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LEVELING THE PLAYING FIELD: HOW TO COUNTER

THE CCP'S ECONOMIC AGGRESSION

Wednesday, May 17, 2023

House of Representatives,

Select Committee on the Strategic Competition Between

the United States and the Chinese Communist Party,

Washington, D.C.

The committee met, pursuant to call, at 7:02 p.m., in Room 1310, Longworth House Office Building, Hon. Mike Gallagher [chairman of the committee] presiding.

Chairman Gallagher. The select committee will come to order.

Welcome, everyone, to the select committee's hearing: Leveling the Playing Field: How to Counter the Chinese Communist Party's Economic Aggression.

Humility. When I examine the staggering complexity of the U.S.-China economic relationship, that's a word that comes to mind. One small example: Salmon caught in the American Pacific Northwest are often frozen, sent to China to be deboned by hand, and then refrozen and shipped back to U.S. grocery stores, sometimes just miles from where the fish were caught. The economic links between the U.S. and China are dizzyingly complicated.

But there's another word that comes to mind: naivete. Though we were -- there were some prescient, principle dissenters, for the last 25 years, both parties largely made the same naive bet on China -- that robust economic engagement would lead the Chinese Communist Party to political liberalization. But Beijing saw our quintessentially American optimism as an opportunity to exploit, and our treaties and international commitments as "rules for thee but not for me."

So, without objection, I will now enter a video into the record, and the clerk will play the video.

[Video shown.]

Chairman Gallagher. The CCP took advantage of our good faith, as well as our technology, our know-how, and our capital to grow strong. But once they felt ready, they began to decouple from us. They began to decouple from us, because it was never about reciprocity.

Well, now the era of wishful thinking is over. The CCP's economic warfare uses any and all available leverage to coerce us and our allies, and it's time that we defend

ourselves in the free world.

In so doing, it's important to remember a simple fact: There is no such thing as a truly private business in China. Businesses, like everything else, serve the Chinese Communist Party and its political goals. That's really no secret. Civ-mil fusion, the national intelligence laws, the recently amended counterespionage law are all clear evidence.

There's been a lot of handwringing in this discussion in the media about what we call our new economic approach to China: strategic decoupling, constructive rebalancing, derisking. To our witnesses, I would say, call it whatever the heck you want, but let's stop admiring the problem and let's actually get down to solutions.

So you're going to hear a lot of economic jargon tonight: Section 301 tariffs, VIE structures, A-shares, capital controls. It's easy to get lost in the statutes and the acronyms and the jargon.

I find it helpful, however, to have some policy principles in mind as we get our hands dirty on the minutia. Here are three big tent poles I've been considering to guide our strategic derisking, with the caveat that for an issue this complex, all principles need a healthy dose of pragmatism and humility.

One, we need to stop fueling our own destruction. This means we shouldn't fund PLA modernization. We should protect our sensitive research and critical technologies, and not sacrifice national security for short-term profits.

Two, we need to take off the golden blindfolds and open our eyes to the risks in China. American businesses shouldn't be complicit in the CCP's ongoing genocide, and American capital should not fuel human rights abuses. Investment managers, especially U.S. pension and retirement fund stewards, can't ignore their fiduciary duties. Just in the past few months, the CCP has increasingly criminalized routine due diligence, making

a mockery of the system of transparent disclosures that undergirds our capital markets and undermine the rule of law.

Three, we need to reinforce our economic sovereignty. That means reshoring our most critical supply chains, like pharmaceuticals and munitions supplies. We also need a positive trade agenda that promotes collective resilience with our partners and allies and opens new markets for American companies.

No one, at least I am not, is talking about a full decoupling from China. That's a straw man propagated by the pro-engagement media. If we use these principles, however, to craft a policy agenda, along with technical recommendations from experts like the ones testifying before us tonight, I believe we can chart a new course for American prosperity in the 118th Congress.

And, with that, I now recognize the ranking member, Raja Krishnamoorthi, for his opening statement.

[The statement of Chairman Gallagher follows:]

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Mr. Krishnamoorthi. Thank you, Mr. Chairman.

Thank you, witnesses, and thank you, fellow committee members, and thank you to the audience for your attention.

Tonight we're getting to the heart of the strategic competition with the CCP. This is the fundamental question: Who will be the economic and innovation leader for the remainder of the 21st century? Will it be America or the CCP?

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.

If the trajectory of the PRC's growth is not a wake-up call, let me give you one more stat. The PRC now leads in 37 of 44 technologies that many consider important for the future of our world. That includes 5G, that includes nano-skill manufacturing, and commercial drones, among other things.

Let's be clear. The CCP is catching up economically, and they want to move ahead of us. As Chairman Xi Jinping has said, the CCP seeks to, quote, "lead the world in terms of comprehensive national power and international influence."

If we want to level the playing field for the American people and maintain our place as the global economic leader for the rest of the 21st century, we need to protect ourselves from unfair competitive and trade practices by the CCP. But, at the same time, we must up our game and enhance our own competitiveness.

Tonight we're going to hear from three impressive witnesses about how America can regain momentum and retake the lead in so many fields of the future important to our economy.

As we think about how to put America on track to win the strategic competition with the CCP, I respectfully submit for your consideration three Ps: people, production, and partnership.

First, people. America's biggest advantage has always been its people. Whether we were born here or, like my own family, came here from distant shores seeking the American Dream, the American people have always been our biggest competitive advantage, bar none. Making sure our people are better prepared to lead and innovate will be critical, and attracting the best and the brightest talent from around the world is essential to making sure that America remains number one.

The second P is production. We've seen over the past few years the impact that supply chains abroad can have on our working families here at home. Hardening our supply chains by producing more here in America will ensure that our economic future is not left to the whims of a disruptive competitor and will make sure that America remains number one.

Third and finally, partnerships. None of these things happen without partnerships, partnerships with other nations, partnerships between the public and private sector, partnerships between Republicans and Democrats. Working together to fuel innovation on next-gen technologies, like AI and quantum computing and robotics, will ensure that we set the pace for the future and keep America number one.

Finally, I want to leave you with two more Ps. These matters need to be pressing priorities for our entire country. We're going to hear a lot tonight about things that sound like science fiction or the distant future. It may seem like that we can wait for a

whole-of-government approach to tackle AI and quantum and biotechnology, but we cannot.

The moment to act is not in 10 years or 5 years or next year. It's now. It's now. And so that means that whatever we discuss here tonight I hope that we act upon in the House, in the Senate, in cooperation with the administration and, indeed, with the private sector as well.

I look forward to hearing from our witnesses and our fellow members to help us on a path to win the strategic competition.

I yield back the balance of my time.

[The statement of Mr. Krishnamoorthi follows:]

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Chairman Gallagher. Thank you, Ranking Member.

If any other member has a statement, we can enter it into the record, without objection.

There being none, we're privileged today to have a great lineup of witnesses, each of whom brings an important and unique perspective to how we counter the CCP's economic aggression.

The first is Ambassador Robert Lighthizer, who has forgotten more about U.S. trade with the PRC than most of us will ever know. Ambassador Lighthizer served as the 18th U.S. Trade Representative from 2017 to 2021, where he helped shepherd the U.S.-Mexico-Canada Agreement and the U.S.-China Phase One Deal. We're happy to host him for his first congressional hearing since leaving public office. We had many spirited conversations about 232 tariffs when I was a freshman Member of Congress, and I appreciated those discussions.

The next is Roger Robinson, who will help us untangle the complex web of financial ties between the U.S. and the PRC. Mr. Robinson served as a top architect of President Ronald Reagan's economic strategy against the Soviet Union, and subsequently went on to serve as chairman of the U.S.-China Economic and Security Review Commission. He's currently chairman and cofounder of the Prague Security Studies Institute.

And finally, we're privileged to be joined by Dr. Eric Schmidt. Few have done more to advance America's technological leadership. Dr. Schmidt served as CEO and chairman of a small tech company called Google and chairman of Google's parent company Alphabet. His most recent initiative, however, the Special Competitive Studies Project, is a bipartisan, nonprofit initiative with a clear mission to make recommendations

to strengthen America's long-term competitiveness for a future where AI and other emerging technologies reshape our national security, our economy, and our society.

So welcome to all of our witnesses. Thank you for being here this evening.

If you could please stand and raise your right hand, I will now swear you in.

[Witnesses sworn.]

Chairman Gallagher. Let the record show that the witnesses have answered in the affirmative.

Ambassador Lighthizer, you may begin.

TESTIMONY OF THE HONORABLE ROBERT LIGHTHIZER, UNITED STATES TRADE REPRESENTATIVE; MR. ROGER ROBINSON, CHAIRMAN, PRAGUE SECURITY STUDIES INSTITUTE, FORMER CHAIRMAN OF CONGRESSIONAL U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION; AND DR. ERIC SCHMIDT, CHAIRMAN, SPECIAL COMPETITIVE STUDIES PROJECT

TESTIMONY OF THE HONORABLE ROBERT LIGHTHIZER

Mr. Lighthizer. Chairman Gallagher, Ranking Member Krishnamoorthi, members of the committee, I would like to thank you for inviting me to testify here today. I would also like to thank the House leadership for establishing this important committee and all of you for serving on it.

I believe that China is the most dangerous threat that we face as a Nation. Indeed, it may be the most perilous adversary we have ever had. Its state actions are increasingly aggressive, militaristic, hostile, totalitarian, and targeted at us. China believes that it is destined to be the world's only superpower and that we are in the way.

When assessing our economic relationship with China, it is important to put our analysis in the broader context. I will not repeat examples of military, diplomatic, espionage and other belligerent acts that demonstrate their intention to challenge America and to dominate global affairs. I will not repeat their own words about America and the Western system being in decline and their preparation for changes not seen in a hundred years.

I only ask that when you think about their economic activity, please remember that they are an openly hostile adversary. It is not an exaggeration to say that the

Chinese Communist Party has been waging an economic war against the United States for decades. In this economic war, they use all the tools of classic mercantilist, plus many more.

Their entire economic policy is designed to be an integral part of their overall strategy of global dominance. That policy produces huge trade surpluses and obtains technology by whatever means. China manipulates its currency. It uses massive industrial subsidies and maintains a closed market, only allowing access when they determine it is in their interest. It uses, among other things, tariffs, a discriminatory regulatory regime, and rigged product safety standards to prevent fair competition.

They force our companies to turn over technology to them, and when they don't do it, they steal it. They are the number one source of industrial espionage in the world. They have banking and labor systems that limit domestic consumption and subsidize production and exports. They reduce their cost of manufacturing by taking advantage of very low environmental standards. They target U.S. businesses and are trying to monopolize the supply of critical minerals in the world.

In short, if this is not economic war, what is?

Also, please remember that these actions have directly contributed to the loss of millions of American jobs, the deterioration of communities in all of your States and, more importantly, the destruction of families across America. Nothing less.

Perhaps the worst part of this story is that they appear to be succeeding. While waging this economic war in the U.S., their GDP has gone from \$1.2 trillion in 2000, when we granted them most-favored nation treatment, to 17 trillion now, a 14-fold increase. And their technology sector has grown to the point that it challenges ours.

Their success was largely done with our money. Let's consider how much of our treasure we have transferred to China every year. First, we give them about \$330 billion

in trade surpluses. Their technology theft probably nets another \$300 billion a year. They make tens of billions of dollars every year sending us fentanyl, mostly through Mexico. In trade deficits alone, we have transferred over \$5 trillion in the last 22 years and probably at least 3 trillion in lost technology.

When one considers the compounding effect of these wealth transfers over so long a period, it is fair to say that much of the CCP economic miracle has been the result of taking advantage of America.

I believe that it is far past time to engage. The United States should begin the process of a phased-in strategic decoupling of our economy from theirs. I do not espouse cutting off economic relations. That is unrealistic and probably counterproductive.

Strategic decoupling would include several policy changes. First, we need to balance trade. We should raise tariffs on their products to a level that will assure that we buy approximately as much from them as we sell to them. Balanced trade will reduce the effects of their unfair practices and stop the transfer of our wealth.

Second, we need to take steps to disentangle our technology from theirs. We need to expand export controls and to stop the importation of technology, where practical. We should develop new technologies on our own and with our allies.

Third, we should limit their investment in our country and we should only allow investment where there is a demonstrated benefit to the United States.

Fourth, outbound U.S. investment to China should be severely restricted.

This policy I submit is merely a softer version of exactly the policy that China has towards America. In a way, I'm just calling for reciprocity. Obviously, this is an aggressive recommendation, but I believe that honest people who look at all the facts in this relationship realize that the status quo cannot continue.

This is not the time for half measures. This is the time to be bold, and Congress must write the rules to make this happen.

Thank you.

[The statement of Mr. Lighthizer follows:]

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Chairman Gallagher. Thank you, sir.

I should stipulate, if you hear the gentle [gavel tapping], that's me in my Wisconsin nice way trying to enforce the 5-minute rule. I recognize, however, it is impossible to answer questions and summarize your testimony in 5 minutes, but I have a very early bedtime. I'm a very old 39-year-old.

So we just -- the members will get mad if I don't try and keep some order. So I don't mean to be rude, but I should have stipulated that at the beginning.

Mr. Robinson.

TESTIMONY OF MR. ROGER ROBINSON

Mr. Robinson. Mr. Chairman and members of the committee, I greatly appreciate the opportunity to appear before you today to describe what is arguably the largest strategic financial scandal in modern history. It consists of the multitrillion dollar underwriting by a democracy, our democracy, of an authoritarian regime, re: China, bent on undermining our fundamental values and way of life, aided by some fiduciarily malfeasant Wall Street firms and certain conflicted U.S. Government regulators at the top levels of the Treasury Department, the Securities and Exchange Commission, and the National Economic Council.

For over 20 years, the U.S. has allowed a cavalcade of thousands of CCP-controlled Chinese publicly traded companies to enter the retirement and investment portfolios of average Americans with precious little, if any, diligence or screening concerning who these enterprises and their subsidiaries are or the corporate human rights and national security abuses they may have perpetrated, including already U.S.-sanctioned Chinese companies.

Moreover, none of these roughly 5,000 Chinese corporate securities traded in the U.S. capital markets are compliant with Federal securities laws and generally lack adequate material risk disclosure, transparent financials, corporate governance, shareholder rights, the rule of law, and other standard requirements for their American and foreign corporate counterparts.

Americans trust that our fund managers, pension system administrators, and other fiduciaries are protecting our risk-related interests, not just seeking returns. This is often not the case. Index providers like MSCI and FTSE Russell have products littered

with risky, sanctioned, and other Chinese corporate bad actors. These include egregious human rights and national security offenders.

The same is true regarding certain large American asset managers, which have included these bad actor companies in their exchange-traded funds and other passive investment products benchmarked against these indices.

The list of Chinese corporate wrongdoers in state-level and other investment portfolios is long. Tragically, it includes companies equipping concentration camps, trafficking in forced labor, aiding and abetting genocide, building Chinese aircraft carriers, hypersonic glide vehicles, and other advanced weapon systems for the PLA, as well as companies engaged in IP and technology theft, espionage, and environmental despoilage.

