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RISKY BUSINESS: GROWING PERIL FOR

AMERICAN COMPANIES IN CHINA

Thursday, July 13, 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 6:59 p.m., in Room 390, Cannon House Office Building, Hon. Mike Gallagher [chairman of the committee] presiding.

Chairman Gallagher. The select committee will come to order.

When we talk about doing business in China, we use words like "private company," "law," "ownership," "rights" as though they mean the same thing in the PRC as they do in the United States. But the reality is, these words have a completely different meaning to the Chinese Communist Party. I'd submit there's no such thing as a "private company" in China.

A raft of legislation, like the updated Counter Espionage Law, the Data Security Law, the Anti-Foreign Sanctions Law, has codified what was always true: Beijing reserves the right to swipe any data, seize any assets, and filch any IP that it wishes.

The government often mandates the creation of CCP cells inside firms, and China's Military-Civil Fusion policy means any private company can effectively be turned into an arm of the PLA or a communist intelligence apparatus.

Many Americans, for example, believe they "own" Chinese stock in their retirement plans and pensions, but they don't own anything. What they often hold instead are claims on VIEs, or Variable Interest Entities, that give none of the traditional control of corporate governance or claim on assets as real equity ownership. VIEs are, at best, just side bets at a CCP-run casino.

As for the words "law" and "rights," just look at the news. Corporate executives like Jack Ma and Bao Fan, who run afoul of the party, disappear for unexplained reasons. Beijing is choking off access to all types of economic and corporate data, making a farce of the obligations fiduciaries have to their clients.

And in just the last few months, three firms, Minsk, Bain, and Capvision, have been raided, reportedly for engaging in routine due diligence and corporate research.

Clearly, the CCP considers sunlight and accurate business information in the hands

of foreign companies operating in the PRC to be threats to its continued rule.

Every foreign business that enters into China takes on a sometimes silent, sometimes not-so-silent business partner -- the Chinese Communist Party -- the same party that is committing genocide against the Uyghur people in Xinjiang, that has shattered international agreements around Hong Kong, attempted to erase the culture of Tibetans, militarize the South China Sea, and threatens to upset the fragile peace in the Taiwan Strait on a near daily basis.

It's time for American corporate executives to take off the golden blindfolds and stare with clear eyes at the growing peril of doing business in China.

I'd like to introduce a video message from long-time China researcher Peter Humphrey with a firsthand account of just how risky business in the PRC can be. Without objection, the video will be added to the record. And the clerk will play the video.

[Video played.]

Chairman Gallagher. I now recognize the ranking member, the pride of Illinois, Raja Krishnamoorthi, for his opening statement.

[The statement of Chairman Gallagher follows:]

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Mr. Krishnamoorthi. Good evening, and thank you, Mr. Chair.

For more than 50 years, the U.S. has welcomed the PRC into the global economy. We agreed to the PRC's entry into the World Trade Organization. American companies invested billions in the PRC, and we granted the PRC permanent normal trade relation status. The whole time, we were promised fair access to a new Chinese market that would transform American companies and provide new opportunities for American workers.

And while the Chinese Communist Party, the CCP, has allowed some American companies in, they have pursued an aggressive strategy that includes forced technology transfer, large-scale and state-sanctioned theft of U.S. intellectual property, cyber espionage, and economic coercion.

Forced technology transfer, or the requirement that U.S. companies share their tech with PRC companies, is a primary tactic of IP theft, according to research by the U.S. Trade Representative. One example has been in the auto industry, where U.S. companies typically cannot enter the PRC market unless they partner with a PRC company.

According to the USTR, new CCP rules issued in 2017 require foreign auto makers transfer key technologies to the PRC company so that the PRC can demonstrate, quote/unquote, "mastery of the technologies needed to manufacture vehicles." The CCP has used that mastery to now become the world's top auto exporter as of this year.

According to the FBI, the annual cost to the U.S. economy from IP theft alone is potentially as high as \$600 billion. In fact, cyber operations by just one CCP-affiliated actor, called APT41, is estimated to have taken billions in IP theft from multiple sectors of the economy.

FBI Director Chris Wray said last year that the CCP has a bigger hacking program than that of every other major nation combined, and according to CrowdStrike, CCP-affiliated actors are responsible for 67 percent of state-sponsored cyber attacks. Because of that threat, the FBI opens up a new CCP counterintelligence operation every 12 hours.

Most recently, we have seen new headlines shining a light on raids of American firms, the detention of their staff, and exit bans on employees, meaning they cannot leave China.

