manufacturers to sustain and expand opportunities for American workers, and create higher prices for consumers, making it more difficult for American families to purchase goods from companies in the U.S.

The GSP program eliminates duties on targeted products that benefit American consumers and businesses, while also providing beneficiary countries the opportunity to grow their economies through trade.

Manufacturers respectfully urge Congress to provide tariff relief for our industry by passing MTB and GSP legislation as soon as possible this year.

4. **Strengthen Our Ability to Compete with China at Home and Abroad**

In a February 2023 letter to the House Select Committee on the Strategic Competition Between the U.S. and the Chinese Communist Party, the NAM outlined a broad array of policy tools on issues such as workforce, immigration, permitting reform, regulation, energy, infrastructure and tax. The NAM letter also underscored the importance of the U.S. advancing a clear, comprehensive China trade strategy.

Such a strategy must be rooted in American strengths and values and closely coordinated with allies, and it must also reflect China's role as a necessary partner in targeted areas, a fierce economic competitor that often fails to play by the rules and a major geopolitical rival. It must hold China fully accountable for a wide variety of trade-distorting behaviors that harm manufacturers in the U.S., while also engaging closely with allies and directly with China to press for change on those issues and ensure common approaches to these challenges.

Ambitious, market-opening, enforceable U.S. trade agreements will strengthen our relationships with friends and allies and allow the U.S. to counter China's influence in the

Indo-Pacific region. The U.S. should also strategically refine existing enforcement tools and work closely with the industry on possible development of new tools to effectively confront problematic Chinese trade actions. This must include a rapid, transparent four-year review of existing Section 301 tariffs and the creation of a comprehensive exclusion process for Section 301 tariffs to refine those tools, giving manufacturers a strong voice in potential adjustments and relief.

5. **Strengthen and Protect American Intellectual Property Abroad**

Innovation and IP are the lifeblood of the U.S. economy and serve as critical foundations of a globally competitive manufacturing base at home and U.S. global manufacturing leadership around the world. In a competitive global environment, manufacturers are investing heavily in innovation; manufacturers contribute 55% of all private-sector research and development in the U.S.,[2] driving new technologies and products in emerging fields such as advanced health care, green technology, robotics and the digital economy that improve American lives and confront global challenges. Importantly, innovation means jobs; innovative industries account for 41% of all domestic output and directly or indirectly support more than 62.5 million jobs across the country, including 10.7 million IP-intensive jobs in manufacturing.[3]

However, American innovation and IP remain major targets for theft by foreign actors. That is why there has been strong bipartisan support in the U.S. for the vigorous protection of IP rights at home and abroad. As laid out in the NAM's January 2023 submission for the annual Special 301 report, manufacturers face a series of broad global challenges, including the erosion of critical IP protections in international organizations, the continued growth of global counterfeiting and growing pressure at the national level to erode core IP protections in the name of other public policy priorities, as well as challenges in an array of markets from Canada to China and from India to Indonesia.

Specifically, manufacturers across innovative sectors are deeply concerned with ongoing negotiations over the potential expansion of the June 2022 World Trade Organization decision on IP and COVID-19 vaccines (the so-called TRIPS waiver) to include a broad mix of diagnostics, therapeutics and their supply chains. An expanded waiver to cover therapeutics, diagnostics and their supply chains would undermine American innovation, competitiveness, workers and technology leadership over China while ignoring, or worsening, supply chain, distribution and demand issues that are the biggest current challenges to the global fight against COVID-19. Manufacturers respectfully urge Congress to stand with American businesses and workers by actively opposing an expanded TRIPS waiver.

