Documents for the Record

Energy and Commerce Committee

Subcommittee on Oversight and Investigations

02.06.24

1. Rodgers – CPA report on US reliance on Aurobindo
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COALITION for a PROSPEROUS AMERICA

CPA REPORT

U.S. RELIANCE on AUROBINDO

for Generic Drugs Creates Legal, Safety, and National Security Concerns for U.S. Stakeholders

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EXECUTIVE SUMMARY

The position of Aurobindo Pharma Limited (Aurobindo) as the main supplier of generic pharmaceutical prescriptions to the U.S. presents legal, safety, and national security concerns, judging from open-source reporting. Aurobindo's conduct in India, as well as its reliance on suppliers based in the People's Republic of China (PRC)—many of them sanctioned by the U.S., tied to PRC military industries, or to human rights violations—create a range of supply chain risks for U.S. stakeholders, including consumers, professionals, businesses, and government agencies.

Product quality lapses, corruption, and lack of transparency on the part of Aurobindo and its subsidiaries in India create significant risks. Reflecting prevalent quality control shortcomings, corruption, and regulatory capture in the Indian pharmaceutical sector, inspections and investigations of Aurobindo and its subsidiaries by EU and U.S. regulatory agencies during the past five years revealed problems in the manufacturing process and substandard drugs. Several cases led to sanctions of Aurobindo by the European Union (EU), product recalls in the U.S. market, and other regulatory measures. Since 2020, Indian authorities have found Aurobindo involved in insider trading, money laundering, corrupt land dealing, pollution, and workplace injuries and deaths.

The supply chain risks created by Aurobindo also stem from the anti-competitive preferential policies erected by both India and the PRC, and from Aurobindo's heavy reliance on suppliers based in the PRC for precursor chemicals and active pharmaceutical ingredients (APIs)—the raw materials core to manufacturing drugs—and possibly even for finished generics. The Indian government provides export subsidies to pharmaceutical firms, while several Indian states where Aurobindo operates provide tax and production subsidies. The State of Telangana, where Aurobindo is headquartered, provides subsidies specifically for pharmaceutical firms for investment, taxes, land, lease rentals, and energy.

Aurobindo and the Indian pharmaceutical industry's competitiveness are nearly wholly reliant on the PRC's ability to produce cheap APIs. They cannot increase their production of APIs to match the economies of scale generated by PRC producers, according to reports published by Aurobindo and by French think tank Institut Montaigne.

Beijing designates the pharmaceutical industry—and especially its API sector—as an economic development and national security strategic industry in the PRC's 2022 "14th Five-Year Plan for the Development of the Pharmaceutical Industry." PRC local governments also provide financial support to the pharmaceutical industry: they subsidize each enterprise that is approved by a foreign national drug administration—such as the U.S. FDA—and which exports APIs to foreign markets.

Several of the PRC suppliers which Aurobindo relies on have stakeholders, subsidiaries, or business partners sanctioned by the U.S. Sanctions justifications include supporting PRC military industry and participating in PRC government-organized programs that violate human rights. The Communist Party of China (CPC) exerts strong influence over all PRC suppliers through various institutional means.

- ***At least five of fifty Aurobindo suppliers surveyed in this analysis have documented ties to the PRC's military civil fusion policies and/or military industries. The parent companies of four of those five suppliers are under U.S. sanctions for connections to PRC military industries.***

- *At least two of the fifty Aurobindo suppliers have a documented history of producing drugs that may fall below quality standards required by the U.S. FDA. This poses risks to the health of U.S. consumers, including both civilians and members of the U.S. military.*

- *Fifteen of the fifty suppliers have documented ties to Xinjiang, the region in the northwest of the PRC where Beijing has been committing genocide against the local Uyghur population. This likely places Aurobindo in violation of the Uyghur Forced Labor Prevention Act (UFLPA), the law which basically forbids the import to the U.S. of any products made in Xinjiang or by members of the Uyghur ethnic group in any part of the PRC as part of programs that the law defines as forced labor.*

- *Documented evidence demonstrates that thirteen of the fifty suppliers are controlled by ministries and other state entities of the PRC's central government. PRC laws and regulations mandate companies under central government agencies and ministries support and assist the People's Liberation Army (PLA). The CPC mandates that these types of companies lead in pursuing Beijing's priorities communicated through state plans and strategies, including its Military Civil Fusion Development Strategy. The CPC controls such companies -- even in cases when it formally only owns a minority financial stake.*

- *Twenty one of the fifty suppliers have documented control by local governments in the PRC. Companies under provincial and county level government control in the PRC mirror elements of companies under central government control and are similarly highly incentivized to promote the CPC's priorities.*

LARGEST SUPPLIER OF PHARMA GENERICS TO U.S., AUROBINDO EXPANDS IN BOTH U.S. AND PRC

India-headquartered global pharmaceutical firm Aurobindo (NSE: AUROPHARMA) supplies the largest share of the U.S.' generic pharmaceutical prescriptions. Aurobindo is expanding its manufacturing facilities in both the U.S. and the PRC to augment its existing India-based production and suppliers in the PRC.

- *According to Aurobindo's "Integrated Annual Report 2022-2023," a March 2023 quarterly report by global healthcare data and analytics provider IQVIA lists Aurobindo as the largest generic pharmaceutical supplier in the U.S. by prescription volume.[1] Aurobindo also ranked among the top 10 generic pharmaceutical companies in eight European countries. In fiscal year 2023, Aurobindo manufactured approximately 41 billion units of various drugs and introduced 34 new products to the U.S. market.*

- *Aurobindo, established in 1986, is headquartered in Hyderabad, India. The company employs more than 23,000 full-time staff and around 10,000 contractors through its 87 direct and nine indirect subsidiaries around the world. Aurobindo has more than 1,500 scientists and analysts in its research and development (R&D) division globally. Several members of the Reddy Penaka family control Aurobindo.[2]*

- *Aurobindo is in the process of commissioning seven new manufacturing facilities for complex generic products, including three in the U.S. and one in the PRC. Aurobindo has 19 subsidiaries and two joint ventures in India, mostly located in the states of Andhara Pradesh and Telangana. Aurobindo controls 22 manufacturing units in India that have received approvals from regulatory agencies such as the U.S. Food and Drug Administration (U.S. FDA), the UK's Medicines and Healthcare products Regulatory Agency (MHRA), the EU's European Medicines Agency (EMA), Japan's Pharmaceuticals and Medical Devices Agency (PMDA), and the United Nations' World Health Organization (WHO).[3]*

GOVERNMENT SUPPORTED INDIA PHARMA SECTOR SUPPLIES MAJORITY OF GLOBAL AND U.S. GENERICS

India manufactures most of the world's vaccines and a significant part of the world's generic drugs supply. It is also the main supplier of generic drugs to the U.S. During the last five years, the Indian government has implemented several measures meant to strengthen the pharmaceutical sector. Aurobindo has also been a beneficiary of such government subsidies.

- *The Indian pharmaceutical industry encompasses various segments, including generic drugs, over the counter (OTC) medicines, bulk drugs, vaccines, contract research and manufacturing, biosimilars, and biologics. According to India's national investment promotion and facilitation agency Invest India, the country is one of the largest suppliers of low-cost vaccines, contributing to 60% of the world's production. India's pharmaceutical industry leads in generic medicine production, manufacturing 60,000 different brands across 60 therapeutic categories, constituting 20% of the global generic drug supply. India also accounts for approximately 40% of generic drugs in the U.S.[4] According to Dr. Celia Williams of the U.S. FDA's Division of Drug Information, "FDA-approved generic drugs account for more than 90 percent of prescriptions filled in the United States."[5]*

- *The Indian government implemented a series of measures during the last five years establishing favorable policies and regulatory frameworks to encourage research and development, investment, and innovation within the pharmaceutical sector. These include India's National Pharmaceutical Policy, which is currently being drafted, and aims to provide policy interventions to address challenges in the Indian pharmaceutical industry, and the Scheme for Strengthening of Pharmaceuticals Industry, launched in March 2022, which aims to support existing pharmaceutical clusters and "Micro, Small, and Medium Enterprises" (MSMEs) to improve productivity, quality, and sustainability. [6] [7] In addition to policies for developing the industry, the Indian government also provides export subsidies to pharmaceutical firms, while several states where Aurobindo operates provide tax and production input subsidies.[8][9][10] The State of Telangana in particular provides several subsidies specifically for pharmaceutical firms for investment, taxes, land, lease rentals, and energy.[11][12][13]*

- *Aurobindo has benefited from Indian government's subsidies. In 2022, Aurobindo invested $93 million in a Penicillin-G project in Andhra Pradesh as part of the Indian government's incentive plan meant to boost domestic production.[14][15]*

- *According to the Indian newspaper Financial Express, Aurobindo received the maximum benefits under the Merchandise Export from India Scheme (MEIS) in fiscal year 2018. (The Indian government capped benefits for MEIS during the September – December 2020 period, affecting some large companies including Aurobindo.[16])*

REPORTS OF INDIAN PHARMA SECTOR PRODUCT QUALITY ISSUES

Reports by media and official entities during the last five years recognize corruption and "regulatory capture" in the Indian pharmaceutical sector. Problems noted include negligence and poor regulatory compliance in manufacturing.

- *The accounts of a whistle-blower Dinesh Singh Thakur regarding his former work as a pharmaceutical executive at the Indian generic drug manufacturer Ranbaxy Laboratories, published in two books in 2022, helped draw attention to the problem of fraud and negligence in India's generic drugs industry.[17] As Thakur notes, "the level of [regulatory] capture is by far an order of magnitude worse in India compared to elsewhere."[18]*

- *A 2019 report by Indian publication Business Today and a June 2023 report by Bloomberg note poor compliance from Indian firms, specifically with respect to contaminated drugs, low inspection outcomes, and substandard data practices.[19] [20]*

- *In December 2022, Indian authorities announced efforts to detect problems in the drug manufacturing process. Enforcement exposed problems in a significant number of local drugmakers. However, when 70 children died in Gambia after taking cough syrup manufactured by an Indian drugmaker, Indian health authorities deflected the allegations by the WHO and defended the Indian drugmaker. In a letter to the Haryana Anti-Corruption Bureau, a lawyer accused Indian company Maiden Pharmaceuticals Ltd. of bribing a Haryana state drug controller to switch samples for a cough syrup, which the WHO connected to the Gambia deaths, according to a December 2023 report by Reuters.[21]*

- *According to an August 2023 article on BioSpectrum, a news portal focused on India's health sciences industry, in December 2022 the Central Drugs Standard Control Organization (CDSCO)—India's national regulatory body for cosmetics, pharmaceuticals, and medical devices—announced efforts to detect substandard medicine.[22] Companies began recalling drugs from both local and international markets.[23]*

- *In March 2023, the Drug Controller General of India (DCGI) —responsible for the approval of drug licenses—inspected 76 companies across 20 states and cancelled licenses of 18 pharma companies for producing spurious and adulterated drugs and violating good manufacturing practices (GMP), according to Indian publication The Economic Times.[24] Additionally, the Indian government gave 26 companies show-cause notices, which require the companies to clarify information regarding potential violations.[25]*

- *In a written reply to the Indian legislature's upper house the Rajya Sabha in 2023, Union Health Minister Mansukh Mandaviya shared that following risk-based inspections of 162 pharmaceutical firms, the CDSCO and state licensing authorities issued show-cause notices in 143 cases. Among the regulatory actions taken, Indian authorities issued orders to stop production in 40 cases, while cancellation and suspension of product/section licenses occurred in 66 cases. Additionally, authorities issued warning letters in 21 cases.[26]*

- *Since December 2022, Indian authorities found that more than 65% of MSMEs were manufacturing substandard drugs, according to a November 2023 article in The Economic Times.[27]*

According to Indian government and industry sources, India has the highest number of U.S. FDA compliant pharma plants outside the U.S., and it also receives a large share of U.S. FDA generic drugs market authorization compared to other countries. According to the U.S. FDA, however, India's drug manufacturers perform poorly in inspections, and product recalls are common. The U.S. FDA has expressed concerns about the standards at pharmaceutical factories in India, and frequently issues warning letters to Indian drugmakers for poor compliance practices. Aurobindo is among the leaders in product recalls by Indian companies.

- ***India has the highest number of U.S. FDA compliant pharma plants outside the U.S., hosting over 3,000 pharmaceutical companies and 10,500 manufacturing facilities, according to a report posted on the government of India's investment promotion agency's website.[28] From 2018 to 2022, the U.S. FDA granted more than 30% of market authorizations for generic drugs to companies from India, according to an annual report posted on the website of an Indian pharmaceutical export promotion council.[29]***

- ***In 2019, the U.S. FDA reported to Congress that India had the lowest percentage of acceptable inspection outcomes.[30]***

- ***In 2019, the Office of Manufacturing Quality (OMQ), a quality and compliance evaluation department in the U.S. FDA, issued twelve warning letters to Indian firms out of a total of fifty, or 24% of the warning letters issued by that office.[31] In 2020 and 2021, during the pandemic, the OMQ issued only five letters to Indian firms. In 2022, the OMQ issued another twelve warning letters to Indian firms out of a total of forty-four, or 27.2% of the total.[32]***

The main causes for drug manufacturing quality control shortcomings in India's pharmaceutical sector include inadequate testing of materials, weak oversight, and corruption. Substandard medicine produced in India has led to injuries and deaths around the world, including in the U.S. In several reported cases, drugmakers producing substandard medicine were located in the states of Telangana and Andhra Pradesh, where a majority of Aurobindo's India-based subsidiaries are located.

- *Eye drops produced by Indian firm Global Pharma Healthcare contained harmful bacteria affecting at least 68 patients in the U.S., leading to three deaths, eyeball removals, and blindness according to an April 2023 report by the Washington Post.[33]*

- *An October 2023 article by BioSpectrum reported council members of the regulatory body the Telangana Pharmacy Council frequently extort money for expedited paperwork.[34] [35]*

- *According to a March 2021 article on FDANews—a website for drug and medical device related news—Dr. Reddy's Laboratories Ltd. (Dr. Reddy) announced a recall in 2021 following the detection of impurities in its Lipitor generic product. The affected products were manufactured at the company's Andhra Pradesh facility. According to a December 2023 article posted on the healthcare portal DrugToday, an October 2023 inspection of Dr. Reddy's Telengana facility by the U.S. FDA found failure to maintain equipment, dirty equipment, as well as "subpar quality control practices, insufficient written specifications, neglect in addressing batch failures and discrepancies, and inadequate responses to both written and oral customer complaints."[36] [37]*

During the last five years, several cases revealed that drugs manufactured by Aurobindo and its subsidiaries were substandard. Some of these cases led to sanctions by the European Union (EU) and product recalls in the U.S. market, according to reports by EU and U.S. regulators.

- *In October 2018, the public health organization the European Directorate for the Quality of Medicines & HealthCare (EDQM) suspended Aurobindo Pharma's certification, effectively halting its supply of the drug irbesartan to the European Union (EU). Low levels of impure NDEA, an organic compound, in Aurobindo's irbesartan product caused the suspension, according to the EMA.[38]*

- *According to the U.S. FDA, Aurobindo is among the leaders in product recalls by Indian companies, with 54 product recalls during the last five years.*[39]

- *In January 2022, Aurobindo's subsidiary Eugia U.S. LLC recalled the antibiotic Polymyxin B for injection as hair was discovered in a vial, according to the U.S. FDA.*[40]

- *In September 2022, Aurobindo's subsidiary Eugia U.S. LLC recalled Acyclovir Sodium Injection due to a product complaint regarding the presence of a dark red, brown, and black particulate inside the vial, according to the U.S. FDA.*[41]

- *In October 2022, Aurobindo's subsidiary Aurobindo Pharma USA, Inc., recalled Quinapril and Hydrochlorothiazide tablets due to presence of Nitrosamine Drug Substance Related Impurity (NDSRI), N-Nitroso-Quinapril above the proposed interim limit, according to the U.S. FDA.*[42]

- *In September 2023, Aurobindo's subsidiary Eugia U.S. LLC recalled 1,626 vials of Triamcinolone Acetonide Injectable Suspension manufactured in India due to potential glass contamination, according to a U.S. FDA enforcement report. The U.S. FDA classified the recalls as class II, meaning potential but not immediate adverse health consequences.*[43]

The U.S. FDA sent Aurobindo several warning letters following inspections of their India facilities. The warnings reveal deviation from manufacturing protocols, faulty equipment, and failure to maintain and clean equipment. In one instance, an Indian regulatory agency found that Aurobindo failed to fully disclose the results of a U.S. FDA inspection.

- *During the last five years, Aurobindo and its subsidiaries have received at least two warning letters and several inspections from the U.S. FDA. One U.S. FDA inspection of the company's drug manufacturing facilities included 14 observations.*[44][45][46]

- *In 2023, an audit found serious violations at Aurobindo's Anakapalli Plant in eastern India. Auditors uncovered problems with manufacturing equipment cleaning and storage controls during a visit. Sampling tools were not cleaned and maintained to prevent contamination at the plant, which produces certain APIs. "Laboratory controls also didn't include the establishment of scientifically sound and appropriate specification, designed to assure that drug products conform to appropriate standards of identity, quality and purity," according to a Bloomberg's June 2023 article.*[47]

- *In 2022, the U.S. FDA inspected Aurobindo's Unit-VII, which specializes in oral manufacturing, located in Hyderabad. The U.S. FDA's observations raised concerns about adherence to production protocols, equipment standards, and the handling of discrepancies. Notably, this facility had previously received regulatory attention in 2020.*[48]

- *In 2019, the U.S. FDA issued a warning letter to Aurobindo's unit XI in the city of Srikakulam following an inspection. The U.S. FDA highlighted significant deviations in "current good manufacturing practices," including insufficient investigation into impurities, equipment maintenance issues, and failure to report changes.*[49]

- *In June 2022, the Securities and Exchange Board of India (SEBI) issued a warning to Aurobindo for not adequately disclosing information regarding a U.S. FDA audit of its API manufacturing facility. The regulatory body found the company's disclosures to be inadequate and not in compliance with SEBI regulations, highlighting the lack of transparency.*[50]

CDSCO records from 2019 show Aurobindo received approval for export of medicine to the European Union on six occasions from S. Eswara Reddy, a Joint Drugs Controller of the CDSCO, who later was prosecuted in a separate case over receiving bribes for waiving approvals for another pharmaceutical firm.