Just imagine the damage caused to American economic competitiveness by these trillions of U.S. investor dollars that have been funneled to the coffers of the CCP instead of remaining productively invested here. This is arguably the single most troubling consequential issue in U.S.-China relations.

My written testimony provides a dozen specific conditions warranting the removal of malign and/or unfit Chinese corporate securities.

Those Chinese CCP-controlled companies that fail to meet these sensible criteria should be delisted and deregistered from our exchanges, including the over-the-counter market, in no more than 180 days; and Americans worldwide should be prohibited from holding their securities, including VIE ETFs, exchange-traded funds, that is, mutual funds, and other passive investment products.

There are well over 100 million Americans holding the stocks and bonds of U.S.-sanctioned and other Chinese corporate bad actors. Do we really believe that the American people would have wanted to be holding, unwittingly, the stocks and bonds of Soviet companies or those supporting Nazi Germany?

Do we really believe that my former boss, Ronald Reagan, would have stood by and permitted the multitrillion dollar funding of those in the CCP that would destroy our democracy and everything we hold dear? As his NSC Senior Director of International Economic Affairs, I was in a position to know. And I can assure you that he would not, not for a moment.

If Congress passes the necessary laws that I outline in my testimony, if we take a stand as individual Americans in defense of where our money is going and how it is being used by Wall Street firms and other fund managers, who often cannot see beyond their quarterly quotas and bonuses, we can ultimately prevail in our epic struggle against this fascist dictatorship in a relatively short number of years.

Remember always, money often kills in the hands of authoritarian police states. We must act now before it is too late and scores of millions of our Nation's investors face material, if not debilitating, financial losses. More likely when, not if, the first shots are fired in the Taiwan Strait as soon as next year, it will be too late.

We cannot wait another day to largely decouple financially. Together, we can make the American defunding of the Chinese Communist Party the 21st century equivalent of our finest hour.

Thank you, Mr. Chairman.

[The statement of Mr. Robinson follows:]

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Chairman Gallagher. Thank you, Mr. Robinson.

Dr. Schmidt, you are now recognized for 5 minutes.

TESTIMONY OF DR. ERIC SCHMIDT

Mr. Schmidt. Mr. Chairman, thank you very much for inviting me, all of you.

I was struck by how much I agree with your opening statement, Mr. Chairman.

And I would offer the rule that it's never too late to stop digging our own grave.

I think the most important strategic issue is exactly what you're dealing with.

And I think the technology competition between China and the U.S. is the defining moment of all of the competitions. And of that, artificial intelligence, AI, which is now -- a lot of people are talking about, is very much at the center of this competition.

In 2016, I was present when a computer beat the top Go player in the world. 280 people -- 280 million Chinese people were watching on TV. As it became clear that the human was losing, they shut down the feed and shut off the coverage. That's how serious they took this threat.

And perhaps as a result of this or perhaps for others, we know that China is now dedicating enormous resources to outpace the U.S. in technologies, in particular AI. And we're not talking about it tonight, but, basically, quantum, cyber, AI, biology, computer science, and new energy are also on the list. And they're all strategic and they're all under attack. And I have some suggestions for how we address that. I think we can win, but we need to act.

AI is my current choice of discussion because it's a foundational technology. And making the scientists smarter, making the system smarter has this pervasive platform

improvement of capability and scaling that is profound. And that's why the fight for AI is so important.

There's good news, and the good news is that at the moment we're ahead due to some remarkably good decisions by the Trump administration and the Biden administration with respect to export restrictions on the hardware side. And I hope that you all will have such good judgment in all these other things that you're thinking about as well. It's working well so far in that one area.

Now, the Chinese understand this. They're very, very smart. And they understand with their top focus planning, their economic maneuvering, they've taken the lead of the United States in several critical technology areas.

So, for example, Huawei, 5G, TikTok, right. Think about, 90 percent of all the new energy components, batteries and so forth, are made in China. The number one manufacturer of electric vehicles is Chinese, not in the United States. We invented this stuff, by the way. It's quite annoying, but nevertheless it's true.

In May 2022, China revised its 14th Fifth-Year Plan, an alarming first in the PRC history, to focus on the bioeconomy as well. So the other fields are also important. And the bioeconomy is a multitrillion dollar area of economic growth which, again, America invented. I want us to continue to win that one.

Now, we must organize around innovation power. And innovation power is my way of saying the way you win is you innovate ahead of the competition. And America's great success, economic success over hundreds of years, has been the unique partnership between the government, the private sector, universities and so forth, risk capital, smart people taking global risks and essentially dominating the world's technology platforms. This is crucial, and it's crucial that we continue it.

Imagine if the technology platforms we were using today were all Chinese-made.

Would you be really comfortable as an American being here in this room? Imagine. Look at the lights. Look at the TV. Imagine. You'd be very uncomfortable and so would I. Let's make sure that does not happen.

This uniquely American innovation ecosystem is still the world's envy, and I want us to make it stronger. I've never seen rapid gains that we're seeing now with frontier language models this fast. We lead. The world is trying to catch up. We're still ahead. Let's continue.

We have this ability to out-innovate our global rivals because of this unique American system that I'm so very proud to be part of, and I want us to make it stronger. We should act to do whatever we can to make the triumvirate, if you will, of those different components work.

Where do we start? First, we have to invest in science and technology research, basic and applied. At the National Security Commission on AI, which you all appointed me the chairman of a while ago, we recommended that we increase the nondefense AI R&D funding to 32 billion annually by 2026. So far, it's still at 2 billion. That's a problem.

Congress must pass technology-focused legislation each year, because the race continues apace. CHIPS and USICA were quite successful, but you're going to have to do it again and again and again to make sure we have the necessary governmental support, private industry focus and so forth to do this.

We have to invest in our talent in all the obvious ways, and you know this. For example, we proposed a digital service academy to try to get more people in the civilian parts of our government -- the military does a good job on the national security avenue to do this.

We have to fix the H1-B visa problem. In particular, let me tell you what we

need. We need physics, math, chemistry, biology, computer science Ph.D.s, right? If I keep going, we need a stronger defense strategy in this area to use this technology.

We have to develop these technologies with democratic values in mind, and we have to act to make sure that the AI tools that we produce reflect American values. And then finally, we have to work with our partners, as my fellow panelists have all emphasized.

This, in my view, is the defining competition of our time. This is my opinion: For the rest of our lives, we're going to be dealing with this. I want us to win.

Thank you.

[The statement of Mr. Schmidt follows:]

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Chairman Gallagher. Thank you.

And for those wanting to read more about the concept of innovation power, we have copies of your recent article on the subject in the back.

I will now recognize myself for 5 minutes.

Mr. Robinson, as you know, potential restrictions on outbound investment in China are a big topic. This Congress, we have colleagues, particularly on the Financial Services Committee, that are debating this topic. As far as I can tell, however, no one is really considering American investors capitalizing Chinese firms listed on U.S. exchanges or traded through ETFs and mutual funds as, quote, "outbound investment," but it sounds very much like outbound investment to me.

I'd be curious to get your sense of that and whether the same restrictions should be placed on these entities as the ones we're considering for direct active investment in critical technology sectors.

Mr. Robinson. I share your impression. It sounds like outbound investment to me as well. I mean, after all, this is the money. I mean, yes, technology security remains foremost in our minds. And so much of what's being covered in the outbound investment portfolio is sensible and necessary.

But it is ironic that here we have Chinese mainland companies, for the most part, you know, some 4,000 of them in our portfolios, attracting the funding of largely unwitting American investors to the tune of hundreds of billions if not trillions of dollars over time, and bringing it back for the exact kind of competitive advantages that they're seeking to gain that have been discussed by my fellow panelists.

So money is essential as a topic here for -- or inclusion, I should better say, as outbound investment. It has a familiar ring to it. How is it that so few in the Congress

and among our fellow Americans are aware of this capital market saga and trillions of dollars moving from the investment portfolios of some 100, 150 million Americans into the coffers of the Chinese Communist Party, as I mentioned?

So this is an acute problem. And I believe that you're right, that it -- capital markets dimension has to be included in outbound investment.

Chairman Gallagher. Ambassador Lighthizer, in our hearing on the ongoing genocide in the Xinjiang autonomous region, we had testimony to the effect of bad actors in corporate America exploiting the de minimus loophole in order to get around the intent of the Uyghur Forced Labor Prevention Act.

In your testimony, you talk about de minimus being used as potentially a mechanism to get illegal drugs in the United States. How do you think Congress should confront this de minimus issue?

Mr. Lighthizer. So thank you, Mr. Chairman. First of all, I think everybody's got to kind of wrap their head around what kind of a mistake this was in 2015. Nobody dreamt this would ever happen.

Now we have packages coming in, 2 million packages a day, almost all from China. We have no idea what's in them. We don't really know what the value is. There's no way to check any of it. Nobody ever dreamt of this.

There's a recent study that's come out saying that the value of this could be as much as \$190 billion a year, largely additional trade deficit with China. If you add that, that gets you up around \$550 billion, half a trillion. Three percent of their entire growth is being transferred to the United States.

In my opinion, the Congress should completely get rid of the de minimus rule and go back to what it was meant to be, that is to say, 50 or \$100.

But I fear that even that won't work, because all of these companies, there are

billion-dollar companies that exist solely because of this loophole. Xian, Temu, these are companies that literally would not exist except for this one little silly loophole. And they're putting businesses, they're putting people out of work in stores. They're putting people out of work in manufacturing.

So, to me, if you can't repeal it entirely and go back to a really nominal amount, at least take it away for China and then take it away for any other country that you can prove transships through -- from Canada. And that would include, by the way, Mexico and Canada, if they continue to do what they do. Because, like, Amazon will ship in things to Canada, then divide it into smaller groups and send it to the United States.

There's another company -- I have it in my testimony -- that ships in stuff to Long Beach, puts it in a van and takes it into Mexico and then ships it out of Mexico. It never goes through U.S. Customs. We don't know whether it's drugs, whether it's counterfeit, but we know it's probably a couple of hundred billion dollars.

Chairman Gallagher. I am out of time. I have to abide by my own rules, unfortunately.

I recognize the ranking member for 5 minutes.

Mr. Krishnamoorthi. Thank you, Mr. Chair.

I'd like to turn your attention to this chart.

Since 1979, the PRC has experienced what the World Bank has called, quote, "the fastest sustained expansion by a major economy in history."

In this chart here, we see rapid growth of the PRC's economy on the bottom. It's the red dots corresponding to gross domestic product by year. And on the top is the U.S. You can see that China's growth is rapid, but it has not converged yet.

Dr. Schmidt, in order to progress, the CCP has invested heavily in postsecondary education and developing the world's largest technical workforce. In fact, in 2021, the

most common postsecondary educational degree in the PRC is what's called a short-term vocational degree, with almost 82 million Chinese having them. The corresponding number in the U.S. is 19 million. So 82 million there, 19 million here.

You would agree with me that an emphasis on technical and vocational education in the PRC has helped to propel its growth over time, right?

Mr. Schmidt. Yes, you're exactly correct. And it's important to know that China produces more Ph.D.s in artificial intelligence, for example, than we do. They are now producing more papers than we do. They have four to five times the number of STEM graduates than the United States provides.

So unless you think somehow their system will prevent them from being intelligent, which is clearly now false, we have a structural problem of scale. They have more people, more investment and so forth, and they're delivering and they're focused.

Mr. Krishnamoorthi. And if we were to -- if we were to have a similar emphasis, for instance, on vocational education and apprenticeships, which you talk about in your testimony, that's very possible that our own economy could take off as well. Isn't that right?

Mr. Schmidt. You're exactly right again. And, more importantly, we seem to have forgotten that we should start manufacturing stuff as a country. And the way you start manufacturing stuff is you need the people who manufacture things. And those are typically people who are not given a liberal arts college education but, rather, a technical education in high school and college. And they're very, very valuable and their salaries are very high.

Mr. Krishnamoorthi. Let me turn to another topic, which is, in addition to developing our own talent, we must attract the world's best talent, wherever it is. It turns out that, according to a Science article, they polled 2,300 scientists around the

world to find out where would they like to live. It turns out 56 percent of them said they would consider moving to America, but only 8 percent said they would consider moving to China.

Now, it's good that scientists and STEM graduates would want to come to America, because report after report shows that our defense industrial base and innovation and technologies of the future require STEM graduates.

Now, you might be wondering, where are these STEM graduates. Dr. Schmidt, I have a chart here that shows where some of these STEM graduates come from among our closest friends and allies.

Now, Dr. Schmidt, immigrants in America helped create more than half of the startups, account for more than 70 percent of graduate students in artificial intelligence and semiconductor-related fields. Is it fair to say that unless we attract these STEM graduates from here and around the world, we will be harming our ability to compete with the CCP?

Mr. Schmidt. We need to accelerate everything you just said as fast as we possibly can in very specific fields.

I'd also like, if I may, to say that there is a notion that somehow that Chinese-born students are not necessary in the U.S. We did a study of this. And the top papers will often have one or two of the authors be Chinese-born. We need them in America and we need to keep them in America.

It makes no sense to educate them to the teeth and ship them back. And as an example, the way the lead in Chinese quantum occurred is we took such a person, educate them to the teeth and ship them back, and now they're creating store now, decrypt later to decrypt all of our messages.

Mr. Krishnamoorthi. See, that's crazy. That's absolutely crazy. There's an

executive at a CCP Party newspaper who said that U.S. efforts to lure global talent would, quote, "pose a huge challenge for China."

Sir, one congressional report stated the following, Dr. Schmidt: The U.S., quote, "needs to continue to attract the best and brightest STEM talent from around the world." You'd agree with that, right?

Mr. Schmidt. Yes, of course.

Mr. Krishnamoorthi. It turns out that that was from the House GOP China Task Force. And I happen to agree with that point that the GOP made. And I hope that we, as a committee, follow up on this particular issue.

Thank you, and I yield back.

Chairman Gallagher. Mr. Wittman is recognized for 5 minutes.

Mr. Wittman. Well, thank you, Mr. Chairman.

I'd like to thank our witnesses for joining us today. Thanks so much for your perspective.

Ambassador Lighthizer, I'd like to start with you. You know, the Department of Treasury's Committee on Foreign Investments in the United States is charged with safeguarding our national security by screening all this inbound foreign investment into the United States to make sure that there's not those connections that will be harmful to the United States.

Congress has long considered, what do we do to modernize CFIUS? What do we do to make sure we are addressing these modern challenges to what was supposed to be a committee that protected our technology and how those investments were taking place here?

We know, recently, the Treasury Department determined that CFIUS didn't have jurisdiction to review a PRC firm's transaction of land near an Air Force facility in North

Dakota.

Let me get your perspective. What CFIUS reforms do you think we could most rapidly put in place to accelerate our ability to review PRC state-directed investment in the United States?

Secondly, do you think we have the tools necessary to do sufficient due diligence on second- and third-tier companies, on shell companies, and the effort by China to circumvent the controls in CFIUS that, at best, are lacking?