These challenges to American companies and workers operating in the PRC have escalated to the point where just last month, the U.S. State Department issued a travel advisory to Americans traveling to China, citing the, quote, "arbitrary enforcement of local laws, including in relation to exit bans and the risk of wrongful detentions."

These are all examples of the risks of doing business in the PRC.

Let's be clear. America asked only for a fair competition, but that competition has not yet happened. When Chairman Xi Jinping says, quote, "Our struggle with Western countries is irreconcilable," close quote, and that he sees long-term cooperation with countries like the U.S. as the first stage in, quote, "capitalism's ultimate withering away," he signals potentially ominous intentions toward foreign competitors.

When Xi talks about forging, quote/unquote, "assassin's mace technologies to tighten international production chains' dependence on China," it appears he's looking for China not to just merely excel in those technologies, but for China to acquire economic coercive power relative to other countries.

Tonight, you'll hear more about these practices by the CCP. But it's up to us to go beyond shining a light on them to actually offer a better alternative here in America.

American businesses and investors increasingly face a choice: Do we invest

more of our capital, our supply chains, and our futures in the CCP, or do we invest more in America? To me, the choice is clear. It's time to invest more in America.

We've made notable progress through bills like the bipartisan CHIPS and Science Act, but there's still more work to do. I look forward to working with my colleagues on both sides of the aisle to get this done.

Thank you, and 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 wishes to submit a statement for the record, without objection, those statements will be added to the record.

We are very privileged tonight to have three incredible witnesses.

Ms. Piper Lounsbury is the chief research and development officer at Strategy Risks. Ms. Lounsbury has seen the seedy underbelly of business in the PRC as executive director of United Technologies and in leadership roles at Boeing and the U.S.-China Business Council, and she will help us understand the labyrinth of risks that U.S. businesses must navigate in China.

Mr. Shehzad Qazi will help us pull back the veil on the PRC's control and manipulation of data. Mr. Qazi is chief operating officer and the managing director of China Beige Book International, which provides propriety data services to U.S. investors and corporations. He oversees product innovation, client services, new business acquisition, and corporate strategy.

And Mr. Desmond Shum is the author of -- can I borrow this, Raja? -- "Red Roulette:" -- the ranking member actually had it with him, I have to give him credit -- "An Insider's Story of Wealth, Power, Corruption and Vengeance in Today's China," a New York Times bestselling book, as this book details he and his then wife built a powerful business empire in the PRC before she vanished from the streets of Beijing in 2017.

Mr. Shum, we are grateful to have you here today. Thank you very much.

Welcome to all of you.

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

[Witnesses sworn.]

Chairman Gallagher. You may be seated.

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

Thank you all.

Ms. Lounsbury, you are recognized for your opening remarks.



**TESTIMONY OF MS. PIPER LOUNSBURY, CHIEF RESEARCH AND DEVELOPMENT OFFICER,  
STRATEGY RISKS; MR. SHEHZAD QAZI, CHIEF OPERATING OFFICER AND MANAGING  
DIRECTOR, CHINA BEIGE BOOK INTERNATIONAL; AND MR. DESMOND SHUM, AUTHOR  
OF "RED ROULETTE: AN INSIDER'S STORY OF WEALTH, POWER, CORRUPTION AND  
VENGEANCE IN TODAY'S CHINA"**

**TESTIMONY OF PIPER LOUNSBURY**

Ms. Lounsbury. Chairman Gallagher, Ranking Member Krishnamoorthi, and distinguished members of the select committee, thanks so much for inviting me here today to testify on the day-to-day risks and challenges facing U.S. companies in China.

I've worked at U.S.-China businesses for nearly 30 years and lived and worked in Beijing for 10 years.

I'm not here today to make any value judgments on the Communist Party of China, which I call the CPC in direct translation from [speaking foreign language.] But I am here to discuss how the party creates a dangerous business risk environment for U.S. companies, their customers, and, frankly, the entire U.S. population.

Like me, many executives with decades of experience trying to work in China have begun to realize that the party's goals are structured to promote Beijing's stated objectives to eventually replace American firms and businesses while using them or subjugating them in the near term.

To achieve their goal, the party has created a set of national development strategies, which rely on theft, coercion, merger-enabled access to U.S. technologies, intellectual property, and data. And also, shareholders and investors remain unaware or

choose not to look at the extent to which these practices exist.