- *In July 2023, the CBI began prosecution of S. Eswara Reddy over allegations of accepting a bribe to waive Phase 3 clinical trials for Biocon Biologics' Phase 3 "Insulin Aspart" injection after initially charging him in August 2022. L. Praveen Kumar, associate vice president of Biocon Biologics, allegedly made a $509,000 (₹4 Lakh INR) payment to Reddy.*[51,52]

- *S. Eswara Reddy, previously provided written confirmation to Aurobindo as part of an export requirement related to manufacturing and exporting medicinal products to the European Union on six occasions in January, June, July, and August 2019.*[53,54,55,56,57,58]

FINANCIAL CORRUPTION

Aurobindo and its leadership have also been involved in corruption cases. Indian authorities found Aurobindo was involved in an insider trading case from May 2020, a money laundering case involving an Aurobindo director in November 2022, and an ongoing case related to a corrupt land deal.

- ***In May 2020, Aurobindo and several other entities settled a case with SEBI, paying a penalty of over $2.6 million (₹22 Crore INR) for insider trading.***[59]

- ***One of Aurobindo's non-executive directors, P. Sarath Chandra Reddy is under investigation by the Enforcement Directorate (ED), a national agency which investigates money laundering, for his involvement in possible money laundering in a separate business.***[60]

- ***In March 2012, the Central Bureau of Investigation (CBI), India's central investigative authority for major crimes including government corruption and interstate cases, charged Sarath Reddy for bribing a government official for lower land prices, which also involved a land deal allegedly started by K. Nithyananda Reddy, Sarath's father-in-law and an Aurobindo executive.***[61] ***As of January 2021, the CBI's investigation into the land transfer involving Aurobindo was still ongoing.***[62] ***Aurobindo does not mention the CBI case in any of its annual reports from the last five years.***

ENVIRONMENTAL AND SAFETY ISSUES

A 2018 Dutch documentary investigating how Aurobindo's drugs could be so cheap, found Aurobindo polluted the local environments' water and air, and the links between this type of pollution and the development of drug resistant bacteria. The documentary accused Aurobindo of underpaying labor and employing exploited migrant labor. The Telangana state government is also involved in the allegations, as it bought land from Dalit communities to develop Aurobindo's facilities and promised employment to these communities, which never materialized.[63] Since 2019, Aurobindo and its subsidiaries have received multiple notices and fines from state and central pollution control boards for alleged violations of environmental regulations.[64,65,66,67,68,69] Moreover, during the last five years, several safety incidents in Aurobindo's facilities injured and killed several employees.[70,71,72]

PRC'S PHARMACEUTICAL INDUSTRY SUPPORTED BY BEIJING'S SUBSIDIES, LITTLE-SCRUTINIZED BY U.S. FDA

The PRC supplied more than 40% of the world's APIs in 2019. India imports most of its APIs from the PRC, and it relies on PRC supply to remain competitive in the global industry. Aurobindo relies heavily on PRC APIs. The pharmaceutical industry is one of the PRC government's economic development and national security strategic planning priorities, and API is a priority sector within the industry. PRC government policy support to the API manufacturing sector includes financial subsidies that can vary by location. The U.S. government raised repeated concerns with the U.S. FDA over PRC generic drug quality and the effectiveness of foreign inspections by the U.S. FDA. The U.S. FDA only resumed in-person inspections in the PRC in April 2023, after pausing them in March 2020.

- *The PRC supplied more than 40% of the world's APIs in 2019, according to a May 2023 report by Reuters.[73] India imports about 70% of the APIs from the PRC, according to a November 2023 report by Nikkei Asia.[74]*

- *According to a June 2020 report by the French think tank Institut Montaigne, the Indian pharmaceutical industry's competitiveness is nearly wholly reliant on the PRC's ability to produce cheap API's. One pharmaceutical company states: "We cannot increase the production of APIs to an extent where we end up matching the economies of scale generated by Chinese units. Our cost of production for API will be higher, which in turn would hamper export competitiveness of the products." The report states that a transition of India to domestical API production would require large-scale investment to remain competitive.[75]*

- *According to Aurobindo's "Integrated Annual Report 2022-2023, the company has "a high dependence on the China market for import of Key Starting Materials (KSMs), Intermediates and Active Pharmaceutical Ingredients" and "Aurobindo India" receives 89% of its imported pharmaceutical precursors and APIs from the PRC, which constitutes 55% of its total pharmaceutical precursors and APIs."[76]*

- *The PRC government designates the pharmaceutical industry as one of the PRC's economic development and national security strategic industries, according to a Ministry of Industry and Information Technology (MIIT) document rehosted on the official PRC government website. The document states that the PRC's national "14th Five-Year Plan for the Development of the Pharmaceutical Industry" — jointly issued in 2022 by more than nine national government agencies, and led by the MIIT — lists API as a priority sector to develop within its pharmaceutical industry.*

- *PRC local governments provide direct financial support to the pharmaceutical industry. For example, a January 2023 notice posted by an economic policy agency of the Shenzhen Municipal government announced that it would provide up to approximately $273,920 (two million CNY) in annual subsidies for each enterprise that is approved by a foreign national drug administration—such as the U.S. FDA—and which exports APIs to foreign markets.[77]*

- *According to government and news reports, the Biden Administration, Republican representatives in U.S. Congress, the U.S. Department of Defense (DoD), and the U.S. Government Accountability Office (GAO) have raised concerns over generic drug quality issues and the U.S. FDA's inadequate foreign inspections, particularly those conducted on PRC and Indian companies.[78] The GAO noted finding vacancies in five of 15 U.S. FDA drug investigator positions for the PRC and India in November 2021, while the DoD engaged in talks with an outside firm to independently test the safety of generic drugs.[79][80] Republican representatives in U.S. Congress on behalf of the Health and Oversight Subcommittee also raised concerns over the quality and quantity of U.S. FDA inspections in the PRC and India.[81]*

- *In total, as of November 17, 2023 1,014 PRC pharmaceutical entities are U.S. FDA registered.[82] Between March 2020 and April 2022, the U.S. FDA stopped in-person inspections, instead conducting voluntary, remote inspections. In the case of the PRC, however, the U.S. FDA* *only resumed in-person inspections in April 2023. Between 2020 and 2022, the U.S. FDA conducted 40 inspections in the PRC, and these were likely all conducted remotely -- and much less frequently than 2019, which saw 131 inspections.*[83]

AUROBINDO WHOLLY OR PARTIALLY OWNS PRC-BASED SUBSIDIARIES AND JOINT VENTURES

Aurobindo wholly owns All Pharma (Shanghai) Trading Co., Ltd., a.k.a. Aurobindo Pharma (Shanghai) Trading Co., Ltd. (All Pharma), according to Aurobindo's 2022-2023 annual report.[84] All Pharma appears to act as a shipping intermediary for moving goods from the PRC to Aurobindo subsidiaries.

- *All Pharma sent industrial computers to Gelcaps Industries—an India-based pharmaceutical company under the control of relatives of Aurobindo's owners—and filter equipment to Eugia Pharma Specialties Limited, an Aurobindo India-based subsidiary. The firm also sent Hypromellose Phthalate PH EUR, Starch Pregelatinized PH EUR, and Cellulose Microcrystalline PH EUR to Aurobindo. PH EUR stands for European Pharmacopoeia, a European pharmaceutical standard, which suggests Europe is the final destination for these goods. In 2023, the firm also sought permission to ship Arpiprazole tablets and Donepezil Hydrochloride tablets from the PRC; the supplier and ultimate destination of these goods is unknown. Aurobindo received U.S. FDA approval to manufacture Arpiprazole tablets in October 2015.[85] Aurobindo is also listed on the National Library of Medicine Daily Med database, a database for labelling submitted to the U.S. FDA, as the packager for Donepezil Hydrochloride tablets.[86]*

- *All Pharma is a member of the Pharmaceutical and Health Working Committee (PHWC), which the Shanghai Municipal Government-controlled Shanghai Foreign Investment Association (SFIA) established in 2019. The PHWC is registered with the Shanghai Civil Affairs Bureau, which promotes and implements national and municipal guidelines and policies on the medical and health industry, such as "the 14th Five-Year Plan for the Development of the Pharmaceutical Industry" — jointly issued in 2022 by nine national government agencies led by the MIIT.*

Aurobindo wholly owns the Taizhou, Jiangsu-based subsidiary Aurovitas Pharmaceutical (Taizhou) Co., Ltd. (Aurovitas) through its Netherlands-based subsidiary Helix Healthcare B.V. [87] Aurovitas manufactures and sells pharmaceutical preparations for domestic and export use.[88] It also imports pharmaceutical equipment from India to the PRC.[89]

- *In 2023, Aurobindo completed building a facility in Taizhou, which the company is in the process of commissioning, according to Aurobindo's "Integrated Annual Report 2022-2023."[90]*

- *In 2019, the Center for Drug Evaluation — the technical review and drug authorization organization for the PRC's National Medical Products Administration (the supervisory sub-organization for drug safety, medical devices, and cosmetics under the State Council's State Administration for Market Regulation) — registered Aurovitas' atazanavir capsules for the PRC market. Aurovitas' new Taizhou production line is set to bring a yearly revenue of over $273 million (two billion CNY), according to a July 2022 report by Haitong International Securities Group Limited, an international financial institution with established presence in Hong Kong.[91][92]*

Taizhou's mayor Wan Wenhua meeting with Aurobindo's Whole Time Director Mr. M. Madan Mohan Reddy on January 8, 2024.[93][94]

Aurovitas Pharmaceutical (Taizhou) Co., Ltd. (Aurovitas) lab.

Aurobindo owns a minority stake in a joint venture with Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (Shandong Luoxin) (SHE 002793), a PRC-based pharmaceutical company that has produced sub-standard products. The senior officers of Shandong Luoxin hold leadership positions in CPC organizations. One of Shandong Luoxin's owners holds a position in a company based in the Xinjiang Uyghur Autonomous Region (hereafter Xinjiang).[95]

- ***Luoxin Aurovitas Pharma (Chengdu) Co., Ltd is located in Chengdu, and is involved in research and development, production, and sales of respiratory pharmaceutical products. Luoxin Aurovitas' products include five U.S. FDA approved inhalers used for respiratory diseases.[96]***

- ***Aurobindo owns 30% of Luoxin Aurovitas through its Netherlands-based full subsidiary Helix Healthcare B.V.[97] Shandong Luoxinowns the remaining stake in Luoxin Aurovitas.***

    - *In 2020 Shandong Provincial Medical Products Administration fined Shandong Luoxin $48,869 (356,817 CNY) for producing and selling sub-standard Ozagrel sodium used for injection.*

    - *Xinjiang-based Karamay Yizhizhi Equity Investment Management Limited Partnership (Karamay Yizhizhi) owns a stake in Shandong Luoxin.*

    - *Liu Zhenteng, who holds senior positions at Luoxin Aurovitas and Shandong Luoxin and indirectly owns a stake in both companies, also holds a position at Karamay Yizhizhi.*

    - *An investor in Shandong Luoxin, Winning Venture Capital Management Co., Ltd. (Winning Venture), has a subsidiary, Xinjiang Tianshan Snow Lotus Pharmaceutical Co., Ltd. (Tianshan Snow Lotus), based in Xinjiang.*

    - *Liu Zhenteng's father, Liu Baoqi, is a controlling owner of Shandong Luoxin and Luoxin Aurovitas. In 2021, Liu Baoqi was a delegate to the 12th Provincial People's Congress of Shandong Province, the 12th session of the provincial legislative body.*

    - *Shandong Luoxin's Vice President Song Aigang is a member of the city of Linyi Municipal Chinese People's Political Consultative Conference.[98] The CPPCC is an advisory body to the Party-state that coordinates between the Party and important social groups including leaders in business, academia, and religious groups to carry out united front work under the guidance of the CPC's United Front Work Department (UFWD). The UFWD contributes significantly to covert overseas operations involving political influence, intelligence collection, and technology transfer.[99]*

AUROBINDO'S PRC SUPPLIERS

This section presents the results of examination of a sample of 50 of Aurobindo's at least 141 suppliers for links to the PRC's defense industry, forced labor of ethnic minorities, potential safety risks to American consumers, ownership by the PRC's central government, and ownership by PRC local governments.

PRC SUPPLIERS WITH DOCUMENTATION OF CONNECTION TO PRC MILITARY INDUSTRY AND POLICY

At least five of the fifty Aurobindo suppliers surveyed have documented ties to the PRC's military civil fusion policies and/or military industries. Four of the five companies are under U.S. Government sanctions for connection to PRC military industries. Aurobindo supplier Henan Topfond Pharmaceutical Chemical Co., Ltd. (Topfond Pharmachem) exemplifies a company with strong ties to the PRC's defense industry. China Meheco Group Ltd. (Meheco) controls Topfond Pharmachem.[100] Meheco's largest shareholders are the State-owned Assets Supervision and Administration Commission of the State Council (State Council SASAC) and the state-owned hypersonic and laser weapons manufacturer China Aerospace Science & Industry Corporation (CASIC). State Council SASAC manages the PRC's key central state-owned Enterprises (SOEs). CASIC, and several of its subsidiaries and subunits are on the U.S. Entity List, which classifies them as "Communist Chinese Military Companies" that are subject to U.S. export restrictions.[101] Successive White House Executive Orders in November 2020 by President Donald Trump and in June 2021 by President Joseph Biden prohibited investment in PRC military industries designated as "Communist Chinese military companies," CASIC among them.[102]

Sinochem Pharmaceutical Co., Ltd.
Henan Topfond Pharmaceutical Chemical Co., Ltd.
Henan Topfond Technology Co., Ltd.
Shinghwa Amperex Technology (Dongying) Co., Ltd.
Henan Junhua Development Co., Ltd.

PRC SUPPLIERS WITH DOCUMENTED VIOLATIONS OF U.S. PHARMACEUTICAL REGULATION

At least two of the fifty Aurobindo suppliers have a documented history of producing drugs that could fall below quality standards required by the U.S. FDA. Aurobindo is a major supplier of U.S. generic drugs, and the integrity of its supply chain is crucial to the health of U.S. consumers, including both civilians and members of the U.S. military.

The case of Aurobindo supplier Zhejiang Huahai Pharmaceutical Co., Ltd (Huahai Pharma) presents legal and safety concerns for U.S. stakeholders. Huahai Pharma partners with Xinjiang Baihuacun Pharma Tech Co., Ltd. (Baihuacun Pharma) on pharmaceutical research and development. The Xinjiang Production and Construction Corps (XPCC)—a paramilitary, ministry-level PRC central state entity under sanctions by the U.S. government for its involvement in human rights violations in Xinjiang—owns a stake in Baihuacun Pharma. The U.S. FDA placed an import ban on APIs from Huahai Pharma during 2018-2021 after the U.S. FDA found carcinogens in several of its products including a heart medication, Valsartan, according to the Generics and Biosimilars Initiative.[103] In an example of Aurobindo relying on a PRC supplier for a finished generic, Aurobindo imported Valsartan under United States Pharmacopeia (USP)—a quality standard used for U.S. drugs—from Huahai Pharma in 2023, despite U.S. FDA's ban over Huahai Pharma's previous quality issues with Valsartan's production.[104] In 2023, Aurobindo also received shipments of Lisinopril PH EUR and Lisinopril Dihydrate PH EUR from Huahai Pharma.

Zhejiang Huahai Pharmaceutical Co.,
Chongqing Carelife Pharmaceutical Co., Ltd.

PRC SUPPLIERS WITH DOCUMENTATION OF POSSIBLE VIOLATION OF UFPLA PROHIBITION

Fifteen of the fifty suppliers have documented ties to Xinjiang, likely placing Aurobindo in violation of the Uyghur Forced Labor Prevention Act (UFLPA) by U.S. Congress, which forbids the import to the U.S. of any products made in Xinjiang or by members of the Uyghur ethnic group in any part of the PRC as part of "pairing assistance" and "poverty alleviation" programs that the law defines as forced labor.[105] "Poverty alleviation" and "pairing assistance" use forced labor of ethnic minorities as part of a larger program that the CPC terms Xinjiang Aid. [106] The XPCC (see above) manages many of these programs.

In 2023, for example, Yili Chuanning Biotechnology Co., Ltd., based in the city of Horgos, Xinjiang, shipped Aurobindo products under the category of "6-APA (6-aminopenicillanic acid), antibiotics, penicillins and their derivatives with a penicillanic acid structure, and salts thereof." In a second example, Hubei Xingfa Chemicals Group Co., Ltd (Hubei Xingfa), based in Hubei Province, supplied Aurobindo with Dimethyl Sulfoxide in 2023. Hubei Xingfa has a wholly owned subsidiary in Xinjiang which produces Dimethyl Sulfoxide. Importing these products or any drugs made with these products to the U.S. would be a violation of the UFLPA. In an Aurobindo document on its manufacturing processes submitted to the Telangana State Pollution Control Board in June 2019, it shows that Dimethyl Sulfoxide is a component in its production of Zidovudine.[107] The Daily Med database for company submitted labelling to the U.S. FDA, shows Aurobindo submitted an abbreviated new drug application for Zidovudine syrup in July 2022.[108]

Yili Chuanning Biotechnology Co., Ltd.
Hubei Xingfa Chemicals Group Co., Ltd.
Jiangsu GTIG Huatai Co., Ltd.
Sinopharm Weiqida Pharmaceutical Co., Ltd.
Sinochem Pharmaceutical Co., Ltd.
Jiangsu Weiqida Pharmaceutical Co., Ltd.
Zhejiang Huahai Pharmaceutical Co., Ltd.
Shandong Keyuan Pharmaceutical Co., Ltd.
Zhejiang Chemicals Import & Export Corporation
Chongqing Carelife Pharmaceutical Co., Ltd.
Qilu Antibiotics Pharmaceutical Co., Ltd.
Jiangxi Fushine Pharmaceutical Co., Ltd.
Shandong Jincheng Pharmaceutical Group Co., Ltd.
Shandong Jincheng Kerui Chemical Co., Ltd.
Zhejiang Chiral Medicine Chemical Co., Ltd.