And how concerned are you about the potential gaps that we see today in CFIUS jurisdiction related to new and emerging technologies? This was never intended to cover the rapid acceleration of what we see in areas like autonomy, artificial intelligence. So give us your perspective on those three areas.

Mr. Lighthizer. Well, you know, thank you, Congressman, for that question. I sat on the committee. I was one of the members of the committee as the United States Trade Representative, and I can tell you that we dedicated a lot of our effort to that committee. And on more than one occasion I was in disagreement with the Treasury Department on whether or not something should go forward.

In my opinion, the standard ought to be, as I say, if it's from the PRC, not the world generally but from the PRC, if you can't demonstrate that it helps the United States, it should not be permitted. It should not be limited to just national security issues. It ought to be economic issues as well. And the notion -- even with the current standard, the notion that you can't stop buying farmland near an Air Force base or near the place where we develop our drones, which are so important to the -- all you hard power people know far more about it than I do -- is, to me, crazy. That is a national security issue.

So I think every dime's worth of Chinese investment should be notified, and it should only be permitted if you can demonstrate that it's in the interest of the United

States.

Your point about shell corporations and all is a very good one. It's always going to be a problem. We're going to have to be vigilant. And we have to be able to unravel any deal that we later find out has any kind of a connection to the People's Republic of China.

This strikes me, really, as the most obvious thing in the world. I can't imagine it being put before a vote of this House right now and have it not pass overwhelmingly with Democrats and Republicans. It's just not imaginable to me.

And let me say one other thing. This notion of mitigation agreements is another huge mistake. So the notion is, we sit here, we don't think you should go forward with it, but we'll create a mitigation situation. And then we'll put some former colonel and an accounting firm, and they'll make sure that the data doesn't go to China. I just don't believe it works. I think it's a mistake.

Mr. Wittman. Thank you, Mr. Ambassador.

Mr. Robinson, I appreciate your perspective on things. You came and spoke, actually, to a small group of us from the Armed Services Committee and from the Financial Services Committee about this exact subject, about U.S. investments going into these ETFs, these A-shares as you term them. And then you spoke too about investments in bonds that are essentially issued by the CCP.

Can you give us a little broader perspective on that? Because we see a lot of funds today that have exceptional returns that are Asian bond market funds, but it seems like much of those bonds are actually issued by the CCP. Give us your perspective in that area of where investment from the United States is going to feed, as you say, the wolf that will eat us.

Mr. Robinson. First, I liked your CFIUS question very much. Think about a

financial CFIUS, would you, because there's never been any screening whatsoever as to the identities and activities of those Chinese companies coming to our capital markets.

But getting on to your question, Chinese sovereign bonds. Well, as we know, bonds are discretionary cash. You know, you give somebody a maturity date and an interest rate and they give you billions of dollars in return. These are issued directly by the Chinese Communist Party. They come to our market about two or three times a year. They go oftentimes for seeking \$2 billion, but then they have the glamour of it being oversubscribed, as they say on Wall Street, by about 11 times. So they walk away with over \$20 billion. You do this three times, you got 60 billion. And it's just to kind of keep the seat warm in the United States.

They're led by our largest banks. You know the names very well. So it's not as though these are foreign entities that are bringing them to market. The problem is, again, is discretionary cash. I call them anti-liberty bonds. Remember, it was our sovereign bonds that helped us win World War I and II.

Chairman Gallagher. Sorry. The gentleman's time has expired.

Ms. Castor.

Ms. Castor. Well, thank you, Mr. Chairman. Thank you to our witnesses for being here.

In 2021 and 2022, a Democratic-led Congress and President Biden took major steps to strengthen America's economy and our workers, to invest in domestic manufacturing, infrastructure, and cleaner, cheaper energy.

The Infrastructure Investment and Jobs Act, the Inflation Reduction Act, the CHIPS and Science Act have really together helped ramp up America's competitiveness, with a strong foundation to counter China. In fact, it's been very heartening to see the factory opening announcements, the job creation. It's happening at pace. But we've got to do

more.

Dr. Schmidt, what do you identify in those important laws, the strategic parts that are helping to boost our competitiveness to counter China? What's working that we can build on, and then, what are the gaps? You've identified some already.

Mr. Schmidt. Well, there's, again, good news from the results that you quoted, in particular the construction of semiconductor fabs in -- by Samsung and by TSMC in New Mexico and Arizona are incredibly strategic for our national security and is a great part of our narrative.

If you look at the IRA, the incredible investment in sort of retooling the way climate energy systems work is very, very positive.

What I would tell you is it's a race and those are steps in the race, but we're not done. There's this notion that somehow we pass a law, we do the right thing and we win. That's not how it works. It's a constant competition.

I'm quite convinced that investing in the primary part of my testimony, which is around AI and AI leadership, where we're leading today will continue that, because it's such a foundational technology for everything else.

Ms. Castor. So the semiconductors, the fabs that are opening, a lot of the clean energy investments. Then you also -- you've identified gaps, talent, updating our broken immigration system, investing in basic science, right?

But you've also laid out in your testimony a way for the Congress to rethink how we invest in R&D on an annual basis, just like we do in National Defense Authorization Act every year. And you're saying we need to now think about doing something on technology R&D every year?

Mr. Schmidt. Yes. And what I would suggest is the Nation needs a list like the CCP's list. So they published their list of what was important, and I quoted it: AI,

biology, biotech, energy and a few other systems. And by the way, it included surveillance, which we're not going to do.

We need to have an up-to-date list. It needs to be right in front of you all when you make these important decisions, and you need to make sure that you're overweighting to these strategic areas.

If I could give you a taxonomy, there's plenty of trade with China that is important to the people but not strategic. It doesn't determine a huge outcome; whereas, control over, for example, a semiconductor plant, a computer, a network, the way people communicate, has huge strategic implications on our democracy. We need to have that list, and we need to make sure that we're doing it in our values.

Ms. Castor. Ambassador, what do you see as the strengths, the strategic parts of the package of laws now that we've enacted that are helping to boost our competitiveness?

Mr. Lighthizer. Well, I mean, not that anybody cared, but I certainly supported the CHIPS Act. You know, I should say that we should be really, really careful when we're subsidizing anything, right? I mean, that really requires -- the initial reaction should be this is a bad idea, because it's so distortive of the market, subsidies are.

Having said that, in the kinds of areas that Dr. Schmidt is talking about, in my judgment, the Congress has to act and we have to subsidize. And for sure semiconductors is one. But if you want a pretty good idea of what the field is, go look at the Made in China 2025. Go down those 10 things, and there isn't one of them that you wouldn't say.

Mr. Schmidt. You're so right.

Mr. Lighthizer. I get that a lot, by the way.

Mr. Schmidt. Sorry. I interrupted.

Ms. Castor. All right. Thank you very much. I yield back.

Chairman Gallagher. Mr. Luetkemeyer.

Mr. Luetkemeyer. Thank you, Mr. Chairman.

Mr. Robinson, do you know the dollar amount, roughly, of American assets in China right now?

Mr. Robinson. In a word, no. But when we talk about assets, we're talking about manufacturing assets, as well --

Mr. Luetkemeyer. Manufacturing assets, inventory. You're looking at money that's sitting there being invested in these things.

Mr. Robinson. Haven't had the bandwidth, because concentrating too much on the financial piece alone.

Mr. Luetkemeyer. Okay. What would happen to the assets? We've been talking endlessly about China invading Taiwan.

Mr. Robinson. Yeah.

Mr. Luetkemeyer. And if we sanction Taiwan -- China, what's going to be the reaction of China, do you think?

Mr. Robinson. I think the greater concern might be, of course, our reaction in the sense that, if there is a shooting conflict in the Taiwan Strait, I think one of the first things that the Congress will do, on a bipartisan basis, is recognize that it's all over for Chinese enterprises in the U.S. capital markets.

I mean, the advantages that they're attaining here in terms of not just hundreds of billions of dollars of funding, but the prestige of being in the world's deepest and most voluminous markets is a kind of good housekeeping seal of approval that they take around the world to leverage in other markets. In other words, it's just a fantastic, prestigious event for them. And we're going to want to deny that, the money as well as

the prestige.

So the question then comes as to what kind of losses are the American investors going to take. As I mentioned, we're in the 100 million to 150 million Americans here who have this unwitting financial risk exposure to those thousands of Chinese companies.

No one, to my knowledge, has any handle at Treasury or elsewhere as to what is the total amount of financial risk exposure of the American people to those Chinese corporate enterprises in our capital markets, not to mention the sovereign bonds that we just talked about.

So it's a big number. It's over a trillion. It could be two or three. No one really knows for sure. But that is my greatest concern, that if we don't act to at least excise -- sanction bad actors, for goodness' sake, we're going to have a horrific financial crisis. And folks are going to be coming to you asking for grace periods and even bailouts of the American people, because the hit that the American people are taking is so draconian.

Wait a minute. We have a chance right now to do something about this. Why is it that we always have to wait until we're electrocuted before we get the picture? So that would be my strong feeling.

Mr. Luetkemeyer. So what you're saying is that you believe that, should that action take place, the reaction is going to be a closing down of the markets, a loss by the American people of all their investments in China and, therefore, their savings, their retirements, whatever is there is going to be gone. Is that what you're saying?

Mr. Robinson. That's my concern, yes.

Mr. Luetkemeyer. Yes. You know, one of the things, today in Bloomberg there was an article, it's Wall Street's Biggest Banks Face a Harsh Reality Check in China. They're continuing to look at and starting to think about their investment there, their

position there, which is interesting.

And I think we need to keep the pressure on everybody. I think this committee is making a difference. And these folks are starting to think about -- think twice about their investments there.

And so, Mr. Robinson, you know, how do we prepare the American people for this? Do we start by saying, these asset managers and investors have a fiduciary responsibility that they need to disclose to the people who are investing in China or should we just let them go ahead? Should we list China as a terrorist organization, as an enemy of the state to prohibit the investment there?

How do we control the ability to invest there and to cut off the money that keeps flowing into this country that underpins all the activities of the Chinese Communist Party, including detaining their people, oppressing their people, building up their military, et cetera?

Mr. Robinson. We have to enforce the rules. After all, these are fiduciaries. They're supposed to be seeing companies that are compliant with U.S. Federal securities laws. None of the Chinese are. You have to have corporate governance. There's no such thing. Or rule of law or any kind of proper risk management.

You've got -- you've got one abuse after the other in the area of investor protection. I mean, this is very unusual. China has gotten a free ride across the board for way too long.

And the Public Company Accounting Oversight Board waiver of May 2013 is merely one example. We don't have time to get into that right now, but these are among the things that we can do to help protect the American people from that day and get that risk exposure way down. Trust me, none of this can stand the light of day when you see it the way I have.

RPTR GIORDANO

EDTR ROSEN

[8:00 p.m.]

Mr. Luetkemeyer. Thank you. I yield back.

Chairman Gallagher. Gentleman's time has expired.

Mr. Carson?

Mr. Carson. Thank you, Chairman and Ranking Member.

Dr. Schmidt, in your written testimony, you advocate for adjustments to our immigration policies to ensure the U.S. is the top destination for foreign scientists, technicians, and innovators.

In addition to your suggestions on reforming H-1B visas and creating the new innovators visa, do you see any issues on the horizon, be it economic, be it cultural, or even social, that would make it harder for us to recruit and retain top talent? And, if so, what should we be doing to get ahead of those trends?

Mr. Schmidt. So I published an article yesterday on this in Foreign Affairs. If you look at the U.K. and Canada, not only do they have a high skills visa program, but they also make it relatively straightforward to get the equivalent of a green card.

So here is an idea for you all to consider. For friendly nations -- let's think of the Five Eyes to start with -- let's identify people and say, If you manage to get your degree, you have a quick path to a green card. At that point, there is no ambiguity that they're going to learn, live, found companies, and work on American soil for America pay, American taxes, and all of that.

So remember that the top people have choices. Now, I want them to choose the U.S. There is evidence that they're choosing other countries because we still -- because of this dysfunctional comment that Ms. Castor made. The dysfunctional nature of the

system gives them too many disincentives to stay.

At least let's start with our best friends and invite them to the party and keep them at the party. And then if that works, let's expand to some other countries.

Mr. Carson. Well, even on the domestic front, how do we incent students to pursue these very important careers?

Mr. Schmidt. Well, the good news is that there is so much money being made in my field that the financial incentive is there. I think what you -- what we really need to do is to get more money to the key universities that are doing the research that matters.

You all, for example, have in front of you, at some point in the legislative process, a National Research Enterprise proposal around building computing hardware for universities that would be a public service for research and so forth. So there is a bunch of tactics -- that's just one of many -- that people have recommended, that would make our universities each stronger in innovation.

From my perspective, it's really easy to understand. It's a young person who has a crazy new idea. They work, you know, deep in the lab. Most of them don't make it, but one or two, and, boom, billions of dollars are created overnight.

Mr. Carson. And lastly, Chairman, I represent a district with a very proud manufacturing tradition. This is for everyone. State of Indiana, we have more than 8,400 manufacturing companies with nearly 600,000 workers.

How do we adapt this industry and these industries for the future, and what should we be focusing on specifically?

Mr. Schmidt. Could I just add that the National Semiconductor Center is at Purdue. There is -- it's well worth visiting. We've got the people in your State --

Mr. Carson. Uh-huh.

Mr. Schmidt. -- that can really transform the entire Nation. And I'm sure, for

each of you, I can identify such an effort in each of the States that you represent.

You have the people. We just have -- need the focus.

Mr. Carson. Yeah. I yield back, Chairman.

Mr. Schmidt. I'm sorry.

Chairman Gallagher. Mr. Newhouse?

Mr. Newhouse. Thank you, Mr. Chairman.

I want to thank all of our guests for being here this evening. Honestly, you're making my head spin. There is so much stuff going on, so many things that we need to be concerned about. I had a bunch of questions prepared for you, and I had to throw them all out the window, which is, I guess, a good thing. But it's a fascinating discussion. Mr. Chairman, I think we need more than 5 minutes per witness on some of these things, but just my --

Chairman Gallagher. There are many views on that.

Mr. Newhouse. Yeah.

I want to start with you, Ambassador. The concept of foreign ownership of our agricultural land has been brought up. I guess one of the things I wanted to ask you about, you know, what are some of the national security implications that you see there, some of the things that we should be concerned with, whether near military installations or not? It could be just national security issues around our food supply.

But, also, there is other implications that maybe we haven't put a lot of thought into either, perhaps issues surrounding our water supplies and other natural resource issues as well.

So I wanted you to expound on that if you could.

Mr. Lighthizer. Well -- well, I thank you for that -- for that question, Congressman.

So yeah. First of all, I completely agree with you. There are a lot of things that are national security, but food supply certainly is one of them. And I -- I am troubled by -- by certainly Chinese ownership of -- of farmland. I think that's literally a no-brainer, obviously near a military base. But I don't know why we permit it anywhere.

Do you think you could go to China and buy farmland?

Mr. Newhouse. No.