6. **Lean into WTO Modernization and Revitalization**

Manufacturers have long supported the WTO as the core of a multilateral, free and transparent rules-based framework that promotes the expansion of global commerce, creates opportunities for manufacturing workers and improves the competitiveness of

[2] National Association of Manufacturers, "Facts About Manufacturing," last visited March 22, 2023.
[3] Statistics cited in the report date to 2019, with manufacturing representing 22.6% of the 47.2 million IP-intensive jobs across sectors. See Toole, Andrew A., Richard D. Miller and Nicholas Rada, "Intellectual Property and the U.S. Economy: Third Edition," March 2022.

our industry. The WTO has underpinned the success of the global economy, and WTO rules enable the effective functioning and enforcement of the multilateral trading system for the benefit of all members. In recent years, however, the multilateral trading system has not kept pace with industry and technological developments or new trade-distorting practices, particularly those emanating from China, nor has that system been updated to address broad systemic challenges.

Modernizing the WTO will benefit manufacturers and their teams, including through efforts to reenergize the WTO's ability to negotiate new trade-liberalizing agreements in areas such as digital trade and environmental goods and technologies. Manufacturers would also benefit from reforms to special and differential treatment afforded to certain WTO countries, an up-to-date and enforceable WTO rulebook that reduces barriers and distortions in the international trade system and improvements to WTO enforcement tools via reform and the return to full functionality of the Dispute Settlement System. Manufacturers also strongly believe that the U.S. must support critical existing arrangements such as continuing to extend the moratorium on applying duties to electronic transactions through the WTO e-commerce duty moratorium.

7. **Adopt a Proactive Approach on Global Regulatory Concerns**

As manufacturers in the U.S. seek to export and sell in diverse foreign markets in ways that support jobs here at home, they face continued challenges with discriminatory trade barriers, including technical barriers to trade and sanitary and phytosanitary issues, lack of regulatory transparency and fragmented regulatory approaches across markets. These challenges are felt broadly by manufacturers of all sizes, but those most affected are small- and medium-sized manufacturers that bear a disproportionate cost from these barriers due to their size. Such companies would also benefit most from regulatory transparency and alignment that can expand their ability to reach multiple global markets.

As the NAM and nearly 30 other associations described in a December 2022 association letter sent to the Biden administration, manufacturers believe that the U.S. should advance regulatory cooperation, strengthen good regulatory practices and tackle TBT and SPS concerns that are harming U.S. businesses and workers. This approach should be reflected across the board, including:

- Enforcement of existing agreements such as USMCA, the U.S.–Brazil Agreement on Trade and Economic Cooperation and additional free trade agreements with countries from Korea to Colombia;
- Negotiations for new regional frameworks such as the Indo-Pacific Economic Framework, the Americas Partnership for Economic Prosperity and the U.S. Strategy Toward Sub-Saharan Africa;
- Existing bilateral frameworks and dialogues with the European Union, United Kingdom, Taiwan, India and Kenya;
- Strategies and approaches related to reform of the WTO; and
- Any and all future trade agreements with priority trading partners.

Addressing these issues would directly support the spread of U.S.-driven regulatory approaches around the world and fight back against nontariff trade barriers, delivering market access and opportunity for American businesses and workers. Manufacturers urge Congress to engage with the Office of the U.S. Trade Representative to ensure that these issues are prioritized in all of the initiatives listed above.

8. **Advance Investment Policies That Protect National Security and Strengthen Manufacturing Competitiveness**

Manufacturers support policies and regulations that strengthen and promote investment in the U.S. and enable manufacturers in the U.S. to leverage opportunities in the global market. U.S. investment in both directions is a critical driver for manufacturing competitiveness and growth. Robust investment from international companies helps to expand U.S. domestic manufacturing capacity and create jobs for American workers. Similarly, the ability of manufacturers in the U.S. to invest abroad in global markets allows them to better reach global consumers, expanding both exports and local sales in ways that strengthen those companies' ability to hire and grow here at home.

Manufacturers support efforts like the Global Investment in American Jobs Act, which requires an interagency review of the global competitiveness of the U.S. in attracting foreign direct investment from responsible private-sector entities based in trusted countries, among other things. It is also important that investment screening mechanisms are targeted to achieve national security objectives and avoid unintended consequences.