PRC SUPPLIERS WITH DOCUMENTATION OF CONTROL BY PRC CENTRAL GOVERNMENT AGENCIES

Documented evidence demonstrates that thirteen of the fifty suppliers are controlled by ministries and other state entities of the PRC's central government, such as State Council SASAC. PRC laws and regulations mandate companies under State Council SASAC and other central government agencies and ministries work to support and assist the People's Liberation Army (PLA). Like all companies in the PRC, these firms are also mandated to pursue the CPC's priorities communicated through state plans and strategies, including its Military Civil Fusion Development Strategy.

Evidence concerning Aurobindo supplier Sinochem Pharmaceutical Co., Ltd. (Sinochem Pharma; a.k.a. Sinochem Jiangsu Co., Ltd.) demonstrates links to PRC central government control, the PRC's programs in areas with large ethnic minority populations, and the PRC's defense industries. The State Council SASAC controls Sinochem Pharma through State Council SASAC SOE Sinochem Holdings Co., Ltd. (Sinochem Holdings) and Sinochem International Corporation (Sinochem International). Sinochem Holdings indirectly controls two Xinjiang based companies: Sinochem Modern Agriculture (Xinjiang) Co., Ltd. and Sinochem Agriculture (Xinjiang) Biotechnology Co., Ltd. Starting in 2002 and continuing to 2023, Sinochem Holdings has participated in "pairing assistance" programs in Tibet, Qinghai and Xinjiang. On November 12, 2020 and in subsequent updates, U.S. Executive Orders issued by the White House prohibited investments in PRC SOEs designated as "Communist Chinese military companies." Eight Sinochem corporate group members appear on the list, including Sinochem Group and Sinochem International.[109]

Sinopharm Weiqida Pharmaceutical Co., Ltd.
Sinochem Pharmaceutical Co., Ltd.
Jiangsu Weiqida Pharmaceutical Co., Ltd.
Henan Topfond Pharmaceutical Chemical Co., Ltd.
Henan Topfond Technology Co., Ltd.
Shinghwa Amperex Technology (Dongying) Co., Ltd.
Henan Junhua Development Co., Ltd.
Shandong Jincheng Pharmaceutical Group Co., Ltd.
Shandong Jincheng Kerui Chemical Co., Ltd.
Porton Pharma (Jiangxi) Co., Ltd.
Chongqing Tiandi Pharmaceutical Co., Ltd.
Jiangsu Ruike Pharmaceutical Sci-Tech Co., Ltd.
Bright Gene Bio-Medical Technology Co., Ltd.

PRC SUPPLIERS WITH DOCUMENTATION OF CONTROL BY PRC LOCAL GOVERNMENT ENTITIES

Twenty one of the fifty suppliers have documented control by local governments in the PRC. Provincial and county level governments in the PRC mirror certain elements of the central government structure, including administering State-Owned Asset Supervision and Administration Commission (SASAC) entities at their respective provincial, city, or other levels. Local governments own, manage, and supervise many commercial enterprises in their respective jurisdictions. Local government-controlled enterprises are highly incentivized to promote the CPC's national strategies and policies such as Military Civil Fusion and Xinjiang Aid, and to support the state's security and surveillance apparatus.

Aurobindo supplier Shinghwa Amperex Technology (Dongying) Co Ltd. (Shinghwa) demonstrates how a local government-owned company supports the CPC's national Military Civil Fusion Development Strategy. Qingdao West Coast New Area SASAC indirectly controls Shinghwa, in part through the state-owned Qingdao Military Civil Fusion Development Group Company Limited. State Council SASAC also owns a stake in Shinghwa.

Hubei Xingfa Chemicals Group Co., Ltd.
Jiangsu GTIG Huatai Co., Ltd.
Jiangsu Weiqida Pharmaceutical Co., Ltd.
Zhejiang Chemicals Import & Export Corporation
Chongqing Carelife Pharmaceutical Co., Ltd.
Jiangxi Fushine Pharmaceutical Co., Ltd.
Shinghwa Amperex Technology (Dongying) Co., Ltd.
Zhejiang Medicines & Health Products Imp & Exp Co., Ltd.
Changzhou Pharmaceutical Factory
Porton Pharma (Jiangxi) Co., Ltd.
Zhejiang Hongyuan Pharmaceutical Co., Ltd.
Zhejiang Guobang Pharmaceutical Co., Ltd.
Anhui Biochem Pharmaceutical Co., Ltd.
Fujian South Pharmaceutical Co., Ltd.
Suzhou Lixin Pharmaceutical Co., Ltd.
Cangzhou Senary Chemical Science & Technology Co., Ltd.
Shanghai Desano Chemical Pharmaceuticals Co., Ltd.
Farmasino Pharmaceuticals (Jiangsu) Co., Ltd.
Bright Gene Bio-Medical Technology Co., Ltd.
Shanghai Jinhe Bio-Pharmaceuticals Co., Ltd.
Shijiazhuang Lonzeal Pharmaceuticals Co., Ltd.

PRC SUPPLIERS WITH LITTLE DOCUMENTATION OF POSSIBLE SUPPLY CHAIN RISKS

Initial research found little documentation of possible supply chain risks for fourteen of the fifty suppliers. However, even without having a documented financial stake or presence in a company, the CPC still exerts strong influence through a raft of PRC laws, including the "PRC Company Law" which requires every company to establish an internal CPC organization. Every entity and individual under PRC jurisdiction is subject to CPC control. Moreover, in the PRC's totalitarian political landscape, the CPC incentivizes companies and individuals therein to proactively fulfill CPC goals, even without being explicitly commanded to do so.

Tianjin Tianfa Pharmaceuticals Import & Export Co., Ltd.
Livzon Pharmaceutical Group Co., Ltd.
Shenzhen Haibin Pharmaceutical Co., Ltd.
Zhejiang Shaxing Technology Co., Ltd.
Shenzhen Hepalink Pharmaceutical Group Co., Ltd.
Ningbo Menovo Pharmaceutical Co., Ltd.
Hebei Fude Chemical Technology Co., Ltd.
Nanjing Joyin Parmachem Co., Ltd.
Zhejiang Charioteer Pharmaceutical Co., Ltd.
Hebei Chengxin Co., Ltd.
Ningbo Eshine Pharmaceutical Co., Ltd.

Zhejiang Regen Chemical Co., Ltd.
Reyoung Pharmaceutical Co., Ltd.
Hunan Yuxin Pharmaceutical Co., Ltd.
Ningxia Taikang Pharmaceutical Co., Ltd.

SCOPE NOTE

This study identifies and reports on aspects of pharmaceutical industry production and trade by India-headquartered global pharmaceutical firm Aurobindo Pharma Limited (Aurobindo) during the past five years which are likely to present risk to the U.S., particularly through supply chains. Readers are advised to be aware of the following additional scoping parameters:

- ***Information herein comes from preliminary survey of other open sources in English and local languages, such as reporting by or about Aurobindo's suppliers, U.S. and Indian regulatory bodies, and other parties because Aurobindo does not publicly report its specific suppliers or regulatory inspections.***

- ***U.S. FDA reporting on producer facility inspections is incomplete—and possibly selective— judging from caveats on the agency's public-facing inspections database indicating that several inspection categories are not included.***

- ***This study surveyed fifty (50) of Aurobindo's PRC suppliers, two PRC-based Aurobindo subsidiaries, and one Aurobindo PRC joint venture for connections and actions which may pose supply chain risks or be in violation of U.S. law. While discovered documentation reveals these types of connections and actions for some of these entities, the lack of discoverable documentation for other of these entities is not proof of absence of such structural, institutional connections or actions. Recently increasing requirements from the PRC government mandate that all PRC entities conceal data—including commercial, financial, and other information—from unauthorized access, as defined and enforced by the PRC government. Additionally, PRC agencies' and enterprises' personnel systems are structured to incentivize pursuit and fulfillment of objectives communicated through a variety of general guidance including government-announced strategies, plans, and action programs, in many cases without necessarily requiring explicit commands or other specific documentation. A raft of PRC laws and regulations mandates that all institutions are directly or indirectly subject to supervision and guidance by the CPC, including requirements to establish internal CPC structures and to collaborate with requests and orders made by PRC security services and other government agencies.***

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[83] Cathy McMorris Rodgers, Brett Guthrie, and H. Morgan Griffith, "Letter to The Honorable Robert M. Califf, M.D., MACC," July 18, 2023, Congress of the United States House of Representatives Committee on Energy and Commerce, observed August 1, 2023 at https://d1dth6e84htgma.cloudfront.net/Letter_to_FDA_on_Foriegn_Drug_Inspections_dc7bf60a6d.pdf, and archived at https://web.archive.org/web/20230801142548/https://d1dth6e84htgma.cloudfront.net/Letter_to_FDA_on_Foriegn_Drug_Inspections_dc7bf60a6d.pdf

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THE SELECT COMMITTEE ON THE STRATEGIC COMPETITION BETWEEN THE UNITED STATES AND THE CHINESE COMMUNIST PARTY

RESET, PREVENT, BUILD:

A Strategy to Win America's Economic Competition with the Chinese Communist Party

EXECUTIVE SUMMARY

For a generation, the United States bet that robust economic engagement would lead the Chinese Communist Party (CCP) to open its economy and financial markets and in turn to liberalize its political system and abide by the rule of law. Those reforms did not occur.

Since its accession to the World Trade Organization in 2001, the CCP has pursued a multidecade campaign of economic aggression against the United States and its allies in the name of strategically decoupling the People's Republic of China (PRC) from the global economy, making the PRC less dependent on the United States in critical sectors, while making the United States more dependent on the PRC. In response, the United States must now chart a new path that puts its national security, economic security, and values at the core of the U.S.-PRC relationship.

The House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party (Select Committee) has studied the PRC's pattern of aggression and economic manipulation and recommends the following strategy for economic and technological competition with the PRC. The strategy has three pillars, and the Select Committee identified the following key findings:

Pillar I: Reset the Terms of Our Economic Relationship with the PRC

1. The PRC's economic system is incompatible with the WTO and undermines U.S. economic security.
2. Despite the heightened risks associated with U.S. investment in Chinese companies, the full extent and distribution of that risk and the implications for U.S. national security and financial stability remain unknown.
3. The United States lacks a contingency plan for the economic and financial impacts of conflict with the PRC.
4. The PRC uses an intricate web of industrial policies, including subsidies, forced technology transfer, and market access restrictions, to distort market behavior, achieve dominance in global markets, and increase U.S. dependency on PRC imports.
5. The widespread adoption of certain PRC-developed technologies in the United States poses a significant risk to U.S. national security and data protection concerns and threatens long-term U.S. technological competitiveness.

Pillar II: Stem the Flow of U.S. Capital and Technology Fueling the PRC's Military Modernization and Human Rights Abuses

1. American investors wittingly and unwittingly support the PRC's defense industry, emerging technology companies, and human rights abuses.
2. U.S. export controls have been slow to adapt to rapid changes in technology and attempts by adversaries to blur the lines between private and public sector entities, particularly the PRC's strategy of Military-Civil Fusion.
3. The Committee on Foreign Investment in the United States (CFIUS) needs additional authorities and tools to effectively evaluate inbound investments from the PRC.
4. The PRC exploits the openness of the U.S. research environment to steal U.S. intellectual property (IP) and transfer technology to advance its economic and security interests to the detriment of the United States.

Pillar III: Invest in Technological Leadership and Build Collective Economic Resilience in Concert with Allies

1. The United States is falling behind in the race for leadership in certain critical technologies.
2. The PRC is gaining on the United States in the race for global talent.
3. By working with allies, the United States can increase U.S. exports, reduce supply chain reliance on the PRC, and counter the PRC's economic and technology mercantilism.
4. The United States is dangerously dependent on the PRC for critical mineral imports.
5. The United States' dependence on the PRC for pharmaceutical and medical device supply chains poses a distinct national security risk.
6. Through its Belt and Road Initiative, the CCP has expanded its influence around the world and gained significant positions in key supply chains and strategic infrastructure, such as ports and space facilities.

INTRODUCTION

The House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party (Select Committee) was formed at the beginning of the 118th Congress to "investigate and submit policy recommendations on the status of the Chinese Communist Party's economic, technological, and security progress and its competition with the United States."[1] In carrying out this mandate, the Select Committee has investigated the threats posed by the Chinese Communist Party (CCP) to America's national security and economy. To date, the Select Committee has made policy recommendations to address Beijing's human rights abuses and military modernization, by combatting the CCP's ongoing genocide of the Uyghur population and profiting from Uyghur forced labor and by building a more credible deterrent in the Taiwan Strait. The report that follows addresses a third, equally critical concern: America's economic and technological competition with the People's Republic of China (PRC).

For a generation, the United States made a bipartisan bet that robust engagement with the PRC would lead the PRC to open its economy and financial markets, which would in turn lead to reforms in the political system, greater freedom for the Chinese people, and peace and stability in the region. That bet has failed. The PRC, led by the CCP, has abandoned the path of economic and political reform, doubled down on repressive activities at home, and engaged in destabilizing activities in the region. In the decades since its accession to the World Trade Organization (WTO), the PRC has consistently broken its promises, which ranged from commitments to allow wholly foreign-owned internal combustion engine vehicle manufacturing licenses in the PRC to pledges to reduce market-distorting agricultural subsidies. It committed to these reforms dozens of times and reneged each time.

At the same time, the CCP has pursued a multidecade campaign of economic aggression, fulfilling General Secretary Xi Jinping's directive to be the "gravediggers of capitalism."[2] It has employed extensive mercantilist and coercive policies to hollow out the American economy and displace American workers and has wielded extensive subsidies[3] at unprecedented levels[4] and market access

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[1] Establishing the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, H. Res. 11, 118th Cong. (2023).

[2] Xi Jinping, Speech to Politburo (4/2018, made public 11/2019).

[3] Notable examples of the CCP's industrial policies include state-owned enterprises, the Made in China 2025 plan, which aims to build indigenous capabilities in 10 sectors, and Military Civil Fusion, which draws on civilian technology to support the PLA. See "Made in China 2025 Industrial Policies: Issues for Congress," Congressional Research Service (March 10, 2023); *The United States Needs to Strategically Decouple from China, U.S. House Select Committee on Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Robert Lighthizer).

[4] Gerard Dipippo, Ilaria Mazzocco, Scott Kennedy, and Matthew Goodman, "Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective," Center for Strategic and International Studies (May 2022).

restrictions[5] to strengthen indigenous industries and decrease the PRC's reliance on foreign partners. At the same time, it has sought access to U.S. technology, expertise, and capital. It has often done so illegally, stealing as much as $600 billion per year of intellectual property (IP) and technology—in what the former director of the National Security Agency called "the greatest transfer of wealth" in history.[6] In other cases, it has done so legally, gaining deep access to U.S. capital markets and receiving more than one trillion dollars from U.S. investors.

As Ranking Member Raja Krishnamoorthi documented at the Select Committee's May 17 hearing titled "Leveling the Playing Field: How to Counter the Chinese Communist Party's Economic Aggression," the CCP's economic ambitions have taken a severe toll on American workers and companies:

> In 1978, when the PRC began to open the economy, America produced four times more steel than the PRC. Now, the PRC produces 12 times more steel than we do. In 1978, America produced 36 times more cars than the PRC. Now, the PRC is the world's largest automaker, producing nearly three times more than America. In 1978, America was the world's leading economy, with a GDP more than 12 times that of the PRC which ranked 10th in the world. Today, we remain the world's biggest economy. The PRC is the second-biggest economy, and they're aiming to be number one.[7]

All told, Beijing has developed cutting-edge technologies; built high-end indigenous industrial capabilities; controlled the flow of money, technology, and data across its borders; and secured a leading position over key global value chains, thereby cultivating global dependence on it for critical goods, fulfilling General Secretary Xi's 2020 direction to "tighten international production chains' dependence on the PRC to form powerful countermeasures and deterrent capabilities."[8] Indeed, the CCP now uses its economic power to suppress its own people, purpose-build a modern military to threaten the United States and its neighbors, and dominate global supply chains, critical industries, and emerging technologies. The PRC now weaponizes that interdependence in its favor and uses it with increasing frequency to coerce the United States and our allies and partners at the expense of our national security, economic vitality, and core values.

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[5] For example, foreign companies seeking to do business in the PRC must form joint ventures with Chinese entities, signing away legal protections against intellectual property theft and enabling the transfer of technologies into Chinese hands. "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," U.S. Trade Representative, 48-54 (March 22, 2018).
[6] The Commission on the Theft of American Intellectual Property, "Update to the IP Commission Report," National Bureau of Asian Research (February 2017); Dennis C. Blair and Keith Alexander, "China's Intellectual Property Theft Must Stop," *New York Times* (August 15, 2017).
[7] *Leveling the Playing Field: How to Counter the CCP's Economic Aggression: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023).
[8] Xi Jinping, Speech at meeting of Central Financial and Economic Affairs Commission (4/2020).

The CCP's campaign of economic aggression flows directly from the Party's ideology. Xi has made clear he believes "capitalism will inevitably perish, and socialism will inevitably triumph."[9] The question for policymakers, therefore, is how to reset the terms of our economic relationship with the PRC and guide it in a direction that clearly aligns with our national interest and values. Much of this discussion has taken the form of "D words" such as "decouple," "de-risk," and "diversify." Regardless of the choice of words, the United States must now chart a new path that puts its national security, economic security, and values at the core of its economic engagement with the PRC and invests in long-term American technological leadership.

Over the spring, summer, and fall of 2023, the Select Committee held hearings, met with industry officials and experts, and traveled domestically and internationally to answer that question. It conducted fact-finding, exposed the PRC's campaign of economic aggression, and identified policy options for the United States to respond to that campaign and protect U.S. economic security and prosperity. The report that follows presents findings and recommendations from this work and outlines a recommended strategy for the economic and technological dimensions of our competition with the PRC.

The objective of this strategy is to reset the terms of economic and technological competition and shape a strategic environment that favors the national and economic security of the United States and its allies while upholding our values. Doing so will require hard tradeoffs and will not be without cost. However, the near-term costs of protecting our national economic security ultimately pale in comparison to the long-term consequences of failing to act now. We must make clear-eyed choices now in the interest of America's long-term economic and national security.