Mr. Lighthizer. Right? I mean, there is not just a chance in the world.

I'm also troubled by the downstream -- the food production ownership by -- by China. I don't know what the percent is, but it's a -- you -- I'm sure you know, because this is your field. It's a very high percentage of our meat processing is owned by the Chinese.

I mean, this is -- I mean, this is very, very dangerous. Among other things, they get data out of all this, right? All of this stuff creates data. Well, who has got what? What's going where? What are they going to do? All that feeds into their -- into their AI.

We are very vulnerable in this area, and I have no -- I have no idea how we got to this stage. But the notion that hundreds of thousands of acres could be owned by -- by Communist China is, to me, unimaginable.

And remember, none of these investments come here for economic reasons. I mean, every one of them is approved by the state, right? This isn't some guy who is in the food business who says, I'm going to go buy, you know, a little farm in wherever. No, this is the state saying, You can spend this money on this way, because we view it as in our interests.

So I'm -- I've read what you've said. I saw what you said on the last hearing, and I'm -- I'm in complete agreement, both with respect to the land, but also with respect to

processing of food. The whole -- the whole food stream is very troubling to me that we would let that --

Mr. Newhouse. Uh-huh.

Mr. Lighthizer. -- get out of our hands.

Mr. Newhouse. I'd love to talk to you more about that, and maybe we'll have a chance to do that in a second round.

Mr. Robinson, I guess we can assume that much of the capital going from this country to China is going into all kinds of things -- AI included, I'm guessing -- all kinds of investments there.

We went through a tabletop exercise recently. What would happen to all of that U.S. capital in the event that Beijing makes a move on Taiwan?

Mr. Robinson. Well, you heard -- thank you.

You've heard my best guess, which is that business as usual is over instantly when the first shots are fired, because we're going to be -- our men and women in uniform are going to be in the line of fire virtually instantly.

So we then, obviously, are going to look at this multi-trillion-dollar free lunch program a whole new way real quick, right? And it is not going to be pretty for the American people, because this thing has been allowed to get so out of control.

Remember BlackRock and others who exhorted the American people to triple our exposure in China not long ago. It is not as though they've rescinded that idea.

So again, there is big fat fees involved here, and -- and there is this what I call in my written testimony the holy grails for Wall Street; that is, going and having a chance to go into mainland China and sell their investment products, their services, wealth -- wealth management and the like, to average -- more average, at least -- Chinese institutional retail investors.

So, you know, these are dangled in front of -- of our Wall Street friends, and they're -- they're buying into it every time.

Mr. Newhouse. Thank you.

Thank you, Mr. Chairman.

Chairman Gallagher. Gentleman's time has expired.

Mr. Moulton.

Mr. Moulton. Thank you, Mr. Chairman.

I want to thank all of you for your service to the country in different capacities. We're grateful to have you here tonight.

Mr. Schmidt, beginning with you, we've heard a lot of concerns in the last few months in particular about how much closer we are getting to a generative AI and the impact it would have on our society and economy.

Could you describe for us why it matters who wins this technology race between the U.S. and China and how it might impact geopolitics? How can we mitigate the risks?

Mr. Schmidt. So one way of understanding what we're trying to do is we're trying to build systems that are savants that help us and amplify our power as individuals and as a society.

If you could imagine that that race is won by China, imagine how different those savants would behave. How would their view of privacy, their view of the things that we -- the values of America -- free speech, censorship -- all of the things that we hold so deeply as America and at our core would be in question if the tools that we use were led by China.

And furthermore, once you're ahead in these areas, you tend to stay ahead, which is why it's so important that our current lead, which I'm very proud of -- and you should be very -- all of you should be thanked for making this possible. We need to continue it.

Mr. Moulton. With respect to a potential conflict, we're seeing AI being incorporated into our defense establishment. And China right now is investing three times the amount in AI as a portion of their defense budget as we are.

What happens if they set the rules for how AI is used in warfare?

Mr. Schmidt. So we have a set of rules that we operate that are colloquially known as man -- the man in the middle, man in charge.

Mr. Moulton. Right.

Mr. Schmidt. You're, as a marine, are -- you're very familiar with these rules. And imagine the Chinese rules are different. Imagine that the Chinese use these techniques to build automatic weapons systems that are launch on warning. They actually just do their thing.

We don't understand their command and control. We don't understand their rules in this area, and they wouldn't necessarily abide by them anyway. So it's crucial that our military and national security apparatus advance with the rest of the commercial market, and they're behind. And they're behind for many reasons, including the way the military procurement works, and also because they don't have quite the right people, because it's such a new field.

So this should be a very high priority. I'm pleased that the NSC AI recommendations were largely adopted in the NDAA, and the military is moving in that direction. It's important that our AI leadership be as strong. Remember that, in China, because of civil military fusion, every time you visit a Chinese commercial company, you have to assume there is a building next door of the same people working on military things. There is no separation in that country.

Mr. Moulton. So you can imagine that even a slightly less talented autonomous weapons system from China with no restrictions on it could be much more deadly than

our weapons systems that have the kind of moral guardrails that are so important to our fundamental values in place.

Mr. Schmidt. It's incredibly important that these systems not be allowed to make life and decisions -- life-and-death decisions without humans making those decisions, and ideally very rarely. And the reason is that they make mistakes.

So you can imagine an automatic weapons system that decided something was coming in at it that actually started a global war, right, and that we would then respond to. This is the Dr. Strangelove scenario. It's crucial that our values be adopted in these technologies.

Mr. Moulton. And as a marine, if I made such a mistake, I'd be held accountable.

Mr. Schmidt. Absolutely.

Mr. Moulton. It would be very difficult to hold --

Mr. Schmidt. It's section 3000.9.

Mr. Moulton. How do we get China to follow our rules for AI warfare?

Mr. Schmidt. My own view is that this is going to go step by step. If you look at the history of nuclear, in 1951, the original discussions against the Soviet Union, it took a while for people to agree on common goals. I think the first agreement we can get with China, in my opinion -- I don't know this -- is a no-surprises rule, right, that you're not going to produce a weapons system that could kill everybody without human intervention.

And the problem is, if you're building that, then the other side has an incentive to prematurely left-of-launch destroy it. That's a destabilizing structure.

Mr. Moulton. And I would certainly argue that we have the leverage to actually propose and pursue some of these treaties when we're a little bit ahead --

Mr. Schmidt. Right.

Mr. Moulton. -- rather than being behind.

Mr. Robinson, I'm sorry I don't have much time left for you, but I'm interested in your economic strategy vis-à-vis China. You know, if we succeed in really, you know, competitively crushing, shall we say, the Chinese economy, do you think that China's economic problems or challenges -- they get more or less likely that Xi Jinping pursues an invasion of Taiwan?

Mr. Robinson. The short answer --

Chairman Gallagher. I'm not targeting you, Mr. Robinson. It's just the wheel keeps landing on you. I apologize.

Mr. Moulton. The good news for me is you have time for a short answer.

Mr. Krishnamoorthi. Left of question.

Chairman Gallagher. Yeah, I'm sorry.

Mr. Robinson. I'll just say very quickly, the short answer is that, if I'm right, that China is in the midst of slow-motion economic and financial implosion now due to an inadequate growth rate, and not to mention real estate debt and all the things we could talk about, but there is a sinking going on, and they're adrift.

So all I can say is, that as that deteriorates and as we become more prudent in the way we handle our money and transfers of that money into the coffers of the CCP, it could -- it could make them more interested in storing up nationalist fervor, changing the subject as authoritarian regimes tend to do, and it could make it somewhat more likely.

Mr. Moulton. Thank you very much, Mr. Chairman.

Thank you for your indulgence.

Chairman Gallagher. Gentleman's time has expired.

Mr. Moolenaar.

Mr. Moolenaar. Thank you, Mr. Chairman.

Thank you very much to all of you. This has been a fascinating discussion.

I wanted to start with, Ambassador Lighthizer, following up on Representative Wittman's discussion of CFIUS and what can be done to improve it.

One of the things that struck me when you were talking -- and I'm not overly familiar with -- you know, you've been in the room following this process, but it almost appears to me like we have a process where things will be approved unless there is some glaring issue with respect to Chinese investment in the United States.

What I heard you saying was almost that you think it should be reversed to say it should be approved only if there is an economic benefit or, you know, demonstrated no national security.

Am I right in understanding what you said on that?

Mr. Lighthizer. So -- so that is my position, yes, Congressman. And I believe there is kind of a tendency just to go ahead and assume it's going to be approved. And there is -- there is, like, an industry in Washington that does this, and they make a lot of money, and a lot of them are lawyers and accountants. And there is this -- this overwhelming -- and if you are the government guy doing this today, well, you know, tomorrow, you're going to be probably working for me anyway. And so I think there is this impetus, and it's -- and it's -- it's very troubling with respect to the PRC.

Mr. Moolenaar. Okay. Thank you.

And then can you comment on mitigation agreements with respect to Treasury and allowing CFIUS deals to go through with mitigation agreements?

Mr. Lighthizer. So -- so I -- I was never in favor of mitigation agreements. Whenever I -- whenever speaking for my agency on that committee, whenever we thought it was a bad idea, we wanted it to be stopped. And, once again, this sort of industry has this tendency of wanting to put mitigation agreements. And I literally said

to one of the people there at one point, Well, how many of these do we have? When is the last time we did a review of them?

So -- and I finally got a study. I mean, it was like 6 months. I got a study. And there is hundreds of them. And -- and they're like a Treasury guy and a Defense Department guy or -- you know what I mean? It's like this, and then there is an accounting firm involved and a retired Army officer or something.

And the notion is that they can keep the owners of the company who are otherwise running the company from getting access to various things. And I'm sure in some cases, in fairness, they can. But I was never convinced that they could do it in all cases.

So, to me, mitigation agreements really didn't make much sense. There may be a circumstance where I would say I'm wrong. But, for the most part, I thought it was a mistake. And I think it is the -- the presumption is that we're going to approve and will take care of the problem with a mitigation agreement.

Mr. Moolenaar. And then you've commented a lot on kind of the Washington, D.C. process. You also mentioned the -- that the entire Chinese economy is integrated with and serves to strengthen the Chinese military. And I'm wondering how you would evaluate U.S.-based subsidiaries of Chinese companies, because we have a situation where States are offering incentives to bring in, you know, partners that, you know, are partially owned by subsidiaries of Chinese-based companies.

Mr. Lighthizer. So, in my judgment -- and this is a matter of judgment. In my judgment, every single one of them is integrated into the overall strategy of China becoming the dominant power of the world, every single one of them. That isn't to say everything they do is for that reason, but --

Mr. Moolenaar. Uh-huh.

Mr. Lighthizer. -- whenever called upon, they do it. And remember, most of these -- almost all of these companies have Chinese Communist Party cells within the company. Their management is -- is checked every day by their -- every -- whatever -- whatever the -- you know, every day or every few days -- checked to see all of their decisions. They -- and they're reporting back to the state through their own Communist Party cell people.

That's why I try to make this point. There are no private companies. I -- I make this as clearly as I can. This is a mistake to -- they use that term, and we think of it in our way. There is -- there are no private companies.

Mr. Moolenaar. Thank you.

Dr. Schmidt, just real quickly, given that China is stealing data on American companies and citizens, do you think it makes sense to ban American researchers and healthcare providers from using equipment made by CCP-controlled companies?

Mr. Schmidt. I would probably not put a broad ban. I might put a national security ban around very, very specific things. I think any such ban that you might consider should be extremely targeted. The principle I would offer is a small piece of land with a really big fence around it, try to figure out what that land is.

Mr. Moolenaar. Uh-huh.

Mr. Schmidt. I think that may -- that may help.

Mr. Moolenaar. Thank you.

Chairman Gallagher. Gentleman's time has expired.

Mr. Kim?

Mr. Kim. Thank you, Mr. Chair.

Ambassador Lighthizer, I'd like to start with you.

I wanted to kind of just drill down on this question since you made it sort of -- sort

of central to your testimony about strategic decoupling.

I wanted to just kind of make sure I'm understanding this correct. You're recommending some broad efforts, raising tariffs to level the balance across our entire bilateral trade. And you're also talking about efforts that we can do in a range of different sectors -- auto parts, pharmaceuticals, some of the national security that we talked about, but also agriculture and manufacturing.

Am I understanding that correct? I just want to make sure I'm kind of capturing this correctly.

Mr. Lighthizer. Yes.

Mr. Kim. So I guess I wanted to just kind of -- because I really think this gets into the heart of what this committee can try to do, and I think gets to the heart of what the chairman was saying in his opening.

Dr. Schmidt, I've read some of your material, and I was listening to your testimony. It sounds like you might have a -- a different vision of this.

Am I correct in kind of understanding this, that your thought about this kind of action that we should take, it's not necessarily that it's sort of broad across our entire economy, but, instead, something more targeted? Am I getting that correct here?

Mr. Schmidt. That is correct. And I want to defer to the other panel experts who understand their areas much better than I do.

In the areas that I work in, it's crucial that we win a bunch of global battles around platforms. That's innovation leadership. And the list -- I'll just read the list -- AI, chips, 5G, biotech, quantum, energy storage, and basically smart manufacturing, right?

If we lose those things, then we lose the global platform. And if we lose the global platform, all of the economics don't work, because America is a huge exporter. We're a huge control point on all of these technologies. And I don't want to be

dependent on China for any of these.

Mr. Kim. Yeah. I agree with you on that front. And I think that's something hopefully all of us can agree upon.

And there is this question that we've been tackling about, you know, how do we make sure we're not going too small on this? How do we make sure that we're not -- you know, and this issue of not doing enough.

But, Dr. Schmidt, I wanted to ask -- again, from some of the things that I've read from you, it sounds like there is also a real risk of pushing this type of separation too fast and too far. Is that correct?

Mr. Schmidt. I am not in favor of the decoupling that's been sort of discussed colloquially, because I think we are -- it would -- all it would do is take nonstrategic components and increase their prices to Americans, which would make things less competitive.

I'm interested in making sure that we are the dominant player in the areas that I just named. I don't, at some level, worry too much about the others, because they're not going to determine the power outcome.

Mr. Kim. Yeah.

Mr. Schmidt. They're important to other people. But, in terms of America's dominance, the list that I gave you is the list.

If, for example, we are the leaders in distributed computing, autonomy, and so forth, we'll have the best weapons systems.

Mr. Kim. Yeah. I mean, I think that's something that, for all of us to kind of think through here, is just trying to understand where that calibration is. And I think sometimes this is what frustrates me about this kind of concept of strategic decoupling, because it's so -- it has a lot of vagueness to it. It seems to, in some ways, kind of stress

a sense that we're not talking about full, but then I think this committee can really try to dive in to understand, well, then how do we narrow that and get a better sense of what that means?

And, you know, Mr. Lighthizer, at the end of your testimony, you said this line here. It says that you said, quote, "essentially policies that" -- what you're recommending are, quote, "essentially the policy that China has towards United States, I'm really just advocating for a policy of reciprocity."