9. **Modernize U.S. Customs Operations to Improve Enforcement and Facilitate Trade**

To boost exports around the world and obtain needed inputs, the U.S. and its trading partners need a modern customs framework that streamlines legitimate trade while taking strategic approaches to tackling illicit trade.

As the NAM laid out in November 2021 comments regarding the Customs Modernization Act of 2021, manufacturers support efforts to modernize customs operations and stand ready to work in close partnership with Congress and U.S. Customs and Border Protection to achieve streamlined, safe and secure trade. Customs modernization in the U.S. should focus on improving trade facilitation, along with protections for and engagement with good actors, while also providing CBP with the appropriate authority and tools to conduct targeted enforcement to crack down on bad actors engaging in unlawful trade.

The NAM supports action to modernize CBP through legislation that advances both trade enforcement and trade facilitation, and manufacturers look forward to continued work with Congress to shape potential legislative efforts in this space.

10. **Maintain Strong De Minimis Protections with Targeted Steps to Improve Enforcement**

Manufacturers support the current $800 de minimis threshold, which helps streamline customs clearance and lowers costs for manufacturers, while also lessening the administrative burden on U.S. customs officials who clear millions of shipments through U.S. ports every day. De minimis benefits manufacturers of all sizes but disproportionally benefits small and medium manufacturers, allowing them to import components for subsequent U.S. manufacturing of goods for retail sale. This helps keep business costs low through simplified processes at the border that minimize red tape. In turn, this saving helps make small businesses more competitive and supports jobs for American workers.

Manufacturers also support targeted efforts, in close coordination with the U.S. private sector, to improve enforcement within the de minimis environment. The Department of Homeland Security's ongoing 321 pilot program reflects an effective approach that works with companies to assess the data elements that will help CBP improve enforcement by targeting bad actors, while also preserving the benefits of de minimis for good actors. It is crucial for Congress to work closely with CBP and the private sector to support and advance the 321 pilot program, as well as longer-term efforts that provide CBP with the needed information for enforcement.

* * * *

Manufacturers of all sizes believe that U.S. global leadership on trade, including through new, robust, market-opening trade agreements, efforts to hold our trading partners accountable, investments in U.S. trade competitiveness and certainty and assertive U.S. engagement in writing the rules for the international trading system, is necessary to ensure that manufacturers in America will continue to lead well into the future and counter China's trade and investment agenda.

In a challenging global environment, we must be bold and ambitious, with a proactive trade agenda built for this moment. We stand ready to work with you closely to get this done.

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Trade
Countering China's Trade and Investment Agenda:
Opportunities for American Leadership
Tuesday, April 18, 2023 at 2:00 PM.

Michael G. Bindner
The Center for Fiscal Equity

Chairman Smith and Ranking Member Blumenauer, thank you for the opportunity to submit these comments for the record.

As an anthropologist, I find the trials and tribulations of Chinese society interesting and a series of comments to both this subcommittee and the Finance Committee demonstrate this. These hearings allow me to update previous remarks, which are attached.

The main reasons the United States must focus on China are that it is one of our biggest providers of goods (and sometimes services - although India leads in that department), as well as graduate students who return home (Indian nationals tend to come over on H-1B visas after graduation from Indian schools) AND because they are a major lender, as well as Japan, to facilitate that trade.

The Chinese have also lent substantial sums to African nations, and others, in their Belt Road project. Reports are that these funds have dried up and China is now attempting to collect what was previously owed as payments become due.

The reason for this shift is that they are having a bit of a financial crisis. China, Inc. had their middle class invest heavily in housing - housing which was unoccupied and substandard. It is also in crisis because of how it responded to the Pandemic, and how it is responding to the lifting of restrictions.

In other words, they no longer have an agenda. They are in survival mode. The last time we tried to limit an Asian nation in its expansion, by cutting off Japanese oil, a World War resulted. Let us not make the same mistake this time.