The strategy that follows is guided by three pillars:

First, the United States must reset the terms of our economic relationship with the PRC and recognize the serious risks of economically relying on a strategic competitor that harnesses the power of the Party-State to compete economically. While economic exchange with the PRC will continue, the United States government and the private sector can no longer ignore the systemic risks associated with doing business in the PRC or allow companies' pursuit of profit in the PRC to come at the expense of U.S. national security and economic resilience. For over two decades, the U.S. government and businesses have sought access to the PRC as a market for consumer goods, a source of low-cost production, and a recipient of U.S. investment. In that time, the PRC has failed to live up to its trade promises, tightly controlled access to its markets, stolen hundreds of billions of dollars a year in technology and IP, and employed subsidies and unfair trade practices to squeeze out American competitors. These are not merely an assortment of separate moves made by individual actors but a feature of Beijing's

[9] Xi Jinping, Speech to CCP Central Committee (made public 3/2019).

long-term strategy to harness the scale of its domestic market to achieve global dominance for PRC firms in critical technology and products and to make foreign countries, including the United States, dependent upon the PRC and subject to its coercion.

Second, the United States must immediately stem the flow of U.S. technology and capital that is fueling the PRC's military modernization and human rights abuses**.** General Secretary Xi has made plain his intent to "resolutely win the battle of key and core technologies" and build the People's Liberation Army (PLA) into a "great wall of steel."[10] At present, U.S. capital, technology, and expertise aid that effort. They support the PLA's modernization, the CCP's predatory technological goals, and genocide. The United States must change course. To quote Dr. Eric Schmidt's remarks at the Select Committee's hearing, "Leveling the Playing Field," "it's never too late to stop digging our own grave."[11]

Third, the United States must invest in technological leadership and build collective economic resilience in concert with its allies. The best defense against the CCP's predatory economic practices will fail if not paired with a proactive strategy to invest in America and increase economic and technological collaboration with likeminded partners**.** The United States must bolster its unique advantages in technological development by funding research, incentivizing innovation, and attracting global talent in critical areas. In addition, the United States needs to invest in workers, who must remain competitive for jobs of the future, including by helping workers acquire skills-based training and adapt to technological transitions.

Consecutive U.S. presidential administrations have sounded the alarm on growing U.S. dependence on the PRC for critical goods, including rare earth minerals, components and chemicals used in U.S. weapon systems, and pharmaceutical products and precursors.[12] The PRC has already demonstrated its willingness to weaponize these dependencies to coerce the United States and its allies and seek to constrain our policy options. The PRC's growing leadership in

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[10] Alison Snyder, "Xi pushes to accelerate China's scientific 'self-reliance,'" *Axios*, October 20, 2022, https://cset.georgetown.edu/article/xi-pushes-to-accelerate-chinas-scientific-self-reliance/).

[11] *Leveling the Playing Field: How to Counter the CCP's Economic Aggression: U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Eric Schmidt).

[12] The White House, "Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth," 100-Day Reviews under Executive Order 14017 (June 2021); U.S. Trade Representative, "Findings of the Investigations into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974" (March 22, 2018); U.S. Department of Defense, "Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States," Report to President Donald J. Trump by the Interagency Task Force in Fulfillment of Executive Order 13806, (September 2018).

key critical and emerging technologies vital to long-term competitiveness heightens the risks.[13]

The strategy presented here includes sets of findings and recommendations for each pillar. Taken together, they would level the economic playing field, reduce the PRC's hold on U.S. and allied critical supply chains, and invest in a future of continued economic and technological leadership for the United States and its likeminded allies and partners.

THE COMMITTEE'S WORK

The Select Committee has analyzed the nature and costs of the CCP's economic warfare campaign in detail. Throughout the spring, summer, and fall of 2023, the Select Committee held public hearings and events on Capitol Hill and around the country exploring the CCP's pattern of economic aggression, the risks of doing business within the PRC, the Biden Administration's strategy, the CCP's pursuit of technological supremacy, and the systemic risks to U.S. financial stability.

The first hearing in the series, titled "Leveling the Playing Field: How to Counter the Chinese Communist Party's Economic Aggression," was convened to identify how the United States and its allies can most effectively counter the CCP's state-led, market-distorting policies and practices, forced technology transfers, mercantilist trade measures, intellectual property theft, and exploitation of U.S. capital markets. Ambassador Robert Lighthizer (the 18th United States Trade Representative) warned that "the Chinese Communist Party has been waging an economic war against the United States for decades" and urged the United States to answer with a strategy of reciprocity. His fellow witness, Mr. Roger Robinson (Chairman and Co-Founder of the Prague Security Studies Institute), detailed how American citizens have further aided the PRC's economic growth by capitalizing PRC companies and the CCP, including its military and human rights abusers. Finally, Dr. Eric Schmidt (Chairman of the Special Competitive Studies Program) detailed what he called "the defining competition of our time," the competition for technological supremacy, and advocated greater efforts to ensure American technological leadership in sectors critical to strategic competition.

The Select Committee's second economic-focused hearing titled "Risky Business: Growing Peril for American Companies in China" brought together experts to explore the risks that U.S. business and investors face in the PRC such as coercion, threats, and forced transfers of technology and expertise. In detailed

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[13] *See*, for example, "Final Report," National Security Commission on Artificial Intelligence (March 1, 2021); *Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023); James T. Areddy, "China Trumps U.S. in Key Technology Research, Report Says," *Wall Street Journal* (March 2, 2023).

testimony, Ms. Piper Lounsbury (Chief Research and Development Officer of Strategy Risks) laid out the day-to-day risks U.S. companies face in the PRC and the CCP's quest to replace foreign competitors with domestic firms. Mr. Shehzad Qazi (Chief Operating Officer of China Beige Book) detailed the opaque nature of business and investment operations in the PRC, including how the CCP controls and manipulates data and market information, and the risks foreign companies face when entering the PRC market. Mr. Desmond Shum (author of the book, *Red Roulette*) recounted his own personal experience operating with the CCP's system, the blurred lines between public and private enterprises within the PRC, and the all-encompassing grasp the CCP has over the PRC's business sector.

On July 20, the Select Committee held a hearing to explore the Biden Administration's PRC strategy, featuring high-ranking officials from the Departments of Defense, State, and Commerce. The Hon. Ely Ratner (Assistant Secretary of Defense for Indo-Pacific Security Affairs) reiterated that the PRC remains the Defense Department's pacing challenge and discussed the need to continue to work with regional partners and allies to strengthen capabilities and security cooperation. The Hon. Daniel Kritenbrink (Assistant Secretary of State for East Asian and Pacific Affairs) echoed Secretary of State Antony Blinken that, for continued success globally, the United States must invest in our strengths at home, align our efforts with partners and allies, and compete with the PRC to defend our interests. Finally, the Hon. Thea Kendler (Assistant Secretary of Commerce for Export Administration) outlined the role the Commerce Department plays to limit the PRC's access to dual-use and other potentially sensitive technologies that can threaten U.S. national security.

The Select Committee's third economic hearing, "Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century," explored emerging technology and how to ensure the United States' continued leadership on critical technologies in the 21st century. Mr. Josh Wolfe (Co-Founder and Managing Partner of Lux Capital) urged Congress to invest in American technological development and to curtail outbound investment into core sectors in the PRC, warning that U.S. investment in military-use technologies was akin to "handing somebody the belt to tie around your neck."[14] Mr. William Evanina (former Director of the National Counterintelligence and Security Center) drew on his previous experience to articulate the malign ways in which the CCP seeks to leverage, infiltrate, influence, and steal from all corners of U.S. society to the tune of billions of dollars per year. Lastly, Ms. Lindsay Gorman (Senior Fellow at The German Marshall Fund) outlined key sectors where the PRC seeks to dominate emerging technologies and the steps the United States must take to ensure our enduring advantages.

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[14] *Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Josh Wolfe).

The Select Committee held a field hearing in New York City to address the systemic risks that U.S.-PRC financial entanglement pose to U.S. financial stability and national security. Mr. Jim Chanos (President of Chanos & Company) detailed in written testimony the weaknesses in the Chinese market and his fears that U.S. exposure to PRC markets could prove disastrous to the United States. His concerns were echoed by the Hon. Jay Clayton (former Chairman of the Securities and Exchange Commission), who urged Congress to require companies to disclose their exposure to the PRC and to mandate that the executive branch accurately assess and report publicly on the breadth and systemic nature of the risks. They were joined by Ms. Anne Stevenson-Yang (Co-Founder and Research Director of J Capital Research), who advocated restrictions on investments in companies tied to Uyghur forced labor and genocide or that facilitate the CCP's techno-totalitarian surveillance state.

In addition to this slate of hearings, the Select Committee hosted an expert debate on the proper direction for U.S. trade policy with the PRC, outbound investment restrictions, and export controls. Mr. Christopher Padilla (former Under Secretary for International Trade at the U.S. Department of Commerce) and Ms. Mary Lovely (Senior Fellow at the Peterson Institute for International Economics) argued in favor of limited decoupling. Ms. Nazak Nikakhtar (former Acting Undersecretary for Industry and Security at the U.S. Department of Commerce) and Ms. Elizabeth Drake (international trade attorney) advocated a broader decoupling and more restrictive investment and export controls.

Finally, Select Committee members traveled across the United States to meet local stakeholders across numerous industries and sectors. The first of these engagements brought members to Detroit, Michigan, where they engaged with the CEOs of Ford and General Motors on topics such as supply chain resilience and how to support American manufacturers of next-generation automotive technologies. In August, members traveled to Dysart, Iowa, for a roundtable discussion on agriculture and intellectual property rights and to Stoughton, Wisconsin, for a roundtable discussion with manufacturing stakeholders on CCP economic coercion and how to help American industry overcome corrupt PRC economic and trade practices. Finally, members traveled to New York City in advance of the field hearing, to engage with the financial community on U.S.-PRC ties and their nexus with U.S. national security interests.

While in New York, the Select Committee hosted a tabletop exercise that simulated how the United States could respond economically and financially to the PRC mobilizing for military action against Taiwan. The members were joined by senior executives of large American banks, former senior military officers, and current and former executives from the pharmaceutical, mining, and financing industries. During the exercise, the participants sought to deter PRC action through sanctions and financial punishment but soon discovered that, given our significant dependence on and financial entanglement with the PRC, actions during the heat of a crisis could carry tremendous costs to the United States. One key lesson for participants was that the United States must act now to build an economic contingency plan and reduce its dependence on the PRC in critical sectors, address the PRC's penetration of U.S. capital markets, and build greater collective resilience with allies and partners.

The Select Committee has also engaged in oversight related to financial and technology flows between the United States and PRC. The Select Committee is conducting a bipartisan investigation into four U.S. venture capital firms that fund PRC companies that are developing critical technologies, including artificial intelligence and semiconductors, that have ties to the PRC's military and intelligence apparatus. The Select Committee is also investigating the largest index provider, MSCI, and largest asset manager, BlackRock, for facilitating capital flows to PLA contractors, human rights abusers, and companies tied to the PRC surveillance state.

Despite the risks, some firms operating in the United States are expanding rather than reducing technological and supply chain dependence on the PRC—often with U.S. government support. In May, the Select Committee launched an investigation into retail companies Nike, Adidas, Shein, and Temu for alleged use of Uyghur forced labor in their supply chains. Although the latter two companies alone account for more than half of shipments from the PRC to the United States, the Committee found that the United States cannot adequately track them since most of their packages fall under the *de minimis* exception. *De minimis* shipments enter the United States with fewer data elements than formal entries, increasing the risk that forced labor products may enter the United States. Fewer data elements result in Customs and Border Patrol (CBP) challenges to effectively target enforcement.[15]

Members also learned in the Select Committee's investigation of several prominent semiconductor companies that these firms are doing business with PRC actors that have been deemed national security threats. And they have done so even as the CCP rapidly pursues indigenous semiconductor production capabilities that would replace them and close off their access to the PRC market.

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[15] Ana Swanson and Claire Fu, "Congress Spotlights 'Serious' Forced Labor Concerns With Chinese Shopping Sites," New York Times (June 22, 2023).

KEY FINDINGS AND RECOMMENDATIONS

PILLAR I: RESET THE TERMS OF OUR ECONOMIC RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA

For decades, the PRC has failed to live up to its World Trade Organization (WTO) commitments by empowering its state-owned enterprises, massively subsidizing its domestic industry, and closing its markets. At the same time, the CCP has pursued extensive industrial policies that provide low-cost—often free—capital and regulatory support to PRC companies, which puts U.S. companies at a severe disadvantage globally. Unburdened by typical corporate constraints, such as concern for profits and losses, national champion PRC companies have managed to dominate key markets globally.

Yet, as the Select Committee's hearings, investigations, travel, and meetings revealed, the U.S. government and private sector have yet to fully grasp the risks inherent in investing in the PRC.

During the Select Committee's hearing titled "Risky Business: Growing Peril for American Companies in China," Desmond Shum warned, "China is no longer a market for long-term investors…It is a casino that one should take his or her winnings and run for the door."[16] William Evanina likewise warned that "China's ability to strategically obtain our intellectual property and trade secrets via legal, illegal, and sophisticated hybrid methods is like nothing we have ever witnessed."[17]

U.S. companies doing business in the PRC must also navigate an increasingly complex network of laws, regulations, and protectionist policies, which subject businesses to the persistent threat of raids or arrests by security services and make it nearly impossible for U.S. companies to do the due diligence required to certify compliance with U.S. law. Likewise, U.S. investment in the PRC creates systemic risks for U.S. financial stability. However, as Roger Robinson testified, no one knows "the total amount of financial risk exposure of the American people" to PRC securities.[18] Nor can anyone be certain what the costs of a potential future conflict with the PRC could be.

In sum, continued, unfettered economic ties with the PRC poses a direct threat to U.S. national and economic security, financial stability, and values. Guided by

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[16] *Risky Business: Growing Peril for American Companies in China, Hearing before the U.S. House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of Desmond Shum).

[17] *Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of William Evanina).

[18] *Leveling the Playing Field: How to Counter the CCP's Economic Aggression: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Roger Robinson).

these concerns, the Select Committee has identified five findings and associated recommendations.

Key Finding: The PRC's economic system is incompatible with the WTO and undermines U.S. economic security.

When Congress affirmed the PRC's permanent normal trade relations (PNTR) status 2000, it did so in the expectation that the PRC, in its accession to the WTO, would eventually transition to become a market economy. As the Office of the United States Trade Representative (USTR) states in its 2022 *Report to Congress on China's WTO Compliance*, "WTO Members understood that China intended to dismantle existing state-led, mercantilist policies and practices, and they expected China to continue on its then-existing path of economic reform and successfully complete a transformation to a market-oriented economy and trade regime."[19] More than 20 years later, the PRC has failed to live up to these commitments and to the foundational principles of the WTO—open, market-oriented, non-discriminatory treatment. It has inconsistently implemented its bilateral trade and investment commitments to the United States, and CCP intervention in the economy has continued to grow, rather than recede. The CCP wields expansive and expanding power over nearly all areas economic activity, which poses a significant challenge to the United States and other market economies.[20] At the same time, the United States no longer maintains some of the key tools that were once available to protect itself against the distortions from non-market economies. Hearing witnesses encouraged Congress to rebuild that toolkit, including by revisiting the PRC's permanent Normal Trade Relations and returning to annual renewal.

It has become clear that the PRC's accession to the WTO has fundamentally undermined and impaired the benefits that the United States and many economies expected to receive from expanded trade relations with the PRC. The WTO's dispute settlement mechanism has proven to be of limited value in addressing the PRC's state-led, non-market approach to the economy. For many years, the United States and other WTO members attempted both multilaterally and bilaterally to address the unique challenges that the PRC presented to the global trading system. The United States brought 27 cases against the PRC at the WTO, but even if the PRC changed the specific practices at issue, it did not change the underlying problem. It is time for likeminded countries to come together and seriously examine how to collectively counter the PRC's approach to economics and the harm it is doing to the global trading system. If this cannot be achieved within the confines of the WTO, then a new multilateral effort by likeminded market economies that goes back to first principles is needed, excluding mercantilist non-market economies that reject the basic principles upon which the WTO was

[19] U.S. Trade Representative, *Report to Congress on China's WTO Compliance* (2022).

[20] Jude Blanchette, "Chinese State Capitalism: Diagnosis and Prognosis," Center for Strategic and International Studies (October 2021).

established. Because the PRC's state-led economic system is antithetical to the founding principles of the WTO, actions to defend the United States and global economy against PRC economic aggression are consistent with the U.S. commitment to a multilateral trading system based on market-oriented principles.

Recommendation 1: Aggressively counter the PRC's economic and trade strategy and the harm it inflicts on the United States and the global economy.

We acknowledge that granting the PRC PNTR did not lead to the benefits expected for the United States nor did it lead to the structural reforms in the PRC that Congress expected. Instead, it has ceded critical U.S. economic leverage in our relationship with the PRC. Furthermore, the PRC's consistent failure to meet its WTO obligations and its systemic and widespread State and Party intervention in market decisions, economic coercion, IP theft, cyber-attacks, forced labor, lack of basic transparency, and the rule of law have harmed U.S. industry, workers, and manufacturers.

Therefore, Congress should:

1. Move the PRC to a new tariff column that restores U.S. economic leverage to ensure that the PRC abides by its trade commitments and does not engage in coercive or other unfair trade practices and decreases U.S. reliance on PRC imports in sectors important for national and economic security. This shift should be phased in over a relatively short period of time to give our economy the time necessary to adjust without avoidable disruptions.

2. Renew the China Safeguard mechanism, under Section 421, which expired in 2013, by amending the Trade Act of 1974. The PRC-specific safeguard was meant to be a transitional mechanism available to all WTO members as the PRC transitioned to a market economy after joining the WTO. The safeguard mechanism allowed the United States to impose tariffs or other restrictions if the U.S. International Trade Commission determines that products from the PRC are being imported into the United States in such a way that causes or threatens to cause "market disruptions," which would allow for expedited relief. Unlike other trade remedies, the China Safeguard does not require a showing of an unfair trade practice.[21]

3. Defend America from PRC retaliation and prescribe allowable uses for revenue raised from increased tariffs to advance American national

[21] Prior to Section 421, Section 406 allowed the United States to impose country-specific safeguards against Communist countries, but this provision no longer applied to the PRC after Section 421 entered into force. Under the Article 16 of the PRC's WTO accession protocol, WTO members agreed that this safeguard mechanism would expire twelve years after the PRC's accession to the WTO.

security and competitiveness and to expand American market opportunities with allies across the globe as outlined in this report. In anticipation of PRC retaliation, the U.S. Department of Agriculture (USDA) and USTR should collaborate to determine alternative market access for agriculture exports that predominately rely on the PRC market and offset the adverse effects of PRC retaliation. Congress should also consider additional appropriations to offset retaliation for farmers and ranchers, U.S. exporters, and other American workers. A broader strategy must also be developed to support workers to prepare for a period of increased trade tensions and uncertainty.

