

STATEMENT OF MR. JOSE W. FERNANDEZ
UNDER SECRETARY OF STATE FOR ECONOMIC GROWTH, ENERGY, AND THE
ENVIRONMENT FOR
HOUSE FOREIGN AFFAIRS COMMITTEE HEARING
ON COUNTERING CHINA ON THE WORLD STAGE
MARCH 21, 2024

Thank you, Chairman McCaul, Ranking Member Meeks, and Members of the committee for the opportunity to appear before you today. Chairman McCaul, Ranking Member Meeks, I appreciate your interest in the State Department's economic tools to advance U.S. national security objectives. It is my pleasure to be here with my colleague, Commerce Under Secretary Alan Estevez. State works closely with our colleagues at the Department of Commerce to build a prosperous and secure global economy that benefits American workers, families, and businesses.

This hearing focuses on countering the People's Republic of China (PRC) on the world stage and empowering U.S. businesses to compete effectively around the globe. This is one of our top priorities at the State Department. I am lucky to lead a team of more than 1,500 economic officers, located in almost every country in the world, who work with host governments to advance the Administration's economic statecraft agenda across an array of issues from supply chains to artificial intelligence, leveraging U.S. global leadership to strengthen our domestic economy. These efforts include promoting commercial and investment opportunities for U.S. companies and workers, intensifying our efforts on energy and climate security, ensuring sustainable and reliable supply chains, enhancing health security and resilience, expanding access to secure communication networks, providing protection for U.S. intellectual property and innovation, and fostering innovation through robust science, entrepreneurship, and technology policies.

We are more effective today than ever before in promoting U.S. businesses, and we owe a lot of that to Congress and specifically this Committee. In 2019, thanks to this Committee's efforts, Congress passed the Championing

American Business Through Diplomacy Act (CABDA) to recognize the important role commercial diplomacy plays in promoting U.S. prosperity and competing with the PRC. CABDA gives the Secretary of State primary responsibility for interagency coordination in support of U.S. economic and business interests abroad. The State Department has welcomed the opportunity to coordinate this whole-of-government effort and released the inaugural CABDA Report to Congress in 2022. The CABDA report, beyond creating an inventory of interagency commercial and economic advocacy efforts at posts, also establishes a critical baseline on U.S. companies' priorities and challenges, and how we are working to support them. Our next report, highlighting our efforts during Fiscal Year 2022, will be submitted to you shortly.

In addition to promoting U.S. businesses, we have to also confront the PRC's predatory economic practices. As President Xi Jinping said himself in April 2020: Beijing's goal is to manipulate global supply chains, force other nations into dependence on the PRC, and then use that dependence to exert leverage over Beijing's trading partners. Countering that effort is an administration priority. My job at the State Department is to do so through economic diplomacy. We are making good progress, but much work remains to be done. I want to give you three quick examples of what we are doing:

MSP

First, we are working to address vulnerabilities in critical mineral supply chains. Beijing has used a wide range of non-market policies and practices, driven by state-directed industrial targeting and including massive state funding, to dominate global mineral supply chains. Beijing's recent export restrictions on gallium, germanium, and graphite expose some of these vulnerabilities. We need to pursue new approaches to address dependencies and vulnerabilities in the critical minerals sector, and we have an advantage they cannot match: our allies and partners.

Almost two years ago, I launched the Minerals Security Partnership (MSP) to address this challenge with key foreign counterparts. We are starting with

minerals needed for the energy transition, such as lithium, graphite, and copper. We now have fourteen partners — plus the European Union — working collaboratively to find possible critical mineral projects and bring them to market. Just last month, Estonia joined. We see concrete progress. For example, there are three new graphite projects underway. The MSP has announced milestones on six projects around the world, including a manganese project in the Czech Republic, a nickel processing project in Australia, a graphite mining project in Mozambique, a rare earth magnet recycling project in the UK, and a graphite mining project in Tanzania. MSP now has a pipeline of projects, and we are working on them together.

Additionally, MSP Partners announced in Toronto on March 3 the creation of the MSP Forum, which formalizes and advances our engagement with those countries who have the critical minerals needed for the energy transition. That engagement will help ensure critical minerals are extracted, refined, and recycled in ways that benefit all the countries involved.

ITSI

Second, thanks to Congress, we are using the CHIPS Act's International Technology Security and Innovation (ITSI) Fund to re-wire global semiconductor value chains to complement the investments we are making domestically through the CHIPS Act. The ITSI fund will be used to partner with allies and partners to resolve gaps in the supply chain that are unlikely to be fully addressed domestically and will require allies and partners to step up to handle. This will create a more robust supply chain, ensuring the domestic jobs and capabilities created by CHIPS are less vulnerable to international supply shocks. To accomplish this, we are targeting the critical requirements at each step of the semiconductor value chain, specifically: securing the critical minerals our fabs need to make chips; growing a robust domestic skilled workforce with high paying jobs; coordinating policy with allies and partners so we don't face a subsidy race; and expanding downstream production capacity so fabs have diverse options for final-stage processing. This is critical work.