We need to make small steps and let the emerging Chinese middle class take care of the Chinese Communist Party. This is also the stance we need to take with Iran.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment: Supporting U.S. Workers, Businesses, and the Environment in the Face of Unfair Chinese Trade Practices, November 17, 2021

China is a victim of its own success. It now has a vibrant middle class which is used to living with all of the comforts that implies. Every year, migrants are driven off their land, often by investment housing, seeking factory jobs which will eventually lead them into property ownership outside their home villages. This pattern has repeated itself time and again in the capitalist era.

The Chinese Communist Party is facing a quandary, however. When middle classes are formed, they begin to chafe at authoritarianism. Traditional culture has slowed the desire for revolution, but this does not negate the analysis of none other than Karl Marx. Revolution is inevitable as a matter of economic destiny.

Our comments from June 2021 underlie the fragility of authoritarian regimes, such as China. Let me offer four new examples:

Lower level governments fear losing face with the central government. This was especially true in Wuhan at the start of the COVID pandemic. The crisis was hidden until it was too late. Problems were complicated by giving citizens a deadline to flee rather than imposing immediate lockdowns. This probably spread the virus to the entire nation. There is little visibility on the results of such an error, which indicates they are being covered up.

In a fete of pique, the Chinese government objected to Australian Prime Minister Abbott's off the cuff comments on their response to the virus. This led to a boycott on Australian coal. This coal was bound for the industrial sector. After the current backlog at our ports has been cleared, it may be followed by a different set of supply chain issues. A freer society would not have made this mistake (aside from the prior U.S. Administration).

There has been no let up in the use of coal for utilities, although less is available. There are now power shortages in some areas, according to recent reports. The Party tries to keep the lights on to placate the middle class (peasants don't really have good electricity). They correctly fear a usually docile urban culture becoming less docile when conditions get worse.

A further example of their impending troubles is the Evergrande crisis (and a housing crisis in general). Authoritarian cultures do things for show. Many of Evergrande's developments are Potemkin investments that were never designed for actual occupation. These developments are essentially a Ponzi scheme.

As an aside, in America cryptocurrency is such a scheme. Also, much of our single-family rental market is known for leaving maintenance in the hands of tenants. Secretaries Ross and Mnuchin should be called to account for their part in this.

In order to placate the Chinese middle class, some developments are condemned and demolished, which leads to payments for investors - but not enough to keep their boom alive. Their efforts to bail out these investors will divert funds which are currently being invested in U.S. Treasuries into their own crisis. This assumes a slower unwinding than is likely possible. A major crash will not stop at the Pacific Ocean.

For this reason, it is imperative that our own debt limit default issues be dealt with promptly. Adding uncertainty to the mix may crash the world. Currently, some American investors are taking profits before higher capital gains taxes are enacted in Build Back Better. This will further deflate our overvalued markets, cushioning the blow from the inevitable crisis in China.

A full-on Chinese economic crash is an existential threat to the Communist Party in China (and they know it). Such a crash is also an existential threat to the value of trillions of dollars of American bonds. The only way out is to raise taxes more than Build Back Better's levels. Taxing the wealthy takes money out of speculation (deflating Ponzi schemes even further) and diverts funds to the consumption sector (including credit for the middle class).

A collapse of the Chinese economy may or may not help American workers. Factories do not spring up overnight. Businesses will certainly take a hit and, unless Congress is as generous in dealing with this crisis as it was for COVID, poorer families will be hit with liquidity issues and scarcity through no fault of their own.

The tenure of Mick Mulvaney at the Consumer Financial Protection Authority has created a ticking time bomb at NYMEX's oil futures market. Global supply is fine. The trading rules have been gutted. Hopefully, the Administration will be able to undo the damage before what is an inevitable recession (or depression if housing values again drop below mortgage debt obligations). This time, mortgage loans that are purchased by the Federal Reserve must be written down to loan balances, reducing M3 and inflationary pressure. This will restart the world economy. Punishing the lower middle class is not an option.