With all due respect, I did want to kind of push back on that and disagree here. I think we should be careful here to try and make sure that we're not necessarily talking about steps for the United States to take that would act and behave more like China.

I do believe that there is action needed, but I want us to try to think through and grounded in what's made America successful, that we should really assess the costs of these different types of actions in different sectors and have an opportunity for us to weigh sort of the cost-benefit for our country, that we think through these efforts in terms of not just the restrictions upon China, but also recognizing that, you know, a lot of what we need to do is about investing in ourselves.

And Mr. Schmidt, I just -- I guess I just wanted to end with you here. You know, we talked about this issue about positive investments, offensive-type efforts that we can have in terms of our innovation, in our economy, our workforce. We're also talking about restrictive type actions against China to try to hold them back from some of these gains.

I know we're going to try to do both, but in your mind, as we're trying to in this committee, triage this and prioritize, which one would you say is the one that is more fundamentally important and primary to our ability to compete?

Mr. Schmidt. Well, I always take the position that, if you invest and you innovate

ahead of everybody else, you're always winning. So I start from that as a premise.

I do think that the Chinese, as the other panelists have discussed, are critically dependent upon some things in the west, and making it harder for them to obtain them will make the vision that President Xi identified, made in China 2025, that much harder. That's a strategic benefit to the United States. It's a very reasonable strategy.

So far, the restrictions that have been put in place have been quite successful and well-targeted. We should continue that as our policy.

Mr. Kim. Great. Thank you so much.

I yield back.

Chairman Gallagher. Gentleman's time has expired.

Mr. LaHood?

Mr. LaHood. Thank you, Mr. Chairman. I want to thank our witnesses for your valuable testimony here tonight.

Ambassador Lighthizer, under your leadership at USTR, you put a priority on prioritizing U.S. economic security by challenging really unfair and discriminatory barriers in trade and help set protections for U.S. businesses, workers, and our economy.

So far, under the Biden administration, they've largely left in place the status quo of tariffs and other trade policies that were present at the end of the Trump administration. To some extent, this speaks to the bipartisan support you earned for many of your trade policies you helped develop when you were here.

However, myself and many others are concerned that stagnant and cautious trade policies are inadequate currently to defensively counter China's economic manipulation on the global stage or to offensively counter China by working proactively with partners and allies around the world to advance our interests.

Can you comment, or give us an opinion -- do you agree with the Biden

administration's current stagnant approach to trade enforcement with China, and what would you recommend in terms of utilizing additional trade enforcement tools like the mechanism used in phase 1?

Mr. Lighthizer. Oh, well, thank you, Congressman.

First of all, you know, I appreciate the comment. And, with respect to tariffs that we put in place, I think it's a compliment to the Biden administration that they have kept them in place. And -- and, like every administration, there are good people who understand this issue, and there are some who don't understand it. And they have the same mix that all the other administrations do.

So there is kind of, like, two questions: One, I think what else would I do? And then, two, how would I -- I mean, how would I work with allies, all right?

So let me say, first of all, as I've said in -- in the -- in my written testimony, I believe that China is not in compliance with the agreement that they entered into, and, if I were in government, I would use the authority under U.S. law to raise tariffs on them and to -- and to -- and to further this process of decoupling, which I believe we started, and really started, you know, under the 301 in a bipartisan way, right? It really was -- and, when I would testify, I would quote the -- you know, the former Speaker and others who were in agreement with that position.

So, if I were in the government, I would now raise those tariffs. I'd have tariffs across the board. I would take the next step in decoupling. That's what I would do. And these -- I should say that's what I would recommend. Obviously, the President would make the decision.

In terms of working with allies, clearly we need to have a positive agenda. I am not one, however, that believes we need additional FTAs, or that we should be doing anything to -- to help our allies like us more by giving more U.S. jobs away, right?

So, I mean, there is like -- and, at some point, we ought to have that discussion. That is, in fact, my view.

I think there is a positive agenda you can have. There is a lot of things that you can talk about in the technology area that we ought to be doing. Some of them, by the way, this administration is talking about. And -- and -- I mean, personally, for example, I would want to see people come together and have a -- some kind of a carbon border adjustment, right? Not a carbon tax. I'm not for that, but a carbon border adjustment.

There is things in trade law enforcement. There is things in Customs facilitation. There is a lot of things you can do with allies to kind of create kind of a brand that I think is helpful.

Mr. LaHood. And, Ambassador Lighthizer, is it your current position -- I read your testimony -- that there should be no outbound investment at all to China?

Mr. Lighthizer. So, in the first place, I would defer to Roger on these things and -- and to Dr. Schmidt on the -- on the technology stuff, because those are their areas, and they're better, by far, than I am in understanding them.

In my judgment, with all due respect, I think reciprocity is a good policy, by the way, across the board, with everyone, all the time.

But in my judgment, there is no justification. But, if someone could have one, I would say put severe restrictions on. That's why I was kind of vague about that. I think that -- that the direction should be limited substantially. And the wisdom of this committee is as good as any other wisdom to decide where exactly those lines should be drawn.

I'm not -- you know, I'm not going to say I know the answer to everything. But, in my opinion, we should not be -- if you cross the line and say they are a hostile adversary, and they're trying to bring us down, once you cross that line, then it all looks

different.

And this is one thing that looks different. It's not about whether some -- some guy in New York can buy a big boat with the money that he made on some deal, right? It's about whether or not we're going to have our kids have this kind of a country and our grandkids have it. That's what it's about. And those are not kind of the same kind of thing.

So, for me, I would say sorry to the guy in New York, you just have to deal with the boat you have, and I'm going to worry more about -- about -- about the -- you know, the woman with the hard hat going to work.

Mr. LaHood. Thank you.

Chairman Gallagher. Gentleman's time has expired.

Ms. Sherrill?

Ms. Sherrill. Thank you.

You know, the long-term anticompetitive actions of China, including forced IP transfers, dumping illegal subsidies, carbon espionage, and currency manipulation, as well as the truly abhorrent actions of the Chinese Communist Party that they have taken in their genocide against the Uyghur people combined with the really capricious zero-COVID policies instituted by Xi and his stated goal of near total self-sufficiency in the manufacturing and production of goods and services and that -- the made in China 2025 policies -- it's really made the work of this committee to ensure the American economic competitiveness in the global economy incredibly timely.

So our country's already seeing record gains as we move to invest in high-end chips manufacturing, capabilities through the CHIPS and Science Act, as well as cutting-edge electric vehicle and battery production through the Inflation Reduction Act. And, as a result of this legislation, we've -- businesses have announced private

investments of \$210 billion in semiconductor manufacturing, and \$88 billion in electric vehicle and battery production over just the past 2.5 years.

So, Ambassador Lighthizer, we're really seeing a renaissance of American manufacturing, but combating China's economic coercion and winning the global competition and being at the forefront of the technological frontier will really require a unified economic and diplomatic strategy across the entire Federal Government, in close coordination with our allies in the Indo-Pacific and in Europe.

And we've already seen China take the lead in expanding its economic influence worldwide through the Belt and Road Initiative and in the Pacific region through its ratification of the Regional Comprehensive Economic Partnership.

So, as sort of a strong example of the critical need for multilateral economic engagement with our allies to counter China, the Biden administration earlier this year negotiated a deal with Japan and the Netherlands to join our export controls against China's semiconductor industry.

This effort has been critical in degrading China's advanced semiconductor manufacturing and R&D sectors by depriving them of the modern tech and inputs needed to grow and expand. However, without the joint effort of our allies, our unilateral export controls could really be evaded and sometimes rendered toothless.

So I think we've heard here today -- and I think we've seen this from the administration as well and the previous administration -- this desire to reshore a lot of American manufacturing and support American business. But we also do need our allies in this fight to, I think, present the strongest possible counter to Chinese incursions across the world.

How do you balance that? You were talking a little bit about it, and it almost sounded as if you said, you know, we've got to do what we've got to do, and then we've

got to brand what we're doing to bring our allies along with us.

And I think that's probably what Jake Sherman has said a little bit of, but -- but is there more we could do with our allies -- not free trade agreements, but some steps that we could take to sort of help bring them along with us?

Mr. Lighthizer. So -- so -- so that's a great question and a fundamental question, and thank you.

First of all, let me just say that, when you talk about this manufacturing coming back and these things being done, all of which, of course, are true, keep in mind that a lot of this started because of the tariff we put in place.

So we put 25 percent tariffs on all this stuff, and -- and -- and, you know, I'm sure Dr. Schmidt knows far more about the effects than I do, but -- but the effects were on initially all the technology, and then it -- it sort of bled beyond that.

So -- so, in addition to the -- to the industrial policy that -- that you're espousing, these tariffs -- and I would suggest higher tariffs across the board -- are also a contributor. So, if you look at why does Apple go to India for their -- for their phones, you know, there is a whole sense that, well, we -- this is an unstable relationship between the United States and China, and the tariffs are one of the classic ones.

Now, the -- the next thing -- so I just want to make that point. I'm sorry for hijacking your minute, but I'll talk quickly.

So do I think we should work with allies? Yeah, for sure. Do I think we should give up access to the U.S. market in order to get them to do it? No.

Do I think we should not act unilaterally because the allies won't agree? No. I think you act unilaterally, and then you try to bring them along if you can. It's just too important.

And I'm also very clear-eyed about the allies, and we -- we can talk maybe in the

next round about various groups of them. The Europeans don't see themselves as marching behind the American flag against China. They see themselves as a third pole, and they're trying to gain both of us.

Now, are they on our side fundamentally in the sense that -- you know, that we're democracies and the like? Yeah. But I think somehow we get -- sometimes we get the idea that they're more on board with us. And recently, you've seen the -- President Macron's comments, and the -- the Germans come. So you get a -- sort of a sense that they don't necessarily see themselves as following our lead, but I'm -- I'm sorry.

Chairman Gallagher. The gentlelady's time has expired.

Dr. Dunn.

Mr. Dunn. Thank you, Mr. Chairman.

Let me add my thanks to the prior members of the committees for this panel, some of these witnesses.

I can't remember when we had more interesting discussion in Washington. And as my colleague, Mr. Newhouse, suggested, it's a little disturbing as well.

Ambassador Lighthizer, your opening statement provided some key insights and recommendations that will come before this committee. I strongly agree with your sense for a need for trade regime that helps our country, our workers, and strives for technological independence and regulates both incoming and outgoing investments for us to our benefit. You know, this is essential to national security and economic prosperity.

And, as our trade deficit continues to grow and global threats continue to emerge, you know, we must not continue transferring wealth to an adversary.

I thought you did a great job outlining it in your testimony, enjoyed your points on the congressional reform of the de minimis tariff thresholds, making it harder for CCP to

elude our customs, de minimis being the threshold where our duties go into effect -- and it's currently \$800 per person per day in the United States, and it incentivizes gaming our laws -- Ford exporters, as you've mentioned -- to access our markets for free when the importation is less than 800 or they transship it to a country that has that -- enjoys that.

Right now, China is doing a shell game with their exports to the United States by laundering them through Mexico and Canada, thereby dodging essentially all duties. Specifically, you cited the Mexican company Baja Fulfillment as a particularly -- example of bad actors, but I think it's just one example as well. This has to stop.

So, your Excellency, what can Congress do to end China's shell games in trade?

Mr. Lighthizer. Wow. And I have 2 minutes and 57 seconds. So --

Mr. Krishnamoorthi. That's a lot. That's a lot.

Mr. Lighthizer. For me, I mean, this is why I, after thinking about this forever, said you just have to put tariffs on, have strategic decoupling. You figure out the technology, I'll go along with you on whatever you come up with. But you can't keep transferring hundreds and hundreds of millions, maybe \$500 billion, and installing technology. Maybe it comes to \$800 billion a year.

I mean, their economy is only \$17 trillion, right? I mean, in other words, you're -- you're -- every year, you're giving them -- I think it's fair to say that the -- this was -- this -- as I say, this economic miracle really is just our economic stupidity, and not crossing that line and realizing what's at stake. I mean, this is really, really serious stuff.

Eventually -- eventually we're going to have strategic decoupling, right? I mean, it's just --

Mr. Dunn. Yeah.

Mr. Lighthizer. -- no question. The only question is whether you're going to do it before or after it's too late. That's -- that's the only issue.

So you said what would I do? I would put tariffs on -- so one way to think about this -- and I have it in the written testimony, and I say one way to think about this is, why do they have these large surpluses every year? Why does that happen? Now, some of it is stuff we can identify. Oh, you cheated on this. You cheated on that. You dump. You -- whatever the things are.

But a lot of it is just systemic. It is -- the deficits in and of themselves, when they're massive and continual, are themselves protectionist.

They're -- they're absolute proof that -- that they're not playing by the rules. So they discourage consumption in their own country. They put all the money into exports. What that does is, it forces the rest of the world, including us, to go into debt.

So how do you -- how do you counter that? You have two ways. You either continue to go into debt, or you put tariffs on. I mean, there is just literally -- there is -- I mean, you can -- besides tariffs, you could put, you know, some other kind of barrier. But you either have a barrier -- I would say tariffs -- or you go into debt.

And it's happening across the world. I mean, so -- somehow you have to change that. In my opinion, at some point, you're going to come to the view is we can't continue to go into debt to China, least of all --

Mr. Dunn. So I don't know who is more upset, you or us.

Mr. Lighthizer. You know, least of all for televisions and T-shirts and all this stuff, right? I mean, it doesn't make any sense. Eventually you're all going to say we have to change.

Mr. Dunn. So I think what I'm going to do -- I have 26 seconds left, so I think what I'm going to do instead is commit you to swear that you'll help us in the future. We're going to put you on speed dial and follow a lot of these ideas and also your other panelists, because I've heard some great ideas here tonight, some great insights.

So I want to thank you all very much for taking the time and spending some time with us this evening.

Mr. Lighthizer. Well, I appreciate it, and I am, and I'm sure the other two, because I -- I mean, I know Roger, and I've met Dr. Schmidt -- are available. I mean, if we -- you ought to just call. And, if you have a senior staff person that wants to call, call. I mean, this is -- this is really important to all of us. This is what we do.

Mr. Schmidt. You could text. You could email. We're fine people, trust me.

Chairman Gallagher. We will now provide the witnesses' cell phone numbers on national TV. Please state for the record -- all right.

The gentleman's time has expired.

Ms. Stevens?

Ms. Stevens. So inflation is up. We all know that. You know, going to the grocery store, it burns in the pocket a lot more.

Mr. Lighthizer, I think it's fair to say we've gone through a heck of a 4 years, 5 years on the trade front, passing USMCA. And thank you so much for your leadership on that, giving us a platform as a North American content -- continent to be able to sell and compete globally and sell our American goods in countries like China.

And of course we implemented the 301 tariffs, and we've now seen in the last year that the trade deficit has only ballooned to astronomical levels. And, you know, frankly, the costs are coming down to the consumer, right?

According to Cato Institute, the U.S. imports all shoes sold in U.S. markets -- all shoes sold in U.S. markets are imported. And, in particular -- I'm not saying they all come from China, but many do. And it's -- you know, the Chinese footwear manufacturers have got access to machines that, you know, they only have there.