Congress passed both the Inflation Reduction Act and the CHIPS Act in 2022, and these programs are already creating a massive pull factor. Nations in the Americas and Southeast Asia are competing with one another to be ITSI Fund partners. On the ITSI front, we have already announced we are conducting ecosystem reviews in Costa Rica, Panama, Indonesia, Vietnam, and the Philippines. Those reviews will determine if those partners are ready to receive direct funding support. Other nations are asking us what they need to do to be considered, and some are taking on that hard work themselves. Already, 18 months after Congress passed the CHIPS Act, the ITSI program has become a new center of economic gravity. We are leveraging ITSI funding to create a much broader ecosystem and maximize the pull factor, and we are starting to see some results: in August, Intel announced plans to invest an additional \$1.2 billion in Costa Rica over the next two years.

The IRA and the ITSI fund are working to build diverse, secure, and resilient supply chains in critical minerals and chips — directly countering PRC efforts to dominate these same supply chains.

Economic Coercion

This takes me to the third effort I'd like to highlight — our effort to combat PRC economic coercion. Across the globe, Beijing exploits economic vulnerabilities of our allies and partners to threaten and coerce them into following its dictates. Beijing's bullying undermines U.S. national security and foreign policy interests and the rules-based international order. But we are not standing by. When partners face coercion, the United States is willing and able to help. I led the effort to support Lithuania, which faced trade-based retaliation by China for opening a Taiwan representative office, and to use that case to develop a toolkit of actions to directly support other partners facing PRC coercion. With Lithuania, we provided concrete support, economic and otherwise. Beijing canceled roughly \$300 million in export credit to Lithuanian companies, so we worked with the U.S. Export-Import Bank (EXIM) to potentially provide an up to \$600 million U.S. alternative. We mobilized U.S. posts across the Indo-Pacific to find new markets for Lithuanian goods after Beijing blocked imports from Lithuania.

The U.S. Department of Defense signed a reciprocal defense procurement agreement with Lithuania. Other agencies also provided support. Today, Lithuania has survived the PRC's pressure, and it is thriving. Less than 0.4% of its exports currently go to the PRC, and its overall trade has rebounded as the gap from PRC coercion has been filled by other partners.

Since then, we have worked closely with G7 countries to ensure, when the next case happens, we are ready to respond. This is one of my highest priorities, and I am deeply grateful for this Committee's leadership and support on economic coercion. We look forward to continuing to work with this Committee and Congress on ways to augment our ability to handle the growing PRC caseload.

In closing, we are leveraging every diplomatic tool we have to bolster U.S. economic security. Across all initiatives, we are relying heavily on two comparative advantages the PRC cannot match: our innovative private sector, and our network of allies and partners.

But diplomacy is not enough. We have to show up with concrete economic alternatives to what the PRC is offering countries around the world, particularly in the developing world. I suspect many of your questions will center around this issue, and you will be right in doing so. When I first joined the Department, our frontline diplomats in developing nations were blunt. They told me: there is a lot of talk about competing with the PRC in the developing world, but we have to walk the talk. If we aren't going to put forward real economic alternatives, we will not be in the game. Hectoring will only get us so far. We can't and shouldn't try to compete with the PRC dollar for yuan, but we do need to deploy concrete resources to level the playing field enough to get our companies in the game.

That is why the Biden Administration just last week released a budget request with a plan to effectively compete with the PRC. The President's FY25 request will allow us to continue to invest in the foundations of our strength at home, align with likeminded partners to strengthen our shared

interests and address the challenges posed by PRC, and harness those assets to compete with the PRC and defend our interests.

We are aligning our foreign assistance to advance U.S. values by building a network of likeminded allies and partners both globally and with concerted focus on the Indo-Pacific as a region of vital importance to U.S. and global security and prosperity.

The \$4 billion discretionary request across foreign assistance and diplomatic engagement for the Indo-Pacific Strategy represents our ironclad commitment to advancing an affirmative vision of U.S. values for the region.

In addition to the \$4 billion discretionary funding, the request also includes \$4 billion over five years in mandatory funding, including \$2 billion to create a new international infrastructure fund which will outcompete China by providing a credible, reliable alternative to PRC options while also expanding markets and opportunities for U.S. businesses. This fund will support transformative, quality, and sustainable hard infrastructure projects. Finally, we are seeking the other \$2 billion in mandatory funding to make game changing investments in the Indo-Pacific to strengthen partner economies, to improve good governance and the rule of law, bolster connectivity between partner countries, and support their efforts – including through multilateral fora – in building resilience and pushing back against predatory efforts.

We want the U.S. in the game. We can compete and win, but we need your support to do it.

Thank you and I look forward to your questions.