The donor class is about to take a big financial hit to their investment portfolios - and not because of rising taxes. It is time for them to put pressure on both parties to do something soon. They may not suffer physically, but a loss of paper wealth is inevitable if action is not taken now.

Attachment - Strategic Benefits of a Multilateral Approach to Trade Policy in the Asia-Pacific Region, June 22, 2021

Authoritarian regimes see the protection of the ruling party in one of two ways. One is simply the preservation of political and social power. The other option is that the ruling party is committed to its ideals and fear that outside influences will threaten the nation's way of life. We can catch more flies with honey, so gently educating Chinese leadership should be tried. If they were to see how the nation can be improved by losing an election, perhaps they will be amenable to a change in tactics.

A multilateral approach is helpful here. Of course, many of our partners may not be paragons of Democracy. Of late, neither is the United States. Our own problems are a teachable moment. No society is perfect. The nation can use our current struggles as an example that democracy is not an end, it is a process. Our difficulties with a vocal authoritarian movement supporting an authoritarian former president can be used as a teaching moment. The Chinese leadership will not need much convincing on how bad an authoritarian leader can be, given the last four years.

This dovetails nicely to the question of the Uyghurs. Much discussion has occurred on this front over the last few years. Our analysis of this issue has been shared with Congress on more than one occasion, including the need to look inward on the issue of slavery - an not merely at our past sins. See our second attachment. We can also add our support of tyranny throughout our history and the Native American genocide. Again, our flawed past and how we are overcoming it may be our best narrative in dealing with our future and China's.

Multinationalism on this issue should cast a wide net. It might even be an occasion to make peace with recent enemies, especially the Islamic Republic of Iran. Including them in a coalition of conscience regarding the Chinese Turkmen (as well as in dealing with the Taliban) would be a powerful statement. This is an opportunity that rarely presents itself. A united front on this issue threatens the Chinese plans for a Belt Road. We can use that to help the Uyghurs.

The Belt Road takes us to our last destination, containing Chinese hegemony. The Trans Pacific Partnership was designed to counter emerging Chinese power. Now the Belt Road projects are in full swing and our biggest tool is no more. While I share the concerns of many regarding the power of industry in enforcing such agreements, some of these concerns are allayed by the recently negotiated US - Mexico - Canada Agreement. The gains for workers and the environment should be migrated to all such agreements and the TPP process should be reopened.

The final question is to examine who really killed the TPP and why. Was this a case of an inept presidential candidate running amok or did he gain personally from raising the issue. Was it merely sparring between the major campaigns that killed the agreement or were there more organized interests behind the scuttling of the agreement.

Attachment - U.S.-China Relations: Improving U.S. Competitiveness Through Trade, April 22, 2021

The exit of Donald J. Trump from the White House almost instantly improved our trade relationship with China. Since both sides want to return to normal, it should happen rather quickly. Let us not do so too quickly. There are significant human rights abuses that should be addressed before we dot the i's and cross the t's. Let us not waste a good crisis to deal with the plight of the Uygurs. If not now, when? See our attachment, which contains our prior comments on slave labor and supply chains.

While competitiveness is a good thing, justice is a better thing. Consumers may have to pay a bit more for goods produced at home and abroad, but there are worse things.

The Chinese economy depends on migrant labor, with rural migrants going to the coasts to work, but taking their social service systems with them. Peasants do not receive the same benefits as workers from urban China. They are sitting on a time bomb.

Eventually, these migrants will object to the locality system imposed upon them and demand the same level of pay, benefits and consumerism as is earned by those designated as urban. When this occurs, the valuation of the Yuan will occur, assuming that the Chinese Communist Party survives. We do not make this assumption, however.

Chinese workers are not the only ones getting the short end of the stick in international trade. The CEO/Donor Class attack on unions for the past 30 years trades "competitiveness" for worker rights.. It has taken its toll on the American worker in both immigration and trade.