And there is a company -- you know, every week, pretty much, by and large -- I

have a program called Manufacturing Monday, and I go and I visit these manufacturers, these small tool and die, CNC manufacturers in my district, often only employing 20 people. And I go to geek out with them, and, you know, see what they're making, and learn.

And there is a company called Detroit Bikes, or there was a company called Detroit Bikes. It was the only bike manufacturer in the United States of America, because all the bikes were coming from China. And, you know, they were -- they were faced with the tariffs, and they dealt with the costs, and they showed me the machines that they were making some parts of their bike on. And, at one point, those machines were written in English, and then it turned to Chinese. And then the owners just decided to fold the company.

And so, I'd love to ask you, you know, how we put into place policies, trade policies, policies that allow us to compete economically with the CCP that don't disadvantage our small manufacturers. And I'm not trying to be insulting, because you're all amazing, and this has been brilliant. But none of you are small manufacturers. None of you have walked a day in their shoes.

And, Dr. Schmidt, you know, your -- your career trajectory and your contributions to technology and policy, and obviously your leadership of a big global tech company that decided not to sell into China, that decided not to have a presence in the CCP, is so noted.

China has a stunning lead in 37 out of 44 critical emerging technologies, according to a recently released Australian Strategic Policy Institute report. So, so noted to what we have heard Dr. Schmidt say over and over again tonight, that we need a plan, we need to determine the key technology areas that we want to compete in. And, if we're looking at broader industrial policy and the success of CHIPS and Science legislation -- I think we can call it a success, because \$52 billion to CHIP manufacturing in the United

States has already beget \$200 billion of private-sector contributions.

But, Dr. Schmidt, could you just help us think about, when you said in your testimony \$2 billion that we're spending right now in AI, and you're recommending \$32 billion -- what does that spend look like? What are you envisioning there?

Mr. Schmidt. There is plenty of money in the -- in the companies. There is not enough money in the universities and in the government and in the research labs. And that's where a lot of the innovation is going to happen.

So, as I mentioned, to do the work that I care about, these universities need data centers. They need new hardware. These are all American made, all that kind of stuff. But they need it.

And they can't -- it's -- when I was doing this stuff, it was, you know, three people, you know, and the dog. Today, you just can't do science that way. It just costs more money. It's more complicated. So, that's where the 2 to 32 billion comes. We benchmark that against the Chinese numbers, which were higher than that.

So, again, if you go back to the chairman's comments about the scale and the ranking member's comments about the competition and the level of investment in the STEM talent, our investment in these areas has to overcome the fact that they have many more people and more capital already. We're still winning, but they're coming.

Ms. Stevens. Yeah. And we don't need to do it, right, just because the CCP is doing it, we want to do it in our unique public-private partnership model of a way that then, what, begets more private-sector investment? Would that be --

Mr. Schmidt. Yeah. And, when Secretary Raimondo and I did a whole tour on the CHIPS Act --

Ms. Stevens. Yeah.

Mr. Schmidt. -- and one of the talking points we had was it will eventually result

in \$500 billion of capital for the 51 that were in the CHIPS Act. And I think we still think that that's true. We think that, when you build these systems, if you do it right, which the CHIPS Act did right, so thank you guys for passing it, you get such leverage from the private sector.

The genius in America -- we haven't spoken about this enough -- is that our deep capital markets, which these guys are much more experts, are real competitive advantages for our country, right? You can raise the capital. You can't do it in most of the other democratic countries.

Ms. Stevens. Yeah. We love that. Thank you.

And, with that, Mr. Chair, I yield back.

Appreciate you, Dr. Schmidt.

Chairman Gallagher. Expired.

Mr. Johnson?

Mr. Johnson. For Mr. Lighthizer, we've heard bipartisan compliments to you for USMCA tonight.

Are there any lessons that we would have learned from that experience that we could apply toward our allies in the Indo-Pacific?

Mr. Lighthizer. So are there things in U.S. -- is -- I guess the sort of notion is should we have a -- a free trade agreement with countries in the Indo-Pacific? Is that kind of the question?

Mr. Johnson. Yeah, or the nature of the negotiations. I mean, I'll admit I was a little surprised by your written and verbal testimony that you were skeptical of additional free trade agreements, particularly for countries that are already, you know, buying and selling a lot with us.

I mean, I get it with China. I mean, I understand a strategic decoupling. But,

when you're talking about our friends, I just kind of start with the very basic economic rule that voluntary transactions benefit both parties.

And so why not more trade with our friends in the southern globe?

Mr. Lighthizer. So -- so -- well, let me -- let me answer that. I'm not against more trade with them, but the underlying notion that you're going to get allegiance because you transfer more of your wealth to them, that's what I challenge. I -- I am not --

Mr. Johnson. Okay. So forget allegiance. I mean, let's not focus on allegiance. Let's focus on prosperity for both.

Mr. Lighthizer. So -- so, see, I just -- I'm a product of the 1960s, and I -- you know, the Beatles tell us you can't buy me love, and I don't think that transferring our wealth to these people is going to make them like us anymore.

Mr. Johnson. Okay.

Mr. Lighthizer. And --

Mr. Johnson. Okay. So forget --

Mr. Lighthizer. And the idea --

Mr. Johnson. No. Forget loyalty and allegiance. Let's just focus on -- I mean, you know, an economic rule is that voluntary transactions can enrich both parties.

Mr. Lighthizer. Of course.

Mr. Johnson. Couldn't America be stronger through additional free trade agreements with our allies?

Mr. Lighthizer. So -- so all right. Now you're talking about our allies as opposed to the other countries in the Indo-Pacific. So which allies would you have us -- I mean, I'm happy to analyze this. Tell me which one you're thinking of?

Mr. Johnson. Well, I mean, I think the work you did on the phase 1 deal for

Japan was highly regarded. I think it probably made us freer, safer, more prosperous. I would think we could add -- add to deals like that throughout the Indo-Pacific.

Mr. Lighthizer. So, if you're talking about countries like, you know, the TPP countries, with the exception really of Mexico and Canada and Japan -- you know, you're talking about Malaysia. You're talking about -- about Vietnam. I don't think -- take Vietnam as a classic example. Right now, our trade with Vietnam is approximately as follows, all right? Their GDP is \$400 billion. They're -- everything made in the whole country -- services, goods -- is \$400 billion.

They send something like 140 of that to us. So like 33 percent of every single thing that they do in Vietnam comes to the United States, and they have a trade surplus with us of \$100 billion.

I don't see how increasing that helps me at all. What I'm worried about -- so we're kind of balancing things. I -- number one, I don't think -- I thought -- I think, if you can buy love and respect, then we would have it with them right now. But they're making their decision about China for reasons unrelated to trade, right? They're making it because they've got an 800, you know, mile border and they've got this long history --

Mr. Johnson. Okay. Let's -- let's drill down, because --

Mr. Lighthizer. I'm not against trade with anyone. I just don't -- I don't want to give up additional access here and cost jobs in your home -- in your home State.

Mr. Johnson. Okay. But let's focus specifically on -- let's just do soybeans, because obviously that is important to south -- about 60 percent of our soybeans are exported. And, listen, soybeans are a big deal for American exporters. You know better than I do, sir. It's half --

Mr. Lighthizer. Nothing -- nothing bigger in agriculture.

Mr. Johnson. It's half of American ag exports.

Mr. Lighthizer. Yeah.

Mr. Johnson. And, in any given year, we're as likely as not to run an ag trade surplus, okay? So -- and you've done a lot for soybeans and market access, so thank you.

I hear from our producers all the time -- and I agree with them -- we don't want to be so dependent on China. Again, half of our soybeans go there.

But, then, if we're not going to sell them to China, we've got to sell them someplace. We can't eat that many beans here, and we're really, really good at growing them.

And so what other markets -- and, if we're not going to look to free trade agreements, you know, we're just going to get stuck with a whole pot load of beans.

Mr. Lighthizer. Well -- well -- so -- so this is a really good question, and I'm glad you asked it. I'm glad we had the exchange.

So, if you're saying -- first of all, I -- we can't overstate how important soybeans are. I mean, they really, really, really are important. And -- and so you say to yourself, country X, they won't let us sell our soybeans. Why not?

My -- my reaction is, instead of saying, Here, you can have a little bit of Milwaukee's jobs or Green Bay's jobs. Instead of saying that, I'd say, I've got an idea. Either take our soybeans, or I'm going to take back something that you have right now. You're on the -- you're into me for \$100 million. You're into me in the case of Malaysia for whatever, \$30 billion a year. Get rid of the barriers.

Now, soybeans -- and you know a lot more about soybeans than I do, but they tend to go to a few -- a few different places. And, when they didn't go to China, they tend to go to Europe, because Brazil's went to China. I mean, it's -- there aren't -- the market for soybeans is very complicated. It's important. It's complicated.

But, if there are barriers to soybean exports or pork or other agricultural products, my position always is -- and this is exactly what we did with Japan, because that was such a good point. What we said is, Listen, you have a pretty good deal. You're running a \$70 billion surplus, and we're defending you. Give us access.

And what did we get? We got a great deal. We got all of the TPP agriculture stuff, and it didn't really cost us anything.

Chairman Gallagher. If we --

Mr. Lighthizer. I didn't have to put --

Chairman Gallagher. -- could wrap it up.

Mr. Lighthizer. -- anybody out of work in Michigan to do it. So I -- that's just like another -- another approach.

But I -- this is -- this was fun.

Chairman Gallagher. Mr. Auchincloss?

Mr. Auchincloss. Thank you, Chairman.

And, to our superb witnesses, I've learned a lot both in your written testimony and oral today.

I certainly agree with an overarching theme of tonight, which is that the United States has built a rules-based order and welcomed China into it, and China responded by cheating, and we need to stop it. But tough statecraft should not devolve into zero-sum protectionism under the guise of industrial policy. And industrial policy is very popular right now.

To engineer American economic competitiveness, both Democrats and Republicans are proposing a bonanza of tariffs and bans on subsidies and regulatory self-dealing.

Industrial policy's able spokesman, Robert Atkinson, founder of the Information

Technology and Innovation Foundation, wrote last year that, quote, "It's time to end the stale argument about free markets versus industrial policy. We need both market-based policy for most of the economy and strategic industrial policy for select sectors."

That sounds very reasonable, very statesmanlike even, and many in Washington seem to agree these days, but I don't agree.

Mr. Atkinson envisions that a congressional joint strategic industry committee, in consultation with the Commerce Department and the National Security Council, will select which sectors are strategic, and then steer them in a feat of masterful technocracy.

What is more likely to happen, though, is that industries will divert money from their scientists and their engineers to their lobbyists and their lawyers, and Washington will be noisy with rent-seeking claims of criticality, and strategic signal will be drowned out. And that's even supposing that politicians could extract strategic signal at all.

In general, entrepreneurs are better than politicians at detecting and responding to signals of utility. Take, for example, the graphical processing unit, which I'm sure Dr. Schmidt knows more about than -- than anyone here. It truly is strategic technology in that it computes cutting-edge AI. The GPU was originally developed for video games a quarter of a century ago in American business.

American businesses excel at innovation, especially when sound policy keeps sectors competitive, not concentrated. And overall, despite worrisome concentration in some sectors over the last 30 years, the U.S. economy has been a dynamo. It has raised its share of G7 GDP from 40 percent to almost 60 percent while accounting for a quarter of global output at less than 5 percent of global population. And that quarter has been steady over the last 30 years despite China's rapid growth.

This strong growth was not ushered in by raising tariffs or leaning into a

bigger-than-neighbor approach. On the contrary, farsighted trade and aid policies helped build up powerhouse economic partners, like South Korea, whose President Congress recently welcomed as a key ally in U.S. competition with the Chinese Communist Party.

But now, too many in Washington want to step off this path and follow China's lead of command-and-control economics. Congress should instead double down on what the United States does best, by dedicating our economic competitiveness agenda to three industry agnostic imperatives.

First, we should launch a whole-of-society effort to ensure that every American elementary student from every walk of life scores proficient in math. Quality math instruction develops the brain's executive function, and early numeracy is instrumental, not only to later success in STEM, but also to literacy and to critical reasoning. Getting better at math promotes individual economic mobility and collective economic growth.

Second, we should double to 6 percent our national R&D intensity, which is the sum of public and private R&D as a percentage of GDP. And, Dr. Schmidt, you had this in your written testimony as well.

The 117th Congress and the Biden administration edged national R&D just above 3 percent, through funding and programs for clean energy and semiconductors, and those tax credits and sector-specific public goods and market-shaping mechanisms are all important tools that can be used surgically to address negative externalities, like pollution, and to unlock private investment.

But Congress really needs to prioritize basic science, curiosity driven, peer-reviewed research that the private sector won't fund and the public sector, for the last 50 years, has underfunded.

RPTR BRYANT

EDTR ZAMORA

[9:00 p.m.]

Mr. Auchincloss. We should start by fully appropriating for the \$170 billion science portion of the CHIPS and Science law that was authorized the next 10 years.

And finally, Congress should rally Federal, State, and local organs of government with carrots and sticks to achieve the number one score in the World Bank's Business Ready rankings, which includes measures of infrastructure, rule of law, and tax and regulatory burden.

A better business environment, more science funding, and stellar math education. As we used to say in the Marine Corps about infantry tactics, those three initiatives are simple, but they're not easy. They are also powerful.

If our education system can ensure that every American child is good at math, if our science industrial complex then invests in them to invent and inspire, and if our government makes it easy to bring those inventions to market, then we don't need to fear China's hold on the economic future. We can build it ourselves.

Dr. Schmidt, I want to invite you, perhaps in a written response, if that would be okay with you, to comment in particular on the national R&D intensity and what the United States Government could do for the bioeconomy in particular by making biological data more machine readable, what types of datasets are in demand by the private sector right now, and where there might be an unlock through public funding.

And on that, I will yield back. Unfortunately, do not have time to ask my questions.

Chairman Gallagher. And I'd be remiss if I didn't recognize that I believe the gentleman welcomed the birth of his third child on Friday, a baby girl named Audrey, so

congratulations.

[Applause.]

Mr. Auchincloss. My wife let me leave to come here for this hearing, so --

Chairman Gallagher. I was going to say the fact that you're here is remarkable and still married, so that's great.

Mrs. Steel.

Mrs. Steel. Thank you, Mr. Chairman, and thank you, Ranking Member, for hosting a hearing on Chinese Communist Party's economic aggression.

The CCP is determined to dominate critical supply chains through massive industrial subsidies, forced technology transfers, and intellectual property theft. United States trade and economic policies must align with our strategic goals to strengthen supply chains and reduce dependence on the CCP, while advancing standards and rules that serve our interests. One important area in this regard is American leadership on digital trade.

Ambassador Lighthizer, the CCP playbook on digital trade centers around censorship, forced data localization, and control of cross-border data flows. It seeks to export these practices to other countries around the world, because control of digital economy serves its malign influence.