4. Ensure that the United States' existing trade agreements with third-party countries, including the U.S.-Mexico-Canada Agreement (USMCA), have strong rules of origin to prevent non-market economies from using our trading partners as a backdoor to gain preferential access to the U.S. market.

5. Build consensus on the PRC's distortive trade and economic practices and reinforce U.S. commitments to its international partners by working with likeminded countries to propose new plurilateral disciplines on non-market economies, which could be modeled on the U.S.–EU–Japan Trilateral initiative.

6. Direct USTR to bring a comprehensive WTO dispute against the PRC's subsidization, support for state-owned enterprises, and non-market economy policies and practices with a broad coalition of countries documenting how the PRC has undermined a world trading system "based upon open, market-oriented policies" and impaired the benefits that many Members expected to receive from expanded trade relations with the PRC.

7. Direct USTR to publish a full assessment of the PRC's compliance with the "Phase One" agreement and remedies necessary to address any areas of non-compliance.

8. Pass legislation amending the Tariff Act of 1930 to reduce the *de minimis* threshold for duty-free shipments into the United States with particular focus on foreign adversaries including the PRC. Congress should also direct CBP to strengthen its enforcement against transshipments from the PRC into the U.S. market using the *de minimis* rule, as it cannot adequately scrutinize goods sent to the United States from the PRC for concerns about forced labor under current *de minimis* rules.

9. Enact legislation like the COOL Online Act (H.R. 6299) mandating country of origin labeling for online-purchased products to ensure transparency, consumer understanding, and clear trade practices in the digital marketplace. With the increasing prevalence of e-commerce, consumers

should be able to make informed choices about the products they buy, taking into consideration factors such as sourcing from regions with forced labor. Country of origin labeling not only fosters consumer trust but also enables individuals to align their purchasing decisions with personal values and support businesses that adhere to responsible practices. Additionally, such legislation would create a level playing field for domestic and international businesses by promoting fair competition and preventing deceptive marketing practices.

10. Increase investigative capacity and enforcement and recover lost U.S. revenue by appropriating additional funding for trade enforcement capacities, including the Department of Justice's Trade Fraud Task Force, which investigates PRC transshipment, evasion of tariffs, trade-based money laundering, violations of the Uyghur Forced Labor Prevention Act (UFLPA), and other trade-related crimes. It should also pass the Strengthening the Uyghur Forced Labor Prevention Act (H.R. 4567) to strengthen safeguards against products made with forced labor in the PRC entering the United States.

11. Consider providing financial assistance or other substantive support to small- and medium- sized businesses or first-time petitioners who are pursuing an unfair trade case.

12. Require an assessment from USDA, to be updated on an annual basis, on U.S. dependency on critical agricultural products or inputs that could be exploited in the event the PRC or another foreign country weaponizes any of these critical dependencies. Earlier this year, the United States and ninety other UN Member states condemned the use of food as a weapon of war, but the PRC and Russia were not signatories to this joint communique.[22]

Key Finding: Despite the heightened risks associated with U.S. investment in PRC companies, the full extent and distribution of that risk and the implications for U.S. national security and financial stability remain unknown.

According to one hearing witness, over 100 million Americans hold PRC securities.[23] That figure includes investment in PRC companies listed on U.S. securities exchanges, of which roughly 90 percent is routed through so-called variable interest entities (VIEs), a shell company structure that does not afford

[22] United States Mission to the United Nations, "Ninety-One Countries Sign U.S.-Led Joint Communiqué Condemning the Use of Food as a Weapon of War" (August 3, 2023).

[23] *Leveling the Playing Field: How to Counter the CCP's Economic Aggression: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Roger Robinson).

investors most shareholder rights.[24] The CCP could eliminate these VIEs at any point, leaving U.S. investors with nothing and discouraging future investment in the PRC.[25] Moreover, U.S. regulators have found that the audits of PRC companies whose securities are traded in the United States—audits conducted by PRC firms—do not live up to U.S. standards.[26] PRC companies are not abiding by U.S. accounting requirements, and, according to one witness's testimony, "Companies now can't even do due diligence in advance of any sort of business transaction."[27] Americans invest in PRC firms through index-benchmarked investment products as well, but those companies also fail to go through the same rigorous regulatory reviews as U.S. firms. In sum, Americans investing in PRC companies are not afforded the same information and protections as when they buy securities in other publicly listed companies, putting their pensions and savings at risk. Making matters worse, no one knows what U.S. capital flowing into the PRC is funding. Given the heightened risk, this fundamental lack of information is antithetical to the American system of fair, orderly, and reliable markets and undermines the ability of U.S. regulatory agencies to protect investors. The answer, advised by former Securities and Exchange Commission (SEC) Chairman Jay Clayton, is to embrace the three principles of financial regulation: "transparency, accountability, and financial stability."[28]

Recommendation 2: Create transparency into U.S. investment in the PRC, the recipients of that funding, and the risks associated with it.

Specifically, Congress should:

1. Enact legislation, such as the Reveal Risky Business in China Act (H.R. 4451), requiring large U.S. public companies to disclose key risks related to the PRC and the expected effects of a sudden change in market access. Specifically, to ensure transparency for investors, annual disclosure requirements should include details regarding material ties to the CCP, supply chain, profit from the PRC, and the company's preparation for and ability to withstand the sudden loss of market access that could result from a conflict in the region—with safe harbor protections for forward-looking statements. Congress should also mandate that the Financial

[24] According to research from the Congressional Research Service (2023).

[25] Michael Sutherland and Karen Sutter, "U.S. Capital Markets and China: Issues for Congress," Congressional Research Service (September 2, 2021).

[26] Julia Horowitz, "Audits of Chinese companies by KPMG and PwC full of holes, US watchdog finds," *CNN* (May 10, 2023).

[27] *Risky Business: Growing Peril for American Companies in China, Hearing before the U.S. House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party*, 118th Cong. (2023) (testimony of Piper Lounsbury).

[28] *Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of Jay Clayton).

Stability Oversight Council submit regular reports to Congress on the aggregate quantities of all PRC-associated assets held by Americans and the risks to the U.S. financial system of a PRC scenario, as described here.

2. Direct the U.S. Department of the Treasury to provide monthly reports on U.S. portfolio holdings of foreign securities on the basis of nationality and, where appropriate, by sector. At present, the Treasury Department provides only annual nationality-adjusted reports with no sectoral information.[29] Treasury could also be required to provide quarterly reports on the U.S. portfolio holdings of foreign securities with issuers from foreign adversary countries and on U.S. government blacklists.

3. Oversee the implementation of the Holding Foreign Companies Accountable Act (P.L. 116–222) to ensure that PRC firms listed in the United States come into compliance with U.S. law immediately. Specifically, Congress should pass the Holding Chinese Listed Companies Accountable Act (H.R. 4879), which would heighten accountability for PRC companies. Congress should also require the Public Company Accountability Oversight Board (PCAOB) to report regularly to Congress on the status and outcomes of its inspections of audits conducted on PRC securities issuers. Congress should also consider making public PCAOB enforcement actions on non-compliant PRC entities, to support the PCAOB's efforts, in the words of Chair Erica Williams, "to increase transparency where we can."[30]

Key Finding: The United States lacks a contingency plan for the economic and financial impacts of conflict with the PRC.

No office in the U.S. government bears primary responsibility for assessing the costs to the U.S. and global economy of a conflict with the PRC nor for doing contingency planning for how the United States and its allies would respond economically. The Select Committee's tabletop exercise in New York City reaffirmed the danger this gap poses to U.S. long-term security. When faced with a PRC escalation of tensions in the Taiwan Strait, the participants struggled to identify how they could respond economically without doing severe harm to the U.S. and allied economies. The experience echoed an earlier Select Committee exercise, documented in a previous report, "Ten for Taiwan," in which the members found that the United States and its allies need to strengthen and better coordinate collective planning for how they will deter or respond diplomatically

[29] Derek Scissors, "What to Do About American Investment in China," *American Enterprise Institute* (May 10, 2023).
[30] Soyoung Ho, "A Conversation with PCAOB Chair Erica Williams," *Thomson Reuters*, (August 17, 2022).

and economically to a crisis over Taiwan.[31] Similarly little is known about the economic consequences of armed conflict in the South China Sea, where the PRC's increasingly aggressive military activity undermines regional stability.

Recommendation 3: Assess and prepare to respond to the economic, financial, and industrial impacts of potential future conflict with the PRC.

Specifically, Congress should:

1. Designate a coordinating office that is responsible for assessing and developing an economic security strategy and for assessing the possible economic, financial, and supply chain effects of the PRC's military and economic aggression. Legislation could be modeled on the bipartisan SHIELD Act (H.R. 5703) and should direct this office to perform the following functions:

    a. Formulate a U.S. Economic Security Strategy. The strategy should assess on an annual basis the risks to the resilience of U.S. supply chains, with an emphasis on critical dependencies that are likely to be weaponized by the PRC or other foreign adversaries for geopolitical purposes, such as a potential conflict in the Indo-Pacific, and strategies to defuse threats without unnecessarily undermining economic growth or damaging American security. The analysis should identify market-distorting policies or other unfair trade practices that have contributed to these dependencies and what the United States should be doing to address them,

    b. Devise plans for how to respond to the PRC's economic coercion and carry out regular tabletop exercises and simulations to assess the impact of PRC aggression on critical supply chains, U.S. financial markets and stability, and the U.S. and global economies.

2. Direct the Administration to develop joint plans with U.S. allies and partners to enact severe diplomatic and economic costs on the CCP in the event that it engages in military aggression against Taiwan or other U.S. allies or partners, as previously recommended by the Select Committee. Congress should also enact legislation similar to the STAND with Taiwan Act (H.R. 2372), which would require the U.S. government to impose sanctions on the PRC should it invade Taiwan.

[31] House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party, "Ten for Taiwan: Policy Recommendations to Preserve Peace and Stability in the Taiwan Strait" (May 24, 2023).

3. Direct the Federal Reserve to stress-test U.S. banks for their ability to withstand a potential sudden loss of market access to the PRC and to produce classified reports detailing the results of those assessments and considering the impact on U.S. financial markets of potential U.S. and allied sanctions against PRC financial firms in the event of a conflict.

Key Finding: The PRC uses an intricate web of industrial policies, including subsidies, forced technology transfer, and market access restrictions, to distort market behavior, achieve dominance in global markets, and increase U.S. dependency on PRC imports.

The CCP has made control and monopolization of advanced technology sectors in the PRC central to its economic strategy, as highlighted in detail by H. Res. 697.[32] Many of the PRC's most harmful trading practices are designed to acquire foreign technology and use it to make PRC firms market leaders in militarily and economically strategic sectors. Therefore, the United States needs to take comprehensive action to prevent further American reliance on technological research, development, and manufacturing supply chains in the PRC and deter PRC economic coercion against American companies.

Recommendation 4: Prevent U.S. companies from being driven out of the U.S. market by market-distorting PRC products.

Specifically, Congress should:

1. Direct the Administration to implement Section 232 of the Trade Expansion Act to impose remedies on products or components from a country of concern while limiting applicability to allies and partners. Section 232 currently allows Commerce to review the impact of imports on national security, but insufficiently distinguishes between imports from our partners and allies and imports from countries of concern. Under congressional guidance, the Secretary should act on the importation of an article in such quantities or under such circumstances when a country of concern threatens to impair our national security. This would allow Commerce to focus its efforts on imports from a country of concern, including through third countries while encouraging, rather than undermining, work with U.S. partners and allies.
2. Direct the Department of Commerce to impose import duties on foundational (*i.e.*, legacy) semiconductors from the PRC. Urgent action is

[32] Expressing the sense of the House of Representatives relating to the Communist Party of China's Made In China 2025 Plan, H. Res. 697, 118th Cong. (2023).

needed to prevent the PRC from dominating legacy chips, which would give the PRC excessive leverage over the modern global economy.[33]

3. Update Section 337 of the Tariff Act of 1930 to better address the threat from unfair PRC trade practices, making clear that Section 337 may be utilized to address unfair trade practices and unfair methods of competition from a wide-array of market-distorting unfair trade practices.
4. Determine, and then establish, what guardrails are needed to address the possibility of foreign adversary entities obtaining sensitive IP through funding third-party litigation in the United States. Make PRC court anti-suit injunctions unenforceable in U.S. courts. For litigation in federal court, require enhanced disclosures for foreign adversary entities and provide judges with the authority to require enhanced disclosures for certain entities under foreign adversary entity control regarding their funding, and, when appropriate, ownership and connection with the foreign adversary government and dominant political party.
5. Urge the Executive Branch to enforce the Protecting American Intellectual Property Act of 2022 (P.L. 117-336), which President Biden has signed into law. Congress should authorize the Department of Commerce to place a foreign adversary entity on the Entity List if the Department of Commerce determines the entity or an individual affiliated with the entity was responsible for the theft of U.S. intellectual property rights or refused to compensate U.S. firms for unlicensed use of their IP.
6. Enact Leveling the Playing Field 2.0 (H.R. 3882) to update U.S. trade laws by addressing issues such as cross-border subsidies, simplifying investigations into circumvention and repeated product-related inquiries, and strengthening remedies to minimize PRC predatory economic practices.
7. Enact bipartisan legislation to empower the U.S. to deter PRC economic coercion against U.S. companies, private individuals, and public officials, as well as partners and allies. Particular action should be taken to respond to companies acting in furtherance or support of a boycott maintained by a foreign adversary against a country or company friendly to the United States.
8. Expand the “rebuttable presumption” in the UFLPA to include certain imported PRC seafood products. Expand the list of seafood products from the PRC subject to the Seafood Import Monitoring Program to include all types of seafood products, to ensure the United States is not complicit in the PRC’s practice of illegal, unreported, and unregulated fishing.

[33] Legacy chips are commodity products. On average, they cost $0.5 apiece. Rokon Zaman, “Chip War Winning Strategy of USA Risks Failure,” *The Waves* (September 22, 2023).

9. Require the Department of Commerce to update existing tools to develop a user-friendly, comprehensive, digital database that helps small businesses effectively search and analyze information on foreign entities that the U.S. government has sanctioned, listed, or otherwise poses a threat to U.S. national security, its economic well-being, or poses undue risk to the public. The database would also include analytic standards for assessing various risks with respect to entities listed in the database. Require OMB to establish guidelines to publish Department of Commerce Entity List entities in their native language.

Key Finding: The widespread adoption of certain PRC-developed technologies in the United States poses a significant risk to U.S. national security and data protection concerns and threatens long-term U.S. technological competitiveness.

In her testimony to the Select Committee, Ms. Liza Tobin, the Senior Director for Economy at the Special Competitive Studies Project, explains how "The PRC intentionally creates overcapacity and sells products at below-market rates in order to gain market share and move up the value chain."[34] In doing so, it has gained market position in the United States in critical areas, including microelectronics, software platforms, and advanced networks (such as 5G). U.S. telecom networks continue to use Huawei and ZTE equipment, despite the Federal Communications Commission designating them as national security concerns. The widespread use of PRC-developed technology serves the CCP's goal of dominating advanced technology sectors to, among other aims, create severe dependence by the United States on both PRC technology and also PRC components for that technology. It also introduces vulnerabilities, as the CCP is committed to using the presence of technology products and services it controls to conduct cyberattacks on the United States, damage critical infrastructure, collect data on Americans to advance its AI goals, surveil Americans as part of its campaign of transnational repression, and promote CCP priorities as the new technological norms.

Recommendation 5: Require the U.S. government to prevent U.S. reliance on the PRC for advanced technology and to protect the U.S. market from harmful PRC technology.

Specifically, Congress should:

[34] *Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of Liza Tobin).

1. Enact the Chinese Military and Surveillance Company Sanctions Act of 2023 (H.R. 760), which authorizes the Treasury Department to make a determination of sanctions on PRC companies it identifies as being directly tied to the Chinese military industrial complex.
2. Establish a National Technology Competitiveness Analysis Center (NTCAC) to be housed at the Department of Energy that directly supports the End User Review Committee (ERC) and other relevant stakeholders in conducting analysis on critical and emerging technology ecosystems. The NTCAC should report directly to the Secretary of Energy and function as the interagency representative of the Department of Energy at interagency conversations related to science and technology. The NTCAC should draw upon expertise across the federal government, such as national labs, and the Department of Defense, in addition to industry analysis. This should also include input from the intelligence community on areas of PRC IP theft, the state of technology transfer, and identifying and tracking chokepoint technologies.
3. Enact authorities to allow the President to ban technology products and services critical to national security from the U.S. market if they are owned, controlled, or developed by a foreign adversary. These technologies should include but not be limited to quantum computing, biotechnology, artificial intelligence, autonomous systems, and surveillance technology.
4. Enact legislation that would force divestment of or, if necessary, ban foreign adversary-controlled social media platforms such as TikTok, from the United States.
5. Prevent U.S. government funds, including loans or grant funds, from being used to reimburse the use or purchase of biotechnology machines, products, and services from the PRC biotechnology and PLA-affiliated entity, the BGI Group, and its subsidiaries. Additionally, Congress should require the Department of Commerce to add BGI and its subsidiaries to the Entity List and should take steps to prevent foreign adversaries from collecting or acquiring U.S. genomic and other sensitive health data.
6. Enact the bipartisan American Security Drone Act (H.R. 6143) or the Securing Our Airspace from Reconnaissance (SOAR) Act (H.R. 3974) into law to effectively restrict U.S. federal agencies from procuring drones manufactured in foreign adversary countries. Ensure that all PRC commercial drone companies and subsidiaries that have proven PRC military ties should be on the Entity List maintained by the Department of Commerce, the 1260H List maintained by the Department of Defense, and other relevant government lists.