Since China is now the second-largest country in the world by nominal GDP, I think American CEOs are increasingly concerned about the risk, now more than ever before.

I can share a few examples of my own experience encountering risk from what I hear from companies, what I've experienced in my 10 years in Beijing. You'll see more in my written remarks, but in the interest of time, one example.

A PRC mayor of a high-profile megacity actually demanded a Fortune 100 American CEO release its latest tech to its Chinese partner or the American firm would lose PRC market access for its other businesses in China. That's a direct threat.

In another case, a U.S. company's local JV partner blatantly stole IP from its U.S. partner to establish a local state-funded competitor factory right across the street, taking not only the IP, but also the U.S. firm's marketing and distribution networks, and made it nearly impossible for the U.S. company to exit the joint venture.

I have another example or two in my written testimony. Wrongful death, blaming it on a U.S. firm, in exchange for a payoff. I mean, the extortion and coercion goes on.

So I think that the risks are intensifying. And, of course, you've talked, Mr. Chairman, of the issues now in the last few months of PRC authorities now charging any domestic or foreign businessperson with espionage simply for providing any services, using PRC information to grant to or give to third-country-based customers.

I would just say that the crackdown on consulting businesses, the enhanced data secrecy laws, and the flow of PRC information just highlight the negative symmetry that we have with China. This means that companies now can't even do due diligence in advance of any sort of business transaction.

There's also this personal information protection law that basically makes it

unable for customers to send data to headquarters, and that means that an auto company can't even track and trace its quality data coming in without problems or safety concerns and system upgrades. All of that is prohibited.

So I guess the other thing is the personal information of Americans and USA allies, including the biometrics and secure ID information, on the other hand, is being absorbed by the Communist Party, the PRC. So our information is going to them, and their information is not coming to us. It's a complete asymmetry.

I think one thing I'm concerned with and hope that you will consider is the identity technology service providers that we are using here in this country have supply chain or manufacturing components or partners that are affiliated with the Chinese Communist Party. And I would highly recommend that we look at how do we manage due diligence on making sure that our personal information and biometrics are safely secured.

I have a number of recommendations that are outlined in my written testimony.

I'd like to just basically finish up quickly to say that you all could really help Americans try to recognize better the party's touch on each of our components, our supply chain, all the way up -- various tiers of supply chain, making sure that we have access to those types of tools to do that type of vector search.

Also to create some incentives for U.S. -- American supply chain reshoring, not only with tax incentives, but also to consider some purchase credits, incentives to promote supply chain resilience among other firms.

Finally, to target more generic negative practices and behaviors of the PRC versus targeting specific enterprises or named programs.

And then, finally, finding ways to collect and protect USA data information from the PRC's global data monopoly behavior, which has created a tremendous asymmetry that must take more attention.

Thank you very much.

[The testimony of Ms. Lounsbury follows:]

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Chairman Gallagher. Thank you.

Mr. Qazi, you are now recognized for 5 minutes.

## **TESTIMONY OF SHEHZAD QAZI**

Mr. Qazi. Chairman Gallagher, Ranking Member Krishnamoorthi, and members of the select committee, good evening, and thank you for the opportunity to testify here today.

The Chinese economy is a notorious black box. Its official economic statistics are widely understood to be unreliable and often manipulated. Worse yet, the information environment inside China has become increasingly constrained over the last decade. Censorship, especially of economic data, has risen.

Beijing has forced out foreign journalists from the country, and it has also asserted greater control over the sources and flow of information critical for businesses and investors in gauging true economic conditions inside the country.

For example, as reporting by the Financial Times has shown, in the last decade over 60,000 economic indicators once published by the Chinese Government have been discontinued. This list infamously includes the Guangdong Purchasing Managers Index, which the central government banned in 2018 once the gauge began showing that U.S. trade tariffs were indeed hurting China.

Moreover, the independent economic tracking landscape in China has also changed drastically during this time. As I detail in my written testimony, several private economic data services have been ordered shut by Beijing or taken over by government-affiliated entities. China's 2021 data security and 2023 anti-espionage laws

have only made matters worse since.

China's clampdown on foreigners' access to information on its economy and its policies reached a crescendo this year when it shut off access to the Wind platform, which is considered to be China's version of the Bloomberg Terminal, shut it off to foreigners, while Beijing also began aggressively targeting firms involved in due diligence activities.

The cumulative result of these decisions and events is that China, and particularly China's economy, is more of an information black hole today than at any point since its accession to the World Trade Organization in 2001.