At USTR, you negotiated the first-ever digital trade chapter in the United States-Canada-Mexico Agreement, as well as U.S.-Japan Digital Trade Agreement. Both agreements set a high standard for digital trade based on American standards.

Presently, there seems to be a lack of U.S. leadership on digital trade. Do you agree? How can the United States push back on the CCP playbook for digital trade in the Indo-Pacific region, especially as it relates to localization and data flows? Will American leadership in digital trade help our American small businesses expand into new

markets?

Mr. Lighthizer. Well, thank you for the comment and for the question. I think what we did in USMCA and in the Japan agreement were very important. And I think these technology issues are particularly significant.

My own sense is that, with respect to countries like China, you're never going to get any kind of an agreement on banning data localization, right? It's just, to me at least, a lost cause. And I think the same thing is probably true in Europe. I think Europe is always going to mandate localization.

I mean, I think continuing those kind of negotiations where it makes sense, we should do it. But as a general matter, the overall principle of banning requirements for data localization is one that we're just fundamentally not going to win, because it's in the hands of those countries, right, in the final -- so we have a valid principle.

And we certainly did it with respect to Canada and Mexico. We did it with respect to Japan. I would suggest maybe that those three countries are different than some of the other countries we're dealing with.

But I do think there's a lot that can be done in the area of digital trade. I think Congress has to be careful to make sure that it maintains its ability to regulate technology in the future, that we don't do something in these agreements that would prevent you from doing something that you thought necessary down the road. And I think there is some work being done on digital trade.

Mrs. Steel. Thank you.

And second question is, Dr. Schmidt, could you speak a little more to the CCP playbook on digital trade and how they craft rules and standards to export their model of the state-controlled digital economy and how important it is for the United States to be writing the digital rules of the road when the CCP is trying to pass us by and dominate

21st century technologies like artificial intelligence?

Mr. Schmidt. I think what happened with Huawei is instructive. So China has a subsidy program for purchasing things from China. For example, we'll pick an African country. And the Huawei products are cheaper than the globally -- the other global competitors anyway.

So you have an African country that is not particularly wealthy, and they ultimately make the Huawei choice for good economic reasons. As part of Huawei, they get a whole set of firewalls and censorship capabilities and services above it which are not representative of Western or American values. Some of the countries use it, some of them don't. But, more importantly, it also serves as a signal intelligence network for the Chinese.

The Chinese Government is very obsessed with Chinese foreign -- Chinese nationals who are in foreign countries. So there's lots of evidence of surveillance through these techniques and lots of aspects of SIGINT in general.

So there's a good example where the fact that there was not a globally competitive and relatively inexpensive and well-financed choice caused people -- country that they didn't want to buy it, they didn't buy all that other stuff, but they got it as part of the package. That's the threat.

So you can imagine, going back to what the ambassador said about how trade works. Imagine that, as more and more of this stuff from China gets embedded in all these other countries, it comes with all of these additions. And these additions are things that we would never allow.

Mrs. Steel. Thank you. My time is up. I yield back.

Chairman Gallagher. Mr. Torres.

Mr. Torres. Thank you, Mr. Chair.

America's competitive advantage over the rest of the world can be summed up in three Is:

First, investment. America's singular capacity for capital formation. The U.S. alone accounts for half of the world's capital. Second is immigration. America's singular ability to attract people and talent from across the globe to draw both our entrepreneurial and our essential workforce. And the third is innovation. America is a Nation of intrepid investors and immigrants who drive innovation.

As a country, we are in danger of squandering our greatest competitive advantages, advantages that the CCP could never dream of rivaling if we here in Congress build the political will necessary for unleashing the power of investment, immigration, and innovation to their fullest productive potential.

In the end, our greatest enemy is not the CCP. Our greatest enemy is ourselves. It is the deepening dysfunction and maddening myopia of a politics that prevents America from becoming the best version of itself. America at its best can outcompete any adversary anywhere, including the CCP. Simply put, the 21st century is ours to lose.

Dr. Schmidt, your team at SCSP points out that, in 1620, Francis Bacon, one of the fathers of science, identified three revolutionary technologies in his time: printing, gunpowder, and the compass.

In the spirit of Francis Bacon, Dr. Schmidt, tell us, what are the three most revolutionary technologies of our time; which country is leading in those three fields, the United States or China; and how do we win in those three fields. And please do not include soybeans from South Dakota in your answer, so --

Mr. Schmidt. Well, I'm a big soybean fan, so --

Mr. Johnson. I approve that message.

Mr. Schmidt. So there are many candidates for your answer, but I think a simple

list is quantum, AI, and biology.

Quantum because quantum is a whole new world of computation and communications and scale that is just beginning to be powerful. I would score us as somewhat ahead but not very far ahead. We might be even.

And as an example, what China has done, they launched a satellite which entangled essentially two photons that were entangled when they arrived on land 2,000 miles away, which is an extraordinary achievement. The U.S. has not done that yet. So that's of concern.

In AI, as I've mentioned, there's every reason to think that they are -- they have more people working on AI. They understand the strategic initiatives. The sanctions that were put in place have helped us, but I think that that's a temporary advantage.

And then in synthetic biology -- and there was a discussion about this earlier. And for all of you, you should understand that synthetic biology ultimately means that America will grow many of the things that we manufacture today. Growing them is obviously more energy efficient, it's more climate friendly, but it's also another interesting thing. We have an awful lot of biomass in our country, especially in the Midwest and the more rural States.

So here you have a technology which can revolutionize the job loss and the migration into cities by creating this enormously interesting set of industries in each of the States of our heartland. That is both a politically good thing for America, but it's a good economic choice. We need to win all three of those.

Mr. Torres. Who's winning in synthetic biology so far?

Mr. Schmidt. So far, I'd say we're slightly ahead.

Mr. Torres. So we're slightly ahead in quantum, slightly ahead in AI, slightly ahead in synthetic biology.

Mr. Schmidt. And when I say slightly, if I may, we're talking about a year or two, not very long.

Mr. Torres. Or some would say a few months with respect to AI.

Mr. Schmidt. Yeah. Depending on who you ask.

Mr. Torres. The Biden administration has put in place export controls that prevent the transfer of the most advanced semiconductors to the CCP. In response to those export controls, NVIDIA designed new chips specifically for China, H800.

Is the H800 sufficiently advanced to enable China to be competitive with the United States in AI?

Mr. Schmidt. So the H800 is not shipping yet, but the conventional wisdom is that you need three of them for every H100 that we're using.

So one way to understand it is that China will need three chips to one. And that's a fairly significant delay, because these chips are hard to install, hard to program and so forth. It's all very difficult stuff.

China has some other disadvantages in AI. One of the things that people don't understand is that innovation is a repetitive game. They've not been doing it enough; whereas, for example, in Taiwan in chips, they've been doing it so well they've really learned how to scale it.

And the third disadvantage that people don't appreciate with China is that we're training on English language and there's not as much Chinese language for them to learn from.

So those advantages I think are at least a few years of advantages. And I think that the current policy, which allows the H800, which is essentially network speed gapped, it's slower, is probably an acceptable compromise.

Chairman Gallagher. The gentleman's time has expired.

Mrs. Hinson.

Mrs. Hinson. All right. Well, thank you, Mr. Chairman, and to our ranking member. I appreciate you hosting this hearing tonight.

Not only do we have soybeans in Iowa, but we also have a quantum program at the University of Iowa. So I'd like to point that out. We have a lot of beans and quantum.

But thank you so much for joining us tonight, to our witnesses. You're helping us get at the core mission of our committee, which is really how do we counter the economic aggression coming from the CCP.

And we've heard a lot about the promises that China has made over the years. The CCP has wormed its way into international trade agreements, but a common theme across our hearings is really that this is an adversary that can't be trusted. And it's clear the CCP cares really about the CCP.

In our first hearing, we learned about the threat to our country and how they operate counter to our American values. In our second, we learned a lot about how they don't care about their own people and are exploiting slave labor. And now we're learning that they don't keep the promises that they make or the promises that they break.

So let me ask you all tonight -- and we're going to go kind of rapid-fire since I know we're short on time but -- about the commitments that we have heard from the CCP. And I'm going to address all three of you at the same time and so if you'd all answer.

But did China live up to their end of the Phase One trade agreement, particularly when it comes to imports of U.S. goods?

Mr. Lighthizer. No.

Mrs. Hinson. No.

Are we all in agreement here? That's a resounding no? Okay.

What about commitments on intellectual property rights and stopping rampant theft of American innovation, has the CCP lived up to those agreements?

Mr. Lighthizer. I would say no, but they have made an effort in certain areas, but --

Mrs. Hinson. But overall, you would say no?

Mr. Lighthizer. That is correct.

Mr. Schmidt. It has been reduced. The joke in the industry was that they'd already stolen everything. There was nothing left to steal. Sorry to make a joke about that.

Mrs. Hinson. It's sad, right?

Mr. Schmidt. But it's a sad joke.

Mrs. Hinson. Yeah.

Mr. Schmidt. But it is reduced, but it's still a problem.

Mrs. Hinson. And you agree, you agree with no?

Mr. Robinson. No.

Mrs. Hinson. Okay. What about trade agreements with U.S. and our allies, has the CCP historically lived up to those agreement, yes or no?

Mr. Lighthizer. So when you say trade agreements, you're really talking about the WTO, I guess, right, and the GATT? And I would just say no, and I'd drop a footnote down that says the USTR comes out with a 190-page report every year about all the various breaches.

Mrs. Hinson. Right. What we saw in the opening video, obviously, the narrative that was surrounding their addition to the WTO more than 20 years ago, and now we have seen the reality of that.

Can you provide some examples of maybe some of the other broken commitments from the CCP when it comes to trade, IP?

Mr. Lighthizer. So, as I say, there's a 190-page document on it. And there's numerous cases that over the years in various administrations, particularly the last three, where we brought WTO cases against them, there are access to various agricultural products. There are agricultural subsidies. There's financial services. There's the implementation of their trade laws.

I mean, there's -- and keep in mind that a lot of what we complain about that's bad that they're doing has nothing to do with trade agreements, right? This is the banking system, the labor system.

That's why I'm for overall tariffs, because I don't think you can play whack-a-mole and win this game. You're not going to win by saying, you stop this. They just do something else. But for sure, they haven't kept their commitments.

But the problem is far bigger than commitments they made. It's they have a system that needs to be -- that we need to take a step to balance the system, all of it.

Mrs. Hinson. Right. So when you look at the -- I guess the most-favored nation status, for example, things like that that we've given them, we can't trust a word the CCP says when it's making promises to us. So why should we continue to give them sweetheart deals like MFN, because I think that that obviously gives them an upper hand. We've given them these ways to get into our trade agreements and supercede us and cheat. So why should we continue to enable them to have that kind of a status is what, I think, I'd be looking at from a policy perspective.

Mr. Lighthizer. So, I mean, should we take back permanent normal trade relations? Absolutely. I was against it when we did it. It was obvious at that time it was a mistake. Of course, we should take it back, but you have to do more than that.

You also have to change the column two tariffs, because then they would go from MFN to column two. And column two are sort of higher tariffs, but there are some of those you'd have to change because they're -- you know, like, there's not a high enough tariff on automobiles. You'd have to make a modification there.

But, I mean, you know, I've been around Congress a long time. I've never had the -- no one would ever elect me to anything so I don't have to worry about that part of it. But I've been here as a staffer and the like. And it's just -- the Members that I talk to, I would think you have a vast majority of the Members of this current House that would vote to take back MFN and give higher tariffs to China, right? I mean, I just can't even imagine who the people -- there'd be a handful of people for whom this is a religion and there are people out there. They can have that. But I completely agree with you.

Mrs. Hinson. And I know my time is up, so, Mr. Chair, I yield back. And I look forward to continuing this discussion when we have more time. Thank you.

Chairman Gallagher. The gentlewoman's time is expired.

Ms. Brown.

Ms. Brown. Thank you, Mr. Chairman.

I want to begin by expressing my sincere appreciation to the witnesses for their testimonies and taking time to share their expertise.

Now, on this committee, we've explored a number of topics related to U.S. economic posturing, from the CCP's role in the genocide of Uyghur people to the United States' relationship with Taiwan and our global supply chain.

While we have spoken in depth about the roles of larger U.S. corporations, I'd like to circle back to what Rep. Stevens touched on, which is to discuss the roles of small- and medium-sized businesses within the supply networks.

So, Mr. Robinson, how are small businesses uniquely equipped to address

economic competitiveness? Specifically, how can these businesses provide solutions to diversify and harden the U.S. supply chains?

Mr. Robinson. It's really outside of my -- outside of my wheelhouse, to be honest with you. I've just been concentrating too much on the financial sector to have a good solid answer for you on that, I'm afraid.

Ms. Brown. Thank you.

Anybody else like to --

Mr. Lighthizer. Well, I would just -- and I'll be very quick, because I'm taking up -- so there's kind of -- when you talk about small business, there's manufacturers you would think of, and then there's the small business that's an importer, right? The small business importer is kind of in a different position.

But if you look at who was hurt most by the hollowing out of Americans' interest and these -- these -- it's the small manufacturers. It's these towns, where they have one company, and we all know them. You all have them in your district, and they have one company. And those -- that company or a bunch of them basically lost out because we had a trade policy. And part of it was NAFTA, but the biggest part of it was China. And those were the people that suffered the most. They were the ones that were incapable of making some kind of adjustment. What can they do?

So those small manufacturers are the ones we should be focusing on. And there's a lot of innovation and the like that comes out of those people, and in many cases they're the heart of their community.

Ms. Brown. That's right. Thank you.

Dr. Schmidt, what approaches can Congress take to boost America's manufacturing, other than imposing tariffs on imported goods?

Mr. Schmidt. I already mentioned the notion of smart manufacturing. And

there's a lot of evidence that onshoring and reshoring works when you're building more sophisticated, higher value-added products. Because having the manufacturing closer to the R&D center is a net benefit, because you have faster iteration.

So over and over again, I think the strongest part of our story is that we have integrated software and hardware designs, and we have the factories close together and they're very flexible. Think of this as CNC machines gone crazy, right? All of a sudden you have 3D printing, very, very sophisticated manufacturing.

I spend a fair amount of time visiting plants that do this in America, and they are making good money, right? So one way to think about the manufacturing question you ask is to reimagine manufacturing as the high value-added part, right? I'm not going to worry about the commodity part, but I'm extremely interested in having that stuff that's very sophisticated be built here. The salaries are higher. The gross margins are higher. It's American-branded. And it's a direct benefit from our capability of innovating in each category.

Ms. Brown. Thank you so much.

As I've expressed my work as the ranking member on the General Farm Commodities, Risk Management, and Horticulture Subcommittee, it is critical to support our Nation's farmers, especially the soybeans. I have also emphasized people that are hungry in schools, at work, and elsewhere are at a strategic disadvantage. In this regard, cuts to our Nation's food security programs could negatively affect our current and future Federal workforce.

Ambassador Lighthizer, please describe the correlation between human productivity and the satisfaction of fundamental needs.