7. Require the Department of Commerce, in coordination with the ERC, to determine whether the promulgation of open-source microelectronic architectures, like RISC-V, pose a risk to U.S. national security or supply chain security. Congress should require the ERC determine whether authorities under Section 1753 of the Export Control Reform Act of 2018 (P.L. 115–232) or E.O. 13873 could be used to address any national security concerns posed by open-source chip architecture.
8. Require the Department of Commerce, in consultation with the ERC, to determine whether the promulgation of Light Detecting and Ranging technologies (LiDAR) manufactured in foreign adversary countries is a risk to U.S. national security, and whether U.S. technology flowing to PRC LiDAR firms should be subject to export controls. Congress should require the Federal Acquisition Security Council to determine if LiDAR technology produced by foreign adversary countries should be subject to a federal procurement ban, including by the Department of Transportation.
9. Enact legislation similar to the bipartisan, bicameral NETWORKS Act (as introduced in the 116th Congress as H.R. 6235) to effectively place Huawei, ZTE, and other high-risk foreign adversary-controlled telecom vendors on the Specially Designated Nationals and Blocked Persons List to cut these national security threats off from foreign markets, and enact the FACT Act (H.R. 9236), which would require the Federal Communications Commission (FCC) to publish a list of companies who hold FCC authorizations, licenses, or other grants of authority with over 10 percent or more ownership by foreign adversaries.
10. Fully fund "rip and replace" for Huawei, ZTE, and other high-risk foreign adversary-controlled telecom vendors to ensure that such equipment is removed from U.S. networks.[35]
11. Strengthen the FCC's "Covered List" of telecom equipment and services, including by:
    a. Enacting legislation allowing the Department of Justice (DOJ) to make determinations as to the national security threat from certain equipment and services that can trigger the FCC to add such equipment and services to the Covered List. This could ensure that the FCC can rapidly respond to "white-labeled" equipment and services that should be on the Covered List.
    b. Enacting legislation requiring a separate equipment certification for any device using any module produced by any Covered List entities or their subsidiaries or affiliates.

[35] "Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs," Federal Communications Commission.

12. Pass comprehensive reform to federal procurement to prevent federal agencies from acquiring directly from or contracting with companies that use foreign adversary-controlled technology whose use could pose a threat to U.S. national security. Relevant sectors should include semiconductors, drones, AI technology, etc., produced in foreign adversary countries or by foreign adversary companies.
13. Pass the Retroactive Foreign Agents Registration Act (H.R. 4545) to require those lobbying on behalf of foreign governments to retroactively register as a Foreign Agent, even if that relationship has been terminated. Pass the Chinese Communist Party Influence Transparency Act (introduced in the 117th Congress as H.R. 3390) to require any agent lobbying on behalf of a PRC business entity to register as a Foreign Agent.
14. Enact the Disclosing Foreign Influence in Lobbying Act (H.R. 1190) to require disclosure of lobbying activities undertaken by foreign governments, including the PRC.
15. Pass comprehensive privacy legislation to ensure companies are no longer able to exploit gaps in data privacy protections. The lack of such legislation enables data brokers to sell American citizen data to the highest bidder, including companies based in the PRC.

PILLAR II: STEM THE FLOW OF U.S. CAPITAL AND TECHNOLOGY FUELING THE PRC'S MILITARY MODERNIZATION AND HUMAN RIGHTS ABUSES

The Select Committee's hearings, investigations, travel, and meetings exposed how the CCP has weaponized its economic ties with the United States and used American capital, technology, and expertise to modernize its military, build weapons pointed at the United States and its allies, and develop its surveillance state.

The Select Committee found that U.S. capital funds the PRC's pursuit of military and technological dominance, thereby undermining American global leadership. That investment in turn endangers our national security, puts U.S. investors and markets at risk, and makes Americans unwitting collaborators in the CCP's worst human rights abuses. Likewise, Americans are exposed to substantial risks when investing in the PRC, including the dangers posed by owning shares in variable interest entities (VIEs), which, according to one hearing witness, "are inherently opaque and carry enormous governance risk."[36]

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[36] *Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of Jim Chanos).

In addition to capital—and despite past efforts to address the issue—U.S. technology also continues to flow to the PRC, supporting its military and technological ambitions. PRC money likewise continues to permeate critical and emerging technology sectors in the United States. The Biden administration has taken an important step with its October 7, 2022, export controls, but more needs to be done. Guided by these concerns, the Select Committee has identified four findings and associated recommendations:

Key Finding: American investors wittingly and unwittingly support the PRC's defense industry, emerging technology companies, and human rights abuses.

U.S. investors and average Americans have, often unwittingly, funneled vast sums of capital to PRC companies that the U.S. government has identified as PLA military contractors, national security threats, industrial predators, and human rights abusers.[37] Even the Thrift Savings Plan (TSP), which manages the retirement savings of U.S. servicemembers and federal employees, includes funds that finance companies that develop weapons for the PLA.[38] Americans also invest in companies that profit from Uyghur forced labor and enable the CCP's ongoing genocide in Xinjiang. The Biden Administration's August 9 Executive Order on outbound investment is an important first step in addresssing this challenge, but more work is needed to protect American investors and national security when it comes to critical technology sectors and investments in the PRC.[39] One former financial executive put it plainly in written testimony for the September 12 hearing on systemic risk: "Congress should pass legislation establishing an outbound investment regime for China that covers both active and portfolio investment on a sector-by-sector basis."[40]

Recommendation 1: Restrict U.S. investment in entities tied, directly or indirectly, to the PLA, critical technology sectors, or forced labor and genocide.

Specifically, Congress should:

1. Pass legislation to generally prohibit investment in PRC companies included on key U.S. government sanctions and red-flag lists, including

[37] Kate O'Keeffe and Corrie Driebusch, "BlackRock, MSCI Face Congressional Probes for Facilitating China Investments," *Wall Street Journal* (August 1, 2023).
[38] Valerie Bauman and Didi Kirsten Tatlow, "Chinese Firms That Threaten U.S. Security Can Get Investment from Federal Employees," *Newsweek* (May 22, 2023).
[39] Exec. Order No. 14,105, 88 Fed. Reg. 54,867 (Aug. 11, 2023).
[40] *Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of David H. McCormick).

the UFLPA Entity List, the Non-SDN Chinese Military-Industrial Complex Companies (NS-CMIC) List, the list established by Section 889 of the John S. McCain National Defense Authorization Act for Fiscal Year 2019, the list established by Section 1260H of the William M. "Mac" Thornberry National Defense Authorization Act for FY 2021, the Military End User List, the list established by Section 5949 of the James M. Inhofe National Defense Authorization Act for FY 2023, the Federal Communications Commission's "Covered List," the Entity List, and the Withhold Release Orders and Findings List related to forced labor. Legislation should include subsidiaries and parent or holding companies of these listed entities.

2. Build upon the Biden Administration's Executive Order to codify restrictions on U.S. investment in areas related to the PRC's critical and emerging technologies, military capabilities, and human rights abuses. Outbound rules should restrict investment on a sectoral basis, including many of the technology sectors identified as critical by the Office of Science and Technology Policy and many of those the CCP has openly declared its intent to dominate in the 14th Five-Year Plan.

3. Enact legislation requiring companies from foreign adversary countries, including the PRC, that seek to register on U.S. national security exchanges to certify that they do not work with foreign adversary militaries, facilitate the development of dual-use technologies, or use Uyghur forced labor in their supply chains and that they will provide full legal protection and shareholder rights to owners of their securities. These rules would apply to new issuers, and those companies that certify to these standards must annually recertify in a timely, credible manner or else their securities will be forbidden from being traded in the United States.

4. Enact legislation to prevent further U.S. capitalization of PRC companies under U.S. human rights sanctions or implicated in Uyghur forced labor. This could include mandating that the SEC delist any entities on the UFLPA Entity List or with broader connections to forced labor and excise any such entities from indices and investment products benchmarked to those indices.

5. Enact legislation prohibiting the TSP from investing in PRC companies that are under U.S. human rights sanctions or prohibited by the UFLPA. Congress should also enact legislation that requires private equity firms, as well as employee retirement plans governed by the Employee Retirement Income Security Act (ERISA), to disclose their continuing investments in companies based in or controlled by foreign adversaries. Congress should consider and discuss proposals to end purchases of any

further interests in those entities, such as the Protecting Americans Retirement Savings Act (H.R. 4008).

6. Enact legislation to address how variable interest entities (VIEs) deny U.S. investors basic shareholder rights and protections.
7. Enact legislation to provide legal safeguards to state and local governments that wish to divest their assets from the PRC, including legislation similar to the PRC Accountability and Divestment Act of 2023 (H.R. 6528).
8. Enact legislation to ensure capital gains and dividends made from investing in the PRC are not taxed at a lower rate than American workers' salaries. Congress should give investors a one-year period to divest from PRC entities then tax investment in the PRC at the same rate as ordinary income. At the same time, it should defer capital gains taxes for investments shifted to strategic sectors and small businesses in the United States.

Key Finding: U.S. export controls have been slow to adapt to rapid changes in technology and attempts by adversaries to blur the lines between private and public sector entities, particularly the PRC's strategy of Military-Civil Fusion.

In their written testimony submitted to the Select Committee, Emily de la Bruyère and Nathan Picarsic, senior fellows at the Foundation for the Defense of Democracies, quote a PRC scholar to describe the nature of the PRC's Military-Civil Fusion (MCF) strategy: "The military is for civilian use, the civilian is military, and the military and civilian are fused."[41] In other words, no line exists between civilian and military technological development. U.S. export controls have yet to adapt to this reality. According to Assistant Secretary of Commerce for Export Administration, Thea Kendler, the PRC's MCF strategy "requires the United States to impose stronger export controls targeting advanced commercial

Recommendation 2: Strengthen export controls to restrict the flow of critical and emerging technologies to any entity in the PRC and stop currently uncontrolled dual-use commercial technology from going to the PRC.

[41] *Commanding Heights: Ensuring U.S. Leadership in the Critical and Emerging Technologies of the 21st Century, U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony of Emily de La Bruyère and Nathan Picarsic).

items that can be used also in military applications."[42] The U.S. must modernize its export controls to fully adopt this mentality.

Specifically, Congress should:

1. Direct additional resources to the Commerce Department's Bureau of Industry and Security (BIS) to ensure sufficient personnel, technology, data management, intelligence community support, and other resources for the agency to carry out its national security mission. These additional resources to BIS should be paired with necessary reforms, to include updating the End User Review Committee deliberation process; closing the "subsidiary loophole;" and expanding BIS authorities to adjudicate the risk posed by dual-use open-source technology.

2. Using the Biden administration's October 7, 2022, country-wide controls on advanced semiconductors as a model, require the Department of Commerce to adopt "country-wide" controls for specific technologies going to foreign adversaries, regardless of end-use or end-user, and establish a "policy of denial" for export licenses for items with "National Security" (NS) controls.

3. Require the executive branch to quickly establish general controls on critical and emerging technology to foreign adversaries, to include but not limited to artificial intelligence, quantum technologies, biotechnology, advanced materials, optics and sensing, advanced energy research, and space-based technologies.

4. Expand export-license requirements to subsidiaries of foreign adversary entities on the Entity List to address the issue of diversion.

5. Require the ERC to conduct a full top-to-bottom review of all items classified as commercial items (EAR-99) to determine if they should be subject to export controls. Allow the Department of Defense, Department of State, and Department of Energy to nominate EAR-99 items to be controlled if these Departments believe there is a national security or foreign policy reason to prevent the item from being exported to foreign adversaries.

6. Require the Department of Commerce to establish a "cloud computing" end-use rule to limit U.S. technology from enabling advanced cloud computing clusters above a certain compute threshold to foreign adversaries and to prevent remote access to export-controlled technologies. Require U.S. cloud computing firms to adopt "know-your-customer" requirements. U.S. companies should report to the Department of Commerce any foreign adversary company renting above a certain

[42] *The Biden Administration's PRC Strategy: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023).

threshold of compute to increase transparency and prevent U.S. firms from providing advanced computing services to foreign adversaries.

7. Adopt a "policy of denial" for all U.S. technology exports to PRC firms involved in espionage campaigns against the United States, to include Huawei and ZTE, and revoke any existing licenses. Deny all export control licenses of all products and technologies related to the development of supercomputing for PRC entities involved in the development, design, or operation of supercomputers, to include Inspur Electronic Information and its subsidiaries.

8. Require the Department of State, through the Multilateral Action on Sensitive Technologies group, in coordination with the Department of Commerce, to negotiate expanded multilateral controls on biotechnology, quantum computing, artificial intelligence, aerospace, and space-based technologies with democratic partners and allies that are producers of advanced technology. Congress should require the Department of State, in coordination with National Institute of Standards and Technology (NIST) and the Department of Energy, to work towards multilateral agreements on international standards with likeminded partners to maintain western leadership in artificial intelligence.

9. Require the Department of State to negotiate the establishment of a new "plurilateral" export control regime similar to the former Coordinating Committee for Multilateral Export Controls (COCOM). The new regime should include likeminded partners and allies focusing on preventing the PRC and other foreign adversaries from gaining access to critical and emerging technologies with dual-use applications. Congress should offer creative incentives for countries to join this new group and provide resources for the Department of State to maintain it.

Key Finding: The Committee on Foreign Investment in the United States (CFIUS) needs additional authorities and tools to effectively evaluate inbound investments from the PRC.

CFIUS's regulatory approach is not sufficient to combat Military-Civil Fusion. CFIUS is statutorily country-agnostic,treating investment from foreign adversary countries like the PRC the same as that of any other country. Currently, one significant challenge lies in the Committee's ability to assess "foundational and emerging technologies" that are not subject to export controls. In additon, CFIUS lacks jurisdiction over many joint ventures and greenfield investments (other than a narrow class of real estate transactions) and the ability to review certain elevated-risk real estate transactions near sensitive sites. Finally, CFIUS has relied far too much on mitigation agreements with foreign adversary entities, sometimes lasting indefinitely, and has proven unable to adequately monitor and enforce these agreements.

Recommendation 3: Amend the Foreign Investment Risk Review Modernization Act of 2018 to give CFIUS the legal authorities, mandates, resources, and focus necessary to address the PRC threat to U.S. technology.

Specifically, Congress should enact legislation that would:

1. Expand the definition of "critical technology" in the Foreign Investment Risk Review Modernization Act (FIRRMA) (P.L 115-232) to include:
    a. Technologies that directly or indirectly enable those technologies listed as a Critical and Emerging Technology by the White House Office of Science and Technology Policy; and
    b. Any technologies that are deemed "critical technologies" by either a majority of CFIUS member agencies or a single member agency of CFIUS with concurrence by the Chair (the Treasury Department).
2. Expand the list of sensitive sites over which CFIUS has jurisdiction to cover all military facilities, acknowledged intelligence sites, national laboratories, defense-funded university-affiliated research centers, and critical infrastructure sites. Congress should also:
    a. Codify the Secretary of Agriculture as a voting member of CFIUS for cases that involve farmland or agriculture technology and allow the Secretary of Agriculture to flag potentially problematic land purchases for CFIUS review.
    b. Update CFIUS jurisdiction to cover standalone non-urban, non-single housing unit real estate transactions by foreign adversary entities, where that transaction could reasonably provide the foreign adversary entity the ability to collect intelligence on sensitive national security sites, without requiring disclosure or mandatory review and while preventing CFIUS from limiting such jurisdiction through regulation.
    c. Require CFIUS to promulgate regulations regarding filings for non-urban, non-single housing real estate transactions by foreign adversary entities in proximity to a national security site to address the issue of non-notified transactions.
3. Grant CFIUS jurisdiction over greenfield investments from foreign adversary entities involving critical technologies, critical infrastructure, or

sensitive personal data and require mandatory filings for such transactions.

4. Grant CFIUS jurisdiction over all joint ventures involving foreign adversary entities, including minority stakes, and require mandatory filings, imposing a presumption of unresolvability for transactions involving critical technologies.

5. Address mitigation agreements by requiring CFIUS to block any transaction for which the national security concerns cannot be resolved through a mitigation agreement within three years, and provide additional funding for continued monitoring and assessment of all such agreements.

6. Streamline CFIUS reviews from companies from allied countries that do not pose substantial national security risks, and provide clear guidance on regulation concerning "Excepted Foreign Investors" to ensure that the category does not become a scheme for evading CFIUS review. For example, Congress should add Japan to the "whitelist" of Excepted Foreign States and direct CFIUS to begin formal negotiations to include other close allies on CFIUS's whitelist.

7. Enhance CFIUS's ability to enforce the law and its own orders by:

    a. Providing CFIUS subpoena power for transactions that do not require mandatory filing with CFIUS and creating carve out exceptions to confidentiality of information to encourage whistleblowers.

    b. In rare cases where the national security risk has significantly heightened since the transaction was completed, allowing CFIUS to reopen or alter previously mitigated transactions.[43]

    c. Requiring CFIUS to refer any incident to the Department of Justice where CFIUS has reasonable cause to conclude that there has been a violation of 18 U.S.C. 1001 (false claims).

[43] "Significantly heightened" is defined as significant threats to 1) supply chain resilience, 2) U.S. technological leadership, 3) aggregate investment trends, 4) cybersecurity, or 5) U.S. persons' sensitive data.

Key Finding: The PRC exploits the openness of the U.S. research environment to steal U.S. IP and transfer technology to advance its economic and security interests to the detriment of the United States.

The United States' strong commitment to openness, innovation, and integrity forms the foundation for America's leadership in science, technology, and economic competitiveness. The PRC, however, routinely exploits the United States' open research environment, including through illicit and illegal transfer of U.S. IP and market distortions that favor PRC companies over international ones. This allows the PRC to circumvent the costs and risks of conducting research, thereby increasing their economic and military competitiveness at the expense of the United States, its allies, and its partners. Research competitiveness and innovation for the next decade will significantly depend on the United States' ability to balance an environment of openness against the need to prevent adversaries from leveraging this openness to undermine our national security.

Recommendation 4: Strengthen U.S. research security and defend against malign talent recruitment.

Specifically, Congress should:

1. Build upon cross-agency disclosure guidance produced under National Security Presidential Memorandum 33 (NSPM-33) by the National Science Foundation (NSF) to mitigate research security risk by requiring all federal research funding applicants to disclose details about past, present, and pending relations and interest with foreign governments, foreign government controlled entities, or entities located in foreign adversary countries, in the past five years for themselves and any key member of their team who will be involved in fundamental research supported by the grant and update such disclosure annually throughout the funding period.[44]

2. Create and maintain an unclassified database using open-source information to keep track of PRC research entities that engage in defense and military research and civil military fusion programs. This database can inform U.S. universities and researchers about current and future research collaborations and help federal grant-providing agencies vet grant proposals for risk mitigation.