This increasingly hazy information terrain comes with the continued challenge of the PRC publishing economic data, especially during times of economic and political stress over the last 3 years, that are simply inflated or otherwise manipulated, making it virtually impossible for outsiders to discern true economic conditions on the ground.

For example, in 2020, China claimed a robust economic recovery after suffering a historic downturn earlier in the year. But as explained at length in my written statement, China's statistical authorities created this illusion of strength by simply deflating baseline 2019 numbers. Nearly 7 trillion yuan -- about 1 trillion U.S. dollars -- worth of economic activity was just erased from 2019 statistics to show growth in 2020.

The challenge of separating truth from fiction in China is made tougher by yet another entity -- Wall Street -- whose China economic analysis is based almost exclusively on official data, making it a loudspeaker for Beijing's economic and often political propaganda.

For example, Beijing's falsified claims of a V-shaped recovery in 2020 that I just described to you were carried far and wide by the research arms of investment banks who simply turned a blind eye toward the serious manipulation in China's official

numbers and, like Chinese Government officials, repeatedly claimed that China had indeed achieved victory over the virus and accomplished a strong economic recovery.

An even more widespread and pernicious issue than investment banks simply reproducing the PRC's economic propaganda is the banks engaging in self-censorship to please Beijing and to protect their business interests in China. This typically prevents the banks, then, from publishing any views seen as critical of the Chinese economy, the Communist Party, or the party's economic policies.

The most damaging publicly known instance of such a practice came last year when it was revealed that J.P. Morgan had censored an analyst's report where he referred to a basket of Chinese technology stocks as, quote/unquote, "uninvestable." It turned out this rating was only seen by the outside world as a result of a copy editing error because the bank's content reviewers simply missed it in a few place.

In the aftermath, J.P. Morgan was swiftly removed from an upcoming IPO deal. And then, in what can only be described as a naked instance of pay-to-play, a mere 2 months later the bank decided to upgrade the very stocks it had just called uninvestable.

The record shows that Wall Street's views on China are filtered through Beijing's political calculus and subject to its red lines, preventing it from honestly discussing China's economic and political challenges or the prospects of its companies.

This carries very serious implications, obviously, for American investors and corporations that operate in China. But I think it's very crucial to point out that, look, Wall Street sets the public narrative on China because its analysis is quoted endlessly in major newspapers and covered across major global media networks. And therefore Beijing's fuzzy statistics, if you will, get a stamp of reliability from investment banks and invariably dictate the view of China's economy held by millions of people in the U.S. and across the Western world.

In my written statement, I recommended certain steps that can be taken by the select committee and Congress to address this. I suggest that we start by getting Wall Street CEOs to appear before this committee and other committees and answer for the longstanding concerns around their China businesses.

Thank you.

[The testimony of Mr. Qazi follows:]

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Chairman Gallagher. Thank you, sir.

And now a graduate of University of Wisconsin-Madison.

Mr. Shum, you're recognized for 5 minutes.

#### **TESTIMONY OF DESMOND SHUM**

Mr. Shum. Thank you, Chairman Gallagher, Ranking Member Krishnamoorthi, and distinguished members of the select committee, for the opportunity to appear before you today.

I would like to recount three personal stories that illustrate the essence of doing business in China.

In the summer of 1990, when I was a college student at the University of Wisconsin, I worked as an intern for my father at Tyson Foods. His mandate was to sell American chicken products into China.

His business took a hit that summer. It was not because American chicken became too expensive or the taste was no longer good for the Chinese consumer. It was because U.S.-China relations were running into difficulties.

The Chinese customs authority suddenly found issues with Tyson's customs duty. My father told me, with resignation, that whenever U.S.-China relations have a tough patch, American chicken would not be good chicken.

The CCP sees American businesses in China as hostages to be used for its own purpose. That was my first lesson of China business: Rules of the game are whatever the party says what they are at that moment.

My second story. In 1997, working for an American private equity firm, I

invested in a company that was building China's internet network. It was subsequently the first NASDAQ-listed Chinese technology company. That was when I first heard of Huawei.

Huawei started its meteoric rise because state-owned telecom companies were ordered by the Chinese Government to procure from local manufacturers exclusively, in exclusion of international telecom equipment providers.

During that period, I also visited the office of AT&T in Beijing. They were planning to get into the telecom service market in China, as that was promised by the Chinese Government in its WTO agreement. After 20-some years, there's not a single foreign telecom company operating in China today because the promise to open the telecom market was never fulfilled.