Mr. Lighthizer. So I'm talking about the satisfaction of fundamental needs and productivity? I'm not much of a productivity expert, but I would say --

Chairman Gallagher. Microphone.

Mr. Lighthizer. I just turned it off.

So I would say, clearly, my focus all along was on working people, right? If you're not taking care of the fundamental needs of the working people, they're not going to be productive. I think it's just -- I mean, you're more of an expert on this, on the nutrition and all that side of it than I am. But, to me, if you're not taking care of the fundamental needs, you're not feeding them, you're not educating them, you're not making them learn about law and order and how the society is structured and how families operate, then you're losing the most important part of our productivity. It was one of the Ps someone was talking about, right?

Chairman Gallagher. People.

Mr. Lighthizer. It's one of the Ps. So I completely agree with that notion.

Ms. Brown. Thank you. My time is expired. Thank you, Mr. Chairman.

Chairman Gallagher. Mr. Gimenez.

Mr. Gimenez. Thank you, Mr. Chairman.

Mr. Johnson, the answer to your question what are we going to do with all those beans is simply America will produce more gas.

Now, on a more serious note, Ambassador Lighthizer, throughout history, communist and socialist regimes, such as the USSR, Czechoslovakia, Yugoslavia, Cuba, Venezuela, Bolivia, Romania, and Vietnam at one time or another, what they have done eventually is they've nationalized industries.

And so with the United States being so heavily invested and companies being so heavily invested in China and producing so much in China, what do you think is the likelihood that eventually American corporations and industry will be nationalized in Communist China?

Mr. Lighthizer. So this is U.S. businesses operating in -- so what they have tended to do -- I'll give you a good example. So you have like the Ball Corporation, which everyone knows about. And they make more beverage cans than anyone else. And if you go back to 2015, they made the most beverage cans in the United States and the most in China. And they had a joint venture partner. And over a period of time, the joint venture partners started their own companies, and then pretty soon all the market share goes to them. And now they sell zero and they pull out.

So it's kind of unnecessary to nationalize them. What you basically do is create a competitor, direct all the customers away from the U.S. company. What I say is, if you're a U.S. company, you're going to make as much money as they want you to make for as long as they want you to make it.

And you have all these people who sort of think it's different than that. All these businesses are kind of thinking -- you know, to me, it's like the movie *The Sting*, you know, like the big con. They make a few big hits and then pretty soon, bang, they go in there and they're out. And there's just one example after another.

Mr. Gimenez. Well, we have some companies that are really, really invested in -- one of them like a fruit company -- no, it's actually not a fruit company. It actually produces computers. It has a fruit in the front, okay?

Mr. Lighthizer. Oh, a cherry.

Mr. Gimenez. Which produces, what, 90 percent of their things, their iPhones, et cetera, over in China. Super invested.

I tend to -- I tend to think that if we somehow get into a conflict with China in Taiwan, the first thing they're going to do is they're going to nationalize American companies. Would you agree with that?

Mr. Lighthizer. You may be right. I mean, that particular company is in kind of

a unique circumstance for a lot of reasons.

Mr. Gimenez. So what would you advise these companies to do?

Mr. Lighthizer. I mean, look, there's -- you know, what does a company do? They kind of bought the big con. They're in there. A lot of them haven't even realized that they're involved in a con yet.

You see companies -- you know, I'll give you an example. Ford, which has made enormous investments, and they're not making any money and haven't made any money for years. You see some other auto companies were making a lot of money and now they're starting to make less money because the Chinese companies are taking over the market.

To me, in the things that I know about, I would say be very, very skeptical. Don't think you're smarter than a rigged game, because everybody thinks they are but nobody really is.

Mr. Gimenez. Is there something that we should do here in Congress to try to protect American investors, especially those who are in pension funds and mutual funds, et cetera, that are invested heavily in China, to try to start to protect their investment in the future, knowing or thinking that that may be an eventuality?

Mr. Robinson. I think so, yes. For example, we talked a little earlier about the fact that there are now Communist Party cells being forcibly inserted into the senior management structures of every Chinese company. But increasingly, we're starting to hear noises that that's also going to be the case with U.S. corporate operations in China itself. And it seems to me that that's not -- not on.

Look at JP -- the ones to watch are JPMorgan Chase, BlackRock, others that are going into China trying to have that holy grail of penetrating that market and selling the kind of services they do here, which has, of course, been restricted to date. Total lack of

reciprocity in every category in the financial sector, I can tell you right now.

But it seems to me, legislatively, that action can be taken there. For example, I would say that there could be a bill that would indicate that it's simply not going to be the case that U.S. operations domiciled in China are going to have a Communist Party cell successfully implemented in their senior management structure. If that's the case, then it's just over, period, and stop fooling around about this. Because, again, there comes a point where the relationship has deteriorated to such an extent, and we are seeing the true colors of our foremost adversary so vividly that it's time to take a stand on these kinds of things.

Mr. Gimenez. Thank you. My time is up. I yield back.

Chairman Gallagher. Thank you.

Mr. Banks.

Mr. Banks. Ambassador Lighthizer, I know you've already covered this, but I just want ask very simply, should Congress revoke China's permanent normal trade relations status?

Mr. Lighthizer. Yes, absolutely. And take the second step of reforming the column two, because there are some anomalies.

Mr. Banks. And what would that do to American manufacturing jobs if we did that?

Mr. Lighthizer. So, I mean, to me -- in the first place, you'd probably have to figure out some way to phase this or you'd have to think about the actual process you do it. But in my opinion, it would be one of the greatest things you could possibly do for American manufacturing. All these small companies would be in a completely different circumstance.

And it would also -- if you did it, it would also help our relationship with a lot of

those countries over there that you're worried about that you want to make friends with. It would have that effect.

And it would also, by the way, generate a fair amount of money. And that's money that you could use on your science programs and your -- and all the stuff that Dr. Schmidt has talked about.

So for me, it's like -- I don't know how anyone -- the only way you could decide not to do it is if you don't really think they're a threat. And anyone -- when I talk to someone who has studied it and doesn't believe they're such a serious threat, I'm always like, oh, you must have some investments over there. I get it.

Mr. Banks. What prevented us from repealing it during the Trump administration?

Mr. Lighthizer. Let me say, first of all, you know, these things are sort of all an evolution, right? Where we all are right now is not where we were 6 or 7 years ago. And that's in every case, right?

So should we have done it in that administration? My guess is we began the process of decoupling about as radically as you could have done it, as the system would tolerate. But we're past that now, right? We're like 6 years into it. We've got Democrats buying onto the same -- a Democrat administration buying onto the same basic policy as Republican administration. Now we should take the next step.

Mr. Banks. I totally agree.

Earlier this month, U.S. Ambassador to China, Nicholas Burns, denied that Beijing was contributing to the fentanyl crisis. Do you agree with that, Ambassador?

Mr. Lighthizer. I read that. It was just -- I can't even put into words my reaction.

Mr. Banks. What is your reaction? You can put it into gestures or --

Mr. Lighthizer. Think about this for a second. Here's a country that controls --

Mr. Banks. If I could just stop you. Fentanyl, the leading cause of death of Americans my age in this country today.

Mr. Lighthizer. 71,000 last year. I mean, more than Vietnam. I mean, and these are tens of billions of dollars of precursors being shipped to Mexico by the biggest company. It's not a bunch of banditos. These are the biggest companies in China, a country where everything is controlled.

I mean, everybody can draw their own conclusion. Can I prove anything? No. But, I mean, does anyone sit here and think that that's not -- look, here's their basic pitch. Their basic pitch is that America is gone. We should win, we Chinese, because America is -- they flat say that -- I put, you know, the quote in there -- that our days are gone, it's over.

And all these are ways that they're trying to prove it. Nudging up against our aircraft carriers; flying close to our other planes; circling Japan, not just Taiwan; selling fentanyl. These are all ways they're trying to demonstrate to the rest of the world that we're on the decline.

Mr. Banks. So you agree it's intentional?

Mr. Lighthizer. Well, I mean, I can't prove anything, but a rational person who knows that everything is under control -- if you think there's tens of billions of dollars of stuff seeping out of their system and the Communist Party doesn't know about it, that strikes me as unimaginable.

Mr. Banks. So can you give us an inside peek into Trump administration conversations about what you all did about it? Because it's so much worse today. What did you do to stop it then?

Mr. Lighthizer. So -- well, I don't know about inside. The President certainly

raised it a lot, and we had -- and once again, drug interdiction is like way beyond my area of -- and there were levels of cooperation and the like.

And maybe probably no one here really knows that much about -- you might know about drug interdiction, but there was like a process.

Mr. Banks. But there was something that you did. I mean, obviously it was part of the strategy.

Mr. Lighthizer. We certainly --

Mr. Banks. You put pressure on them to stop it.

Mr. Lighthizer. But it was a group other than me that was on the ground really worrying about it.

Mr. Banks. I got 25 seconds left. Mr. Robinson, I know you want to weigh in on that.

Mr. Robinson. Well, yeah. I mean, they're guilty as charged. Let's start there. And, you know, there are two questions you want to ask about these big chemical companies. And again, these weren't banditos, as it was stated. You want to ask are they publicly traded even in China? Because I can tell you, they can find their way into the portfolios of the American people.

So not only are we victims to these astronomic numbers of annual deaths, but we may be paying for it, because it's exactly this kind of thing.

And not only when they're publicly traded. The second step that Members of Congress should be taking routinely is, again, one, are they publicly traded? Two, who's holding their securities? What index funds? What asset managers and exchange-traded funds and mutual funds? Because that's where the insult to injury hits so hard, that we're picking up that tab.

Mr. Banks. It's past the chairman's bedtime. I yield back.

Chairman Gallagher. That's true.

Mr. Barr is recognized for 5 minutes.

Mr. Barr. Thank you, Mr. Chairman.

And, Mr. Robinson, I think you framed the problem very persuasively and the solution also in your testimony, and it bears repeating. Quote: Capital market sanctions are Beijing's single greatest nonmilitary fear because the CCP knows that it is predominantly about the money, access to trillions of dollars of American funds under management.

Mr. Robinson, we've talked about our bill. We've discussed my legislation, the Chinese Military and Surveillance Company Sanctions Act, which applies full SDN sanctions on specific companies on four specific U.S. Government lists: the DOD 1260H list, military companies, Chinese military companies; Treasury's NS-CMIC, Chinese Military-Industrial Complex Companies List; Commerce's Entity List, and Military End User List. These are all companies that have ties to Chinese military and surveillance state.

In your view, does this approach provide the American private sector who have dealings with China with sufficient clarity, precision, and certainty about which Chinese businesses they may do business with and which Chinese businesses they may not do business with? And specifically. I'm talking about the American index aggregators, American asset managers, the mutual funds, and the ETFs.

Mr. Robinson. Thank you for the question. Wall Street firms have made very plain, including publicly, that if it's not illegal, they're going to do it. Human rights abuses are somebody else's problem. National security concerns are, again, somebody else's job. Our job is returns and sort of that very focused narrow mindset.

So fine, okay. Then let's give them clarity on the law. And this -- your bill, proposed bill, does so in the sense that, after all, they're looking for predictability.

They're looking for the guidance. They're not going to lead. They're going to follow. And, indeed, they're not going to even do things that we would consider sensible from their corporate reputation and brand point of view.

I mean, imagine asset managers that are household names that are willing to absorb the risk of being called aiders and abettors of genocide and forced labor and the like.

Mr. Barr. So, Mr. Robinson, just to reclaim, full SDN sanctions. That means no listing on U.S. exchanges, no equity, no debt, no VC, no private equity. Red light on those companies, very precise, identify them. Green light on everything else. Is that the clarity that U.S. investors need?

Mr. Robinson. I believe it is. And after all, these are U.S.-sanctioned entities. Let's start there. I mean, again, if we want to talk about low-hanging fruit as to how we go about trying to lower radically the American risk exposure to particularly the bad actors in China's corporate world, this is a very good place to start.

Mr. Barr. The bill also requires the various agencies -- Treasury, Commerce, and DOD -- to harmonize these lists, to cross-reference these as to coordinate. How important is that?

Mr. Robinson. Well, it's terribly important, because right now, you know, for example, we had 1,260 companies not so long ago on the Commerce Department Entity List, right? And they're prohibited, or supposed to be prohibited, from receiving American equipment and technology because of egregious national security and human rights abuses, right?

Do you know how many of those 1,260 are also on the NS-CMIC list, meaning, a fancy way of saying Treasury's OFAC list that actually impedes them from raising money from unwitting American retail investors? You know how many? Sixteen. Now, does

that sound serious to you, 16 out of this kind of number?

Mr. Barr. Finally, speak to, Mr. Robinson, the multilateral effect of OFAC sanctions. In other words, when OFAC sanctions these Chinese entities, what signal does that send to non-U.S. investors in these companies?

Mr. Robinson. Oh, well, it's clearly the kind of signal that others can read and understand. I mean, the U.S. capital markets are roughly the size of the rest of the world's combined.

There is no going elsewhere if you're China, by the way. We so utterly dominate the global financial domain on this planet, it's not even funny. I mean, you talked about 50. My number is 60 percent of the world's investable capital and, as I say, the world's reserve currency and so forth. This is our major competitive advantage we have today.

And so the signal that it sends, to answer your question, is one of fear and concern. And guess what, it's fear that communicates to our allies more than cajoling and persuasion.

Mr. Barr. Thank you. I yield.

Chairman Gallagher. Thank you.

Before we close, a few logistical notes. As soon as we have the topics of our June and July hearing, we will let you know. We're waiting on a response from the administration for some requests.

These hearings may not all be at night. The night hearing I like, not as a media play. I know Ms. Sherrill has strong views on that. It's remarkable you all don't agree on everything.

Mr. Torres. We all agree we like soybeans.

Chairman Gallagher. Exactly. But the night hearings have the added benefit of having many people stay here and not competing with your time for a thousand other

hearings that are happening simultaneously.

Those coming on the U.K. trip tomorrow, remember the bus leaves very promptly. We have to get to the airport very quickly. Operation Cannonball Run is in effect.

Next week, at 9:30 on Wednesday, I believe, we're going to have our first business meeting, which will be the first test of our policy endorsement process. This should be the easy stuff. And if we can figure it out, we will then move on to the hard stuff, and the hard stuff is what we talked about here tonight.

We were very fortunate to have amazing testimony from three expert witnesses to help us think through the complexities of our economic competition with the Chinese Communist Party and how we better defend ourselves from CCP aggression.

Your written testimony is fantastic, in addition to what we've heard from you directly here tonight, so we're going to continue to pore over it in the weeks and months to come. We will take you up on your offer to be a sounding board for the committee and follow up as we test various ideas. And we're hoping to arrive at a framework for derisking or decoupling, three Ps, three Is, whatever we're calling it, that is strong, smart, bipartisan. And so I thank you all for your time, for your expertise.

I remind members that questions for the record are due 1 week from today, on May 24th, and your staff will receive submission instructions shortly.

Without objection, the committee hearing is adjourned.

[Whereupon, at 9:42 p.m., the committee was adjourned.]