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[44] NSDD-189 defines "fundamental research" as "basic and applied research in science and engineering, the results of which ordinarily are published and shared broadly within the scientific community, as distinguished from proprietary research and from industrial development, design, production, and product utilization, the results of which ordinarily are restricted for proprietary or national security reasons." "National Policy on the Transfer of Scientific, Technical and Engineering Information," National Security Decision Directive 189 (September 21, 1985).

3. Enact legislation that would prohibit U.S. entities from engaging in research collaborations with PRC entities involved with military and defense research and development (R&D), to include those that are on the International Trade Administration's Consolidated Screening List, the Department of Defense's Chinese Military Companies List, and the U.S. Air Force's China Aerospace Studies Institute's list of PRC Defense Science and Technology Key Labs.
4. Require U.S. research institutions to obtain an export control license if they intend to use any export-controlled item that has a clear and distinct national security nexus, during the course of research collaboration on critical and emerging technologies with any foreign adversary entity.
5. Exercise oversight on enforcement of existing rules in Sec. 117 of the Higher Education Act of 1965 (HEA) (P.L. 89–329) that requires U.S. universities to disclose of foreign gifts and contracts reaching certain threshold to the Department of Education.
6. Strengthen Sec. 117 of HEA by requiring U.S. universities to apply the "know-your-customer/donor" rule to understand who the benefactors are for foreign gifts and contracts channeled through U.S.-incorporated 501c(3) entities.
7. Require the Department of State to establish "human rights" and "military end-use" guardrails in any Science and Technology Agreement with the PRC and ensure sufficient consultations with appropriate Congressional committees throughout the negotiation process, as outlined in the Science and Technology Agreement Enhanced Congressional Notification Act of 2023 (H.R. 5245).
8. Require universities that receive federal grants for fundamental research to fully implement NSPM-33, to create and implement risk-based security reviews to detect and counter PRC malign influence and technology transfer risk.

PILLAR III: INVEST IN TECHNOLOGICAL LEADERSHIP AND BUILD COLLECTIVE ECONOMIC RESILIENCE IN CONCERT WITH ALLIES

The first two pillars of this strategy focused on defensive actions against the CCP's economic warfare campaign designed to reset the terms of the economic engagement and stop U.S. capital and technology from fueling the CCP's economic and strategic objectives. However, the United States must also go on the offensive. This pillar takes three steps.

First, the United States must remain the world's leader in innovative research and turbocharge its collaboration with allies and partners when it comes to the development of emerging technologies, especially those with national security applications. Second, it must expand training and development programs for the American workforce and attract global talent to strengthen our national security innovation base. Third, the United States must invest in resilient supply chains in critical areas.

There is an important ongoing debate about what constitutes a "critical area" in need of on-shoring or "near-shoring" or "friend-shoring," and the Select Committee does not propose to resolve this question. Rather, in light of existing U.S. efforts to on-shore semiconductor manufacturing, we propose focusing first on two additional areas where America has an obvious and unacceptable dependency on the PRC: critical minerals and active pharmaceutical ingredients (APIs).

An offensive strategy to invest in innovation and restore collective economic security, in concert with our allies, will be effective if it harnesses America's unique strengths. For example, the United States should both expand training and apprenticeship opportunities for American workers and attract and retain experts in emerging technology. The federal government should incentivize private investment in strategic sectors or technologies. Public investments, where appropriate, should be designed to attract private sector capital for a multiplier effect. Efforts to pool resources with allies to build more diversified supply chains or promote joint innovation should go hand-in-hand with regulatory reforms.

A united, multinational effort to incentivize, invest in, and jointly restore our economic security is overdue. To that end, the Select Committee makes the following six findings and associated recommendations.

Key Finding: The United States is falling behind in the race for leadership in certain critical technologies.

The CCP's distortionary industrial policies skew technological development to the benefit of PRC companies. To compensate for these economic distortions, the United States should develop a comprehensive package of tax incentives, properly conditioned and controlled public-private financing, and basic research funding to promote domestic development in essential industries and sectors. As Mr. Wolfe advised in his testimony, the United States should commit to "upgrading current funding institutions and building new ones that cultivate long-term horizons of excellence."[45] These financing efforts should focus on technology and sectors critical to U.S. economic resiliency, unresponsive to

[45] *Ibid.*, 14.

competitive market forces, and concentrated within the PRC or under PRC control. U.S. tax dollars must not be used to sustain and deepen dependencies on the PRC.

Recommendation 1: Invest in American innovation and strategic sectors and create tax incentives to encourage private U.S. investment.

Specifically, Congress should:

1. Fund the National Science Foundation (NSF), National Institute of Standards of Technology (NIST), and the Department of Energy's Office of Science—the single largest supporter of basic research in the United States—with a focus on peer-reviewed research. This research should prioritize technologies that have implications for U.S. national security and supply chain security, including but not limited to biotechnology, quantum technologies, and artificial intelligence.
2. Establish a mechanism where the Department of Defense, in coordination with the Department of Energy and other relevant agencies, has the resources to fund early-stage, capital-intensive emerging technologies with national security applications, with requirements for production in the U.S. or in closely allied nations. This should include:
    a. Funding to ensure U.S. leadership in health sciences and new energy technologies that are central to the U.S.-CCP economic and technological competition, as well as legislation to enhance U.S. leadership in other critical technology areas, such as the Autonomous Systems Adoption and Policy Act (H.R. 3168).
    b. Funding to support the Department of Energy's and Intelligence Community's (IC) research and collaboration on next generation microelectronics and communication systems to strengthen domestic manufacturing capabilities for printed circuit boards, which is necessary in almost all electronics used today by providing financial assistance programs for American facilities manufacturing or researching printed circuit boards.
    c. Ensuring that U.S. funding for national security-relevant technologies, to include semiconductors, has clear guardrails for recipients to prevent foreign adversaries from exploiting U.S.-funded research.
    d. Ensuring that the Office of Strategic Capital (OSC) in the Department of Defense receives loan guarantee authority and that Congress oversees the effective use of those funds. Congress authorized the creation of OSC to facilitate private capital investment in sectors directly relevant to U.S. national security

and to diversify the defense industrial base. It should enact legislation, such as H.R. 4952, that authorizes OSC to fulfill its mission by extending lines of credit and guaranteeing private sector loans and requires the Department of Defense to report regularly to Congress on OSC investments and activities.

3. As recommended in written testimony submitted to the Select Committee by former director of the Defense Innovation Unit, Michael Brown, establish and fully fund a "critical technology industry fund… for building or expanding R&D and advanced production facilities in the United States."[46] This organization could take multiple forms but should be designed to increase access to low-cost capital for companies developing critical and emerging technologies with national security applications. The U.S. government could provide initial seed capital as well as non-dilutive capital and, to incentivize greater private sector buy-in, adopt a first-loss position with capped upside.

4. Ensure that the United States remains the world's leader in AI and that our adversaries cannot leverage our advances in AI to undermine our national security or competitiveness. To this end, the United States needs to set the rules of the road for global standards and set domestic regulations on governing these critical technologies. Congress should require the Department of Commerce, in coordination with the End-User Review Committee (ERC)—the Department of Energy, Department of Commerce, Department of Defense, and Department of State—to promulgate regulations related to risk assessments, red teaming, safeguards, cybersecurity, and post-deployment monitoring. Congress should empower the ERC to impose limitations on the open sourcing of an advanced model's weights, transformer architecture, and training data, if the ERC determines the model can carry out national security-relevant tasks. Developers who build open-source models exceeding a certain sophistication threshold, as determined by the NIST should be required to report the development and details of their model to the Department of Commerce prior to deployment.

5. Incentivize private sector investment in critical and emerging technologies with a national security application, including by:

    a. Establishing a capital gains tax exemption for small- and medium-sized businesses working in those technologies sectors. The list of critical technologies should include foundational sectors, such as AI and quantum, as well as strategic infrastructure, including port facilities, telecommunications infrastructure, and defense

[46] *Competing with China for the Century: A Strategy to Win the Tech Race, U.S. House on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023) (written testimony by Michael Brown).

equipment, and it should be publicly revised annually. Investment in companies developing technologies covered by that list should be exempt from capital gains taxes, if the investment is held for at least five years.

   b. Enacting legislation providing full expensing of R&D investment in annual tax returns, such as the American Innovation and R&D Competitiveness Act of 2023 (H.R. 2673).

   c. Enacting strong guardrails for tax credit eligibility to ensure federal incentives aimed at bolstering U.S. competitiveness do not benefit the CCP.

6. Task and resource the NIST and Department of Energy in coordination with other agencies to develop cyber security and "red teaming" standards for U.S entities involved in the research, development, and digital storage of advanced AI models. Congress should also mandate federal agencies adopt the NIST Risk Management Framework and implement increased cybersecurity practices. Federal agencies should build upon NIST's Risk Management Framework, adapting it to their specific use cases and sensitivities.

7. Fund NASA's and the Department of Defense's programs that are critical to countering the CCP's malign ambitions in space, including by ensuring the United States is the first country to permanently station assets at all Lagrange Points. The CCP understands well the need for space-based operations and is developing formidable space capabilities to challenge U.S. dominance in this domain. NASA and relevant Department of Defense funding is critical to ensure command and control in the space domain, establish dominance in multilateral space governance, and spur scientific discovery and American innovation.

8. Amend the Internal Revenue Code of 1986 to include provisions for the issuance of private activity bonds for spaceports to encourage the development of such facilities. Private activity bonds would align financial incentives with the growing interest in commercial space ventures and provide states and local governments with a potent tool to attract private companies and developers to invest in the construction and expansion of spaceports, which can lead to job creation and economic development in the regions that host them.

9. Raise the cap on the development of autonomous vehicles (AVs), set by the National Traffic and Motor Vehicle Safety Act of 1966 with a framework for consumer safety. The current cap is set at 2,500 vehicles per year under the program for a maximum of two years (5,000 vehicles). Congress should raise it to 100,000 vehicles per year to promote domestic capital investment required to build, equip, and maintain

manufacturing plants, train workforces, secure supplier contracts, and develop advanced technologies, while ensuring safety.

10. Develop a national deployment strategy for small modular reactors (SMRs) to localize to-scale, carbon-free electricity and to advance research in SMR-based hydrogen technologies. Congress should support the Department of Energy and the Department of Defense in the deployment of light water-cooled SMRs in the coming decade and promote the expedited review by the Nuclear Regulatory Commission of SMRs with nontraditional coolants, such as liquid metals, salts, and gases.

11. Build on the Biden Administration's Determination of Exceptional Circumstances and U.S. Competitive Provision under the Bayh-Doyle Act (P.L. 96–517) to further promote the manufacture of DOE science and technologies in the United States. Congress should also enact legislation that prohibits the manufacturing of DOE-funded intellectual property in the PRC or in a facility owned, controlled, or operated by the CCP; or authorize another person to manufacture such product in the PRC or in a facility owned, controlled, or operated by the CCP.

12. Ensure the United States is the first country to develop a quantum computer capable of breaking modern-day encryption tools and be a global leader in quantum research and technologies. Congress should require the "National Quantum Initiative Advisory Committee" in consultation with the Secretary of Defense, Director of National Intelligence, and the Secretary of Energy, to consider all the methods and means necessary to ensure the United States wins the quantum race.

13. Resource the Department of Energy, the Department of Defense, and the IC to develop a ten-year roadmap to design, develop, and deploy quantum-based technologies to the warfighter, with immediate priority being given to quantum sensors capable of operating in GPS-denied environments.

Key Finding: The PRC is gaining on the United States in the race for global talent.

In his testimony, Dr. Schmidt emphasized that the race for technological leadership is as much a race for talent leadership, and the United States is falling behind. The CCP has invested heavily in scientific and technological education. It produces significantly more Ph.D.s and papers on AI and as many as five times as many STEM graduates as the United States. It is clear the United States needs more individuals working on research and development in critical and emerging technologies. As Mr. Wolfe testified, "America should be attracting defectors and accelerating China's brain drain, to our national benefit, by welcoming the best talent on the planet to the U.S."[47]

Recommendation 2: Execute a talent strategy to promote research and development in critical and emerging technologies and strengthen the defense industrial base.

Specifically, Congress should:

1. Establish a work authorization program for foreign nationals from partner countries that are part of Five Eyes (FVEY), the Quad, and select NATO countries who have a background in critical and emerging technology and are working on projects funded by the Department of Defense or other national security agencies. Applicants for the program should be subject to rigorous screening procedures, to include vetting by the intelligence community.

2. Allow properly vetted FVEY foreign nationals working on AUKUS or other joint-defense projects to be exempt from U.S. technology sharing restrictions such as those imposed by the International Traffic in Arms Regulations (ITAR).

3. Expand visa security screening procedures to prevent foreign adversaries from exploiting our open system to illicitly acquire U.S. technology and technical knowledge. The Office of the Director of National Intelligence should be required to participate in visa screening of high-risk researchers; mandate the State Department adopt machine-readable technology for visa applicant documents; require visa vetting be done by U.S.-based language-enabled analysts; and urge the State Department to adopt uniform standards for documents submitted by high-risk researchers (e.g., resumes, plan of study, previous research).

4. Update the Department of Labor's Schedule A Group I occupations list which has remained unchanged since 1991 to add relevant occupations critical to national security and emerging technology. Mandate that Schedule A be updated continuously to reflect the dynamic job market and current market conditions and demands in certain industries.

5. Make federal education funding programs available to high school graduates seeking workforce credentialling through accredited training programs. Specifically, Congress should enact legislation—such as the Promoting Employment and Lifelong Learning (PELL) Act (H.R. 496) or the Bipartisan Workforce Pell Act (H.R. 6585)—to expand Pell Grant eligibility to include credentialed skills-training programs outside of

[47] *Ibid*., 14.

established educational degree programs that train students to work in advanced manufacturing, shipbuilding, cybersecurity, and other fields that the Department of Defense identifies as necessary for filling shortfalls in the defense industrial base workforce. Congress should also enact legislation, such as the Freedom to Invest in Tomorrow's Workforce Act (H.R. 1477), authorizing the use of 529 accounts (college savings accounts) for the same purpose.

6. Invest in apprenticeships and both skills-based and on-the-job training, including by directing the Department of Education to require colleges and universities that receive federal funds to develop "stackable" credential programs. Beginning with a pilot program focused on shipbuilding, these higher education institutions should allow students to get credentials through short-term certificate courses, rather than committing to multiyear degree programs, and to accumulate—or stack—those credentials towards an eventual degree.
7. Modernize and reauthorize the Trade Adjustment Assistance program to support workers that may be displaced and create a set of robust training and reemployment services to support any such workers' reentry into the workforce.
8. Enact legislation, such as the Opportunity to Compete Act (H.R. 5960), directing federal offices and encouraging the private sector not to require four-year college degrees for jobs openings unless absolutely necessary. Congress should also enact legislation to help young Americans make informed decisions about educational pathways that prepare them best for competitive jobs, such as the College Transparency Act (H.R. 2957).

Key Finding: By working with allies, the United States can increase U.S. exports, reduce supply chain reliance on the PRC, and counter the PRC's economic and technology mercantilism.

The CCP increasingly leverages its markets, technology, and control over critical minerals to pressure the United States and its allies and partners. To counter these predatory practices, the United States should enhance U.S. trade and technology collaboration with its allies and partners while decreasing dependence on the PRC in critical supply chains. By fostering stronger integration among allied economies, building resilient supply chains, establishing norms and standards for emerging technologies, and holding the PRC accountable for violating its commitments to international trade rules, the United States and its allies can collectively boost their economic resilience and reduce their vulnerability to the PRC's predatory economic practices.

For the United States to successfully compete with the PRC's active trade agenda, particularly in the Indo-Pacific, we must pursue trade agreements with strong rules of origin and high standards that protects U.S. firms and workers and our economic security. To do so, Congress must ensure that any agreement guarantees a level playing field for American workers and manufacturers and prevents non-market economies like the PRC from exploiting its provisions.

Recommendation 3: Develop a positive economic agenda to encourage ally and partner countries to work collaboratively with the United States.

Specifically, Congress should:

1. Enact legislation setting negotiating priorities and a process for congressional consideration of comprehensive bilateral trade agreements, starting with Taiwan under the auspices of the American Institute in Taiwan and the Taiwan Economic and Cultural Representative Office. Other potential partners could include the United Kingdom and Japan. With the high standards of USMCA as a starting point, these agreements must include among other things strict rules of origin and specific provisions to address non-market economies to ensure that the PRC is not able to take advantage of preferential access to the U.S. market.

2. Enact legislation to encourage sectoral agreements with key trading partners and allies with strong rules of origin and high standards on critical minerals and other critical goods (*e.g.*, semiconductors, electronic vehicle batteries/components, active pharmaceutical ingredients) that the United States identifies as critical for resilient supply chains.

3. Pass the United States-Taiwan Expedited Double-Tax Relief Act (H.R. 5988) to provide relief from double taxation for workers and businesses engaged in U.S.-Taiwan cross-border investment. Such legislation should significantly reduce withholding taxes on dividends, interest, and royalties paid on these cross-border investments, mitigate barriers for smaller businesses to make those investments, reduce complexity for dual residents, and unlock opportunity for deepening our economic cooperation with Taiwan.

4. Pass H. Res. 270, which provides that the United States should negotiate strong, inclusive, forward-looking, and enforceable rules on digital trade and the digital economy with allies and partners. These rules should address digital barriers such as restrictions on cross-border data flows and requirements for localization of computing facilities to ensure the American values of democracy, rule of law, freedom of speech, human rights, privacy, and a free and open internet are at the very core of the digital world and advanced technology.

5. Enact legislation to implement the 21st Century Customs Framework developed by Customs and Border Protection (CBP) to enhance trade facilitation, improve data sharing, increase visibility and accountability, promote timely and effective enforcement, and secure funding to modernize the U.S. customs system.
6. Reauthorize the Generalized System of Preferences (GSP) program, which expired at the end of 2020, to promote economic development in the roughly 120 developing countries covered by GSP. In the reauthorization, Congress should modernize the program to accelerate supply chain shifts out of the PRC market, enhance rules of origin to limit PRC transshipment, and provide certainty for industry as they contemplate supply chain investment decisions outside of the PRC.
7. Support participation in the U.S-EU Trade and Technology Council (TTC) to promote joint U.S. and EU competitiveness and prosperity. Congress should hold USTR and the Departments of State and Commerce accountable to maintain high-level dialogue with European counterparts to jointly advance shared values in emerging technologies and promote the rules-based economic order.
8. Counter PRC influence by supporting and incentivizing the employment of more American citizens in international organizations, especially international financial institutions, multilateral financial institutions, and those associated with setting international technology standards.
9. Enact legislation to increase the supply of critical agricultural products and inputs, such as vitamins A, D, K, and other animal feedstock.