Cheap goods and food are part of the equation, but not the only part. Tax policy is a major driver That has been facilitated by decreasing the top marginal income tax rates so that when savings are made to labor costs, the CEOs and stockholders actually benefit. When tax rates are high, the government gets the cash so wages are not kept low nor unions busted. As Chinese workers are not allowed to unionize, the working class in both nations become expendable factors in production rather than human beings.

Contact Sheet

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Committee on Ways and Means
Subcommittee on Trade
Countering China's Trade and Investment Agenda:
Opportunities for American Leadership
Tuesday, April 18, 2023 at 2:00 PM.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

UHRP
Uyghur Human Rights Project
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Written Statement for the Record
Louisa Greve
Director of Global Advocacy, Uyghur Human Rights Project

Submitted to the U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Trade

April 18, 2023

To the Members of the Committee:

I write in strong support of H.J. Res 39. This bipartisan bill would repeal the Biden Administration's Solar Emergency Declaration, a harmful rule issued in June 2022 that protects Chinese solar manufacturers that the Department of Commerce has determined are illegally avoiding U.S. tariffs.

As you know, both the President Biden and President Trump administrations have determined that the PRC government is committing genocide and crimes against humanity against the Uyghurs and other Turkic peoples, including state-imposed forced labor, mass forced sterilization, and mass enforced disappearance and arbitrary detention. The United Nations Office of the High Commissioner for Human Rights (OHCHR) found in its authoritative August 31, 2022 report (the "Bachelet Report,") that the PRC is responsible for "serious human rights violations" that "may constitute crimes against humanity."

In response to the Uyghur human-rights crisis, the U.S. government has taken action to ban products made with forced labor from China, including solar equipment, among 100+ human-rights sanctions including export bans, investment bans, visa bans, and Global Magnitsky targeted human rights OFAC SDN designations. Under the Uyghur Forced Labor Prevention Act, which came into force on June 21, 2022, no products are exempt from the "rebuttable presumption" that all products mined, grown, or manufactured in the Uyghur Region are banned under Section 307 of the U.S. Tariff Act. The law is applicable regardless of the needs of particular industries or the scarcity of alternative supplies.

No economic or environmental imperative can justify profits from the genocidal state-imposed forced labor of Uyghurs.

The reality is that the Chinese polysilicon and solar-component industries are highly dependent on mining and manufacturing in the Uyghur homeland, using central government subsidies and incentives, and under the auspices of the government of the Xinjiang Uyghur Autonomous Region.

In our view, it is clear that an increase in solar imports from Chinese solar manufacturers — regardless of whether these imports are from China or Chinese controlled factories in Southeast Asia—directly supports the Chinese solar industry's use of Uyghur forced labor. According to government data, imports of solar cells and modules from Cambodia, Malaysia, Thailand have risen 69% since 2019.

It is unconscionable to believe that the U.S. should build a clean-energy future that relies on products made under the combination of dirty coal plants and China's genocidal forced-labor inputs. As the AFL-CIO pointed out in a major statement in October 2021, the "solar industry, and its entire value chain, should exemplify how the United States meets the climate, equity and economic challenges of the 21st century." It's a false choice to think we can achieve climate goals by abandoning our core values.

As H.J. Res 39 comes before the Ways and Means Committee, we urge you to support this bipartisan, common-sense measure. It is indefensible to allow Chinese solar manufacturers that profit from Uyghur forced labor to be exempted from compliance with U.S. trade law.

About UHRP

The Uyghur Human Rights Project (UHRP) promotes the rights of the Uyghurs and other Turkic Muslim peoples in East Turkistan, referred to by the Chinese government as the Xinjiang Uyghur Autonomous Region, through research-based advocacy. UHRP was founded in 2003 as a project of the Uyghur American Association and became an independent nonprofit organization in 2016.