Key Finding: The United States is dangerously dependent on the PRC for critical mineral imports.

In his testimony before the Select Committee, Mr. Lighthizer documented how the PRC has made the United States—and much of the world—dependent on it for numerous critical minerals by leveraging the PRC's domestic industrial policy, economic controls, trade protectionism, low environmental standards, technology transfer, and numerous other tools. As a result, the PRC has effectively monopolized numerous critical mineral supply chains, including mining, mineral processing, refining, metallurgy, and end-use manufacturing. During the Select Committee's tabletop exercise in New York, it became clear the PRC would leverage this position to constrain the United States' ability in the event of conflict with Taiwan. In fact, the PRC has already practiced weaponizing its hold on minerals, cutting off exports of rare earth elements gallium and germanium for a period over the summer. Congress must decrease the United States' reliance on the PRC for these critical materials.

Recommendation 4: Create transparency into U.S. supply chain dependency for critical minerals and develop a package of investments, regulatory reforms, and tax incentives to reduce that dependency.

Specifically, Congress should:

1. Authorize and appropriate a critical mineral Resilient Resource Reserve to insulate American producers from price volatility and PRC weaponization of its dominance in critical mineral supply chains. The reserve would be used to sustain the price of a critical mineral when it dips below a certain threshold and replenished via contribution from companies when the price of the mineral is significantly higher. This would allow more American companies to enter the mining industry by reducing the risk of market volatility and the risk of PRC companies flooding the market. The fund should target critical elements with high volatility, low U.S. domestic production volume, and PRC import dependence, including cobalt, manganese, light and heavy rare earths, vanadium, gallium, graphite, germanium, and boron. The mechanism should be reviewed bi-annually by the committees of jurisdiction and scored as a means of financing, and any appropriations repaid to the General Fund after a period of 10 years.

2. Ensure that critical minerals and materials needed for national security purposes are sourced domestically and from friendly countries through diversified and secure supply chains. Congress should work with the executive branch and USTR to advance sector-specific agreements to secure critical minerals and other components essential to U.S. economic and national security. Congress should incentivize the production of rare earth element magnets, which are the principal end-use for rare earth elements and used in electric vehicles, wind turbines, industrial automation, wireless devices, and countless other products. Specifically, Congress should develop tax incentives that create a preference for American manufacturing, including by:

    a. Enacting the Rare Earth Magnet Manufacturing Production Tax Credit Act (H.R. 2849) to establish a $20 per kilogram tax credit for light and heavy rare earth magnets manufactured in the United States and an enhanced $30 per kilogram credit for magnets manufactured in the United States for which 90 percent of the component materials are produced domestically.

    b. Developing 100 percent tax credits for non-neodymium-iron-boron (non-NdFeB) magnets that can substitute for NdFeB magnets and upstream rare earth products including carbonates, oxides, metals, and alloys.

3. Incentivize the development of domestically produced light and heavy rare earth magnets and production capacity by authorizing and appropriating monetary prizes for first-to-market businesses within the permanent magnet supply chain that are on U.S. or North American soil, 75 percent or more U.S.-owned, and have a quantifiable product measure of success such as metric tons of magnets or oxides or metals available for commercial consumption.

4. Direct the Department of Commerce to initiate an investigation on permanent magnets and rare earth elements to determine the extent of dumping and other distortive market practices. If the investigation finds injury, Commerce should impose material injury tariffs.

5. Recognizing the significantly higher environmental standards of the United States, work with relevant stakeholders to reform NEPA and consider updates to the General Mining Act of 1872 in a way that increases certainty and stability for industry and encourages and strengthens the development of domestic mineral supply chains, advances environmental sustainability, and fosters early and meaningful community engagement. Specific efforts should be made to expedite mine permitting to develop production of proven, domestic hard rock mineral deposits and processing facilities through streamlined permitting and land swap processes and codify exploration operations and construction of mine access roads.

6. Encourage a domestic battery recycling industry and limit predatory PRC price inflation, by requiring that any facility that receives Department of Energy or Department of Defense funding for the processing of black mass shall be restricted from exporting any material from the United States. When a lithium battery is retired and fully discharged it can be recycled into a new form called "black mass," a mixture comprised of the critical minerals that make up battery anodes and cathodes. Leverage the National Defense Stockpile (NDS) through the Annual Materials Plan to support national stockpile purchases of downstream products with a defense application derived from critical minerals, including NdFeB magnet blocks, constituent materials including neodymium, praseodymium, and dysprosium. Congress should authorize $1 billion to expand NDS coverage for a commercial buffer for select essential civilian and critical infrastructure sectors based on data collected per House National Defense Authorization Act Section 1057 (H.R. 2670), to strengthen supply chain resiliency in the event of disruptions caused by predatory PRC actions.

    a. Congress should strengthen existing authorities that compel the NDS to purchase domestically produced critical materials when such materials are available and cost effective. Congress should restrict the NDS from purchasing materials that are produced in the PRC when otherwise available domestically or from allied sources.

7. Encourage and fund research for electric vehicle (EV) battery technology—particularly alternative battery chemistries—including for the manufacturing of advanced prototypes. Support efforts to scale up the domestic supply chain for EV batteries, while ensuring the implementation of national security guardrail against the flow of federal incentives to the CCP.

8. Increase recycling programs for qualified end-of-life products owned by the federal government, which could provide a significant source of critical minerals and materials and reduce reliance on the PRC, especially for EV batteries. To meet these goals, Congress should:

    a. Work in collaboration with the private sector and use voluntary consensus standards to promote the recovery, recycling, and reuse of NdFeB magnets. Establish voluntary labelling standards for end-of-life products, ensuring recyclers know NdFeB magnet specifications would facilitate recycling.

    b. Enact legislation to require the Defense Logistics Agency Strategic Material Recovery and Reuse Program to pilot a recovery program to extract strategic and critical materials from end-of-life hard disk drives used in the more than 4,000 U.S. government-owned data centers, federally owned electric vehicles, and federally sponsored wind turbines that use NdFeB magnets.

    c. Direct the Environmental Protection Agency to assess environmental cleanup funds such as its Superfund program to review tailing sites to assess if waste material and coal tailings contain sufficient critical minerals to be monetized as a source of critical materials.

    d. Amend federal procurement rules to specify that EVs purchased by federal agencies use NdFeB magnets and that automation systems purchased by federal agencies operating on federal properties use NdFeB magnets produced in the United States, allied, or partner nations. Congress should also amend federal procurement rules to require wind turbines supplying energy to federal facilities to use domestically produced NdFeB magnets. Domestic content requirements should mirror those of defense applications with non-PRC content requirements. Guidelines should ensure requirements are structured to include magnets produced by U.S. allies to guarantee U.S. government demand is adequately supported. To minimize disruption to U.S. procurement, content requirements can be phased-in and waived if insufficient quantities of eligible NdFeB magnets are available.

9. Rebuild industry-specific manufacturing and production following the collapse of the U.S. NdFeB magnet industry, which hollowed out industry-specific knowledge and skills, reducing NdFeB magnet-related human capital. The shortage of qualified and experienced manufacturing engineers, scientists, and qualified and experienced production line workers is a constraint on manufacturing operations. To improve U.S. workforce capabilities Congress should:

    a. Require the Department of Labor to leverage the Strengthening Community Colleges Training Grant Program to establish and enhance educational programs that teach NdFeB magnet-related skills.

    b. Ensure higher education institutions or local governments in coal and other communities can apply for grants to develop and strengthen training facilities related to NdFeB magnet manufacturing, such as materials science. Supporting the development of human capital related to the NdFeB magnet value chain would help grow a robust domestic NdFeB magnet industry and by extension enhance the resiliency of end-use product supply chains, including electric vehicles and offshore wind turbines.

    c. Add mining and related skills to the list of considerations for United States Citizenship and Immigration Services (USCIS) to consider for a National Interest Waiver for an EB-2 Visa.

10. Authorize additional resources to support the expansion of the Mineral Security Partnership (MSP) and encourage USTR to develop sector-based trade agreements with allies and partners in close consultation with Congressional committees of jurisdiction, particularly with regards to critical minerals that are unavailable in the United States.

11. Direct NOAA and the Department of Defense to conduct a joint study to research uncertainties associated with deep seabed mining and the impacts of such activities on marine environments. A comprehensive cost-benefit analysis on deep sea mining is needed as we explore alternatives to foreign dependence on rare earths and other critical minerals.

Key Finding: The United States' dependence on the PRC for pharmaceutical and medical device supply chains poses a distinct national security risk.

The PRC holds a dominant global market position in the production of active pharmaceutical ingredients (APIs) and other precursor chemicals that feed into life-saving pharmaceutical goods used extensively in the United States. Three of the four factories that make commonly used penicillin, for example, are located in the PRC, and India, one of the two largest pharmaceutical suppliers to the United States, sources nearly 70 percent of its APIs from the PRC.[48] Generic drugs, which account for over 80 percent of prescriptions in the United States, have the largest dependence on the PRC. The PRC has also secured a dominant position in the value chains for medical goods, devices, and equipment. The United States' heavy reliance on the PRC for these goods is deeply concerning in light of contamination and other safety risks and Beijing's past actions to restrict exports of personal protective equipment, test kits, and other medical equipment during the Covid-19 pandemic.[49] If the CCP were to weaponize the U.S. dependence on the PRC for pharmaceutical supply chains, it would have a serious impact on the health of U.S. consumers.

Recommendation 5: Authorize transparency measures, trade authorities, and reforms to reduce U.S. dependency on the PRC for pharmaceutical supply chains.

Specifically, Congress should:

1. Enact legislation requiring the Food and Drug Administration (FDA) to develop an expanded list of key pharmaceutical products used widely in the United States and to maintain a database tracking the supply chains for those products, including the extent and nature of U.S. dependency on the PRC.
2. Enact legislation authorizing the United States Trade Representative (USTR) to negotiate trade agreements to reduce U.S. dependencies on the PRC for medical and pharmaceutical goods, such as the Medical Supply Chain Resiliency Act (H.R. 4307). Building a trusted network of trading partners in the pharmaceutical sector would promote alternate sources for

[48] Eduardo Jaramillo, "U.S. drug shortages highlight dependence on China, gray supply chains," *The China Project* (June 7, 2023); The White House, *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth*, 100 -Day Reviews under Executive Order 14017 (June 2021).
[49] Kate O'Keeffe, Liza Lin, and Eva Xiao, "China's Export Restrictions Strand Medical Goods U.S. Needs to Fight Coronavirus, State Department Says," *Wall Street Journal* (April 16, 2020).

active pharmaceutical ingredients and encourage resiliency in pharmaceutical and medical good supply chains.

3. Establish a "Buy America" pilot program requiring Medicare, Medicaid, the U.S. Department of Veterans Affairs, the U.S. Department of Defense, and other federally funded health systems to purchase their pharmaceuticals and basic medical devices and goods only from U.S. production facilities or from allied or likeminded trading partners that have appropriate regulatory certification, with exceptions to guard against shortages.
4. Direct the Department of Commerce to initiate an investigation into the organized efforts by PRC medical device manufacturers to undercut American companies, including on needles and syringes. to determine whether these efforts threaten our national security. Commerce would be mandated to enact tariffs on such products originating from the PRC based on the outcome of the investigation.
5. Amend the Lacey Act to allow for up to a three-year emergency ban on the importation of invasive and injurious wildlife from foreign countries that poses imminent threats to human health and a ban of new species imports until they are found to not be invasive in the United States. Require the Department of Interior to review within 180 days of the passage of the amendment the status of invasive species originating from the PRC, and if necessary, impose further restrictions.

Key Finding: Through its Belt and Road Initiative, the CCP has expanded its influence around the world and gained significant positions in key supply chains and strategic infrastructure, such as ports and space facilities.

On travel to countries that have joined the PRC's BRI, Select Committee staff were informed repeatedly that companies and governments welcome—and sometimes prefer—U.S. development projects and investment, but the United States has been slow to their wishes. Faced with a choice of PRC investment or nothing, countries choose the PRC. The PRC also capitalizes on corruption and bureaucracy, political volatility, and limited local government capacity to win tenders or develop greenfield projects, such as the deepwater Port of Chancay that the PRC is building north of Lima, Peru, which could reroute global shipping lines.

Without remedial action, the United States risks ceding the global battleground for investment and development leadership to the PRC.

Recommendation 6: Expand the U.S. toolkit for global development and strategic investments to counter the Belt and Road Initiative.

Specifically, Congress should:

1. Consider reforms to the International Development Finance Corporation (DFC) that would:

   a. Fix the equity scoring problem, wherein equity investments made by DFC are treated as grants and counted as a 100 percent loss in the annual budget. DFC's equity investments should be scored appropriately, for example by assessing them on a net-present value basis or by treating them as a credit program.

   b. Pass legislation to direct DFC to prioritize transactions that a) reduce a recipient country's reliance on the PRC and b) are in a strategic sector of national security, such as critical minerals, telecommunications, transportation and ports, and energy. Congress should expand country eligibility to allow such transactions in high-income countries. The European Energy Security and Diversification Act (P.L. 116–94), which mobilizes DFC financing to reduce Europe's vulnerability to Russian coercive energy policies, should be considered as a model for expanded country eligibility in key sectors. Congress should also allow DFC to support transactions with state-owned or state-affiliated enterprises if such transactions are in strategic sectors of national security. Legislation should also require annual reports from DFC on how much of its maximum contingent liability—its "credit card"—has been committed to counter the PRC, including descriptions of those projects and the sums committed to each.

   c. Establish a dedicated funding mechanism, in concert with likeminded allies and partners, to fund digital infrastructure development as an alternative to the PRC's Digital Silk Road and related investments.

   d. Place DFC officers at the Department of Defense's Combatant Commands to coordinate DFC activity more closely with U.S. security strategy.

   e. Require annual reports from DFC that assess whether the maximum contingent liability should be increased above $60 billion.

2. Enact reforms to the Export–Import Bank of the United States (EXIM) that would:
    a. Mandate that EXIM's China and Transformational Exports Program (CTEP) accept greater loan-loss risk across its portfolio and expand its transformational export areas to include cloud services and infrastructure; civil nuclear facilities, material, and technologies; and critical minerals, materials, and rare earth element mining, concentration, separation, refining, alloying, fabrication, and end-use.
    b. Legislate a permanent increase of EXIM's default rate cap from two percent to four percent to expand risk tolerance, proactively invest in key sectors, and accommodate for global portfolio turbulence.
3. Direct the U.S. Trade and Development Agency (USTDA), Department of State, United States Agency for International Development (USAID), and other relevant development bodies to surge development assistance and financing with a focus on countries most at risk from PRC influence. USTDA should be directed and emboldened to help partner countries develop more transparent processes for awarding tenders that considers project quality over the lifecycle, instead of just upfront costs. Congress should also direct the Under Secretary of State for Economic Growth, Energy, and the Environment to build and implement a program to provide economic policy and planning assistance to at-risk countries, including by deploying task forces of economic advisors drawn from the private sector and academia.
4. Address CCP influence in multilateral institutions and international development financing. Specifically, Congress should take steps to ensure that U.S. government-funded projects financed through multilateral institutions like the World Bank, the Asian Development Bank, and the Inter-American Development Bank (IDB) consider factors beyond price alone to ensure that western capital finances the most developmental, sustainable, and quality projects and does not facilitate projects spearheaded by PRC national champions. Specifically, Congress should consider enacting legislation like the IDB Transparency Act (H.R. 4865).
5. Fully fund DFC and USAID and support the Partnership for Global Infrastructure and Investment (PGI), the G7+ initiative to advance strategic, values-driven, and high-standard infrastructure and investment in low- and middle-income countries.
6. Appropriate the Countering PRC Influence Fund (CPIF) at the Presidential budget request level of $400 million for Fiscal Year 2024. To ensure CPIF implementation aligns with Congressional intent, Congress

should require additional transparency for CPIF programs, to include details of funded projects. To ensure effective management of CPIF, Congress should ensure the Office of China Coordination and U.S. embassies that house "Regional China Officers" are staffed with personnel that can act as grant officer representatives overseeing CPIF projects.

7. Enact the PRC Is Not a Developing Country Act (H.R. 1107), which the House of Representatives passed unanimously in March of 2023. The bill would direct the Secretary of State to work to strip the PRC of its "developing nation" designation, which affords it preferential treatment and access to funding from international organizations, including the World Bank.

8. Pass legislation to renew the Compact of Free Association (COFA) agreements and continue U.S. commitments to the Freely Associated States (FAS). Congress should also direct the State Department to continue expanding the presence of U.S. embassies in the Pacific islands to promote diplomatic relations with the United States and counter PRC influence in the Indo-Pacific and Oceania.

9. Enact legislation to establish a long-term U.S. strategy and policy for the Pacific Islands and authorize the expansion of the U.S. regional presence across politics, development, security, and technology, like the BLUE Pacific Act (H.R. 4538). Congress should additionally direct the Department of State and relevant agencies to collaborate with key allies and partners with shared values in the Pacific, such as Australia, France, Japan, New Zealand, and Taiwan.

10. Require the Departments of Defense and State to maintain an updated mapping of strategic ports around the world and of the PRC's efforts to build and buy them. From there, Congress should direct the State and Defense Departments to develop a strategy to counter the PRC's efforts and ensure U.S. or friendly ownership of strategic ports.

* * *

Never before has the United States faced a geopolitical adversary with which it is so economically interconnected. Addressing this novel contest will require a fundamental reevaluation of U.S. policy towards economic engagement with the PRC as well as new tools to address the PRC's campaign of economic aggression. For the past two decades, the PRC has strategically decoupled from the United States, reducing its own dependence on the world while increasing the America's dependence on the PRC. It has waged a concerted campaign of economic aggression, violating basic standards of trade, property protection, and human rights. The United States now has a choice: accept Beijing's vision of America as its economic vassal or stand up for our security, values, and prosperity. The Select Committee believes these recommendations, if urgently adopted, would reset the terms of the U.S.-PRC economic relationship, counter the PRC's economic aggression, and promote long-term prosperity and resilience.