My lesson: In China, there's no such a thing as a level playing field. You either prosper when favored by the state or you perish when you are not.

Armed with the wisdom from those lessons, and together with my then wife Whitney Duan, we managed to become business partners of now ex-Premier Wen Jiabao's family.

This is my third and last story, a personally very sad and bleak one.

In September 2017, Whitney was disappeared by the CCP state. For 4 years, no one heard from her, not her parents, not I, not our children. Her phone number became deactivated.

Whitney's mother, until her death in June 2021, had made a habit of calling her daughter every day, refusing to give up hope that one day Whitney may answer the phone. But her wish was never granted. She passed away not knowing whether her daughter was alive or dead.

Whitney was never charged with any crime, and no reason was ever given for her

disappearance. As a matter of fact, the CCP state has never even acknowledged that it has taken her. I assumed her disappearance was because of the shifting landscape with the rise of Xi Jinping.

She only reappeared on the eve of publication of my memoir, "Red Roulette." She called me from the same phone number that had been deactivated for 4 years to ask me to cancel the book release.

Moral of the story: Political power trumps everything else in China. There is no rule of law. Instead, China is rule by law. The CCP is above the law in China, and Xi Jinping is the modern-day emperor on top of the CCP and the state.

Last but most importantly, I would stress the importance of safeguarding American economic interests in this competition with CCP China. One needs to make a clear distinction between corporate interests and national interests. What's good for corporate America is good for America is a myth that's proven to be questionable.

Corporate management, as capitalism dictates, is driven by self-interest and short term in nature. The deindustrialization of America and the wholesale relocation of supply chains to China in the past decade are a testament to that.

In democratic societies and countries, elected officials should be the true guardians of national interests and the long-term well-being of its people. I believe it is very important to keep that in mind when you are presented with advocacy of reengagement/rapprochement from corporate executives.

I believe economic interest is national interest. Defending American economic interests and American leadership in the global economy is defending the economic order of the democratic world.

Thank you.

[The testimony of Mr. Shum follows:]

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Chairman Gallagher. Right on the money, 5 minutes. That's good University of Wisconsin discipline right there.

I now recognize myself for 5 minutes.

Ms. Lounsbury, your testimony is incredibly detailed. It's filled with a ton of very constructive recommendations. I very much appreciate that.

In one part, you advise Congress to address the adverse behaviors and practices of the PRC rather than just the bad actions of specific entities.

Piece out that argument for me a little bit, if you would. And what does it mean in terms of the specific disclosure requirements that we should put in place so that Americans can better understand the broader risk of doing business with the PRC as opposed to just specific bad actors.

Ms. Lounsbury. Thank you for your question.

I think, in general, it's not just one company, as a U.S. subsidiary or U.S.-registered affiliate of a traditional Chinese company, that needs to be targeted. It's the entire practice of having Chinese subsidiaries. All of them are somehow affiliated to the party.

So you can't really say -- and I know Lighthizer said this as well, and you in your opening remarks -- that a company is an American company that is private and removed from its original founder located in China. There's no such thing. We've looked at TikTok, and you've looked, obviously, at other Chinese companies, Weixin or Tencent as well.

But it's the overall, I would say, octopus arms of these subsidiaries that needs to be further scrutinized. And the, again, tools and methods to ensure that the entire, I would say, relationship structure is audited and considered, that needs to be clearer.

Chairman Gallagher. Last year, the Public Company Accounting Oversight Board

came to an agreement with the PRC to allow Chinese auditing firms to conduct due diligence on Chinese firms whose securities are traded in the U.S. But when they reviewed the quality of PRC audits, the audits failed across the board.

Is it fair, in your opinion, to say that American firms that want to list in the U.S. go through more rigorous due diligence and regulatory compliance than PRC firms do?

Ms. Lounsbury. In my experience working and talking to American companies from within China -- and I will say this -- even the big four Western company accounting firms are actually run like franchises. They're not held to the same standards as the headquarter. And I have experienced a difference.

So while it's fine to say that that branding or oversight of U.S. companies versus Chinese companies is safe and secure because of a brand name, the structure of those business organizations is quite different and, I think, needs closer scrutiny.

Chairman Gallagher. Mr. Qazi, you're basically saying to us that we can't trust data coming out of the PRC, right? At no point since China's accession to the WTO can we trust data less than at the present moment, correct?

Mr. Qazi. Correct.

Chairman Gallagher. So if we can't trust PRC data, but U.S. banks continue to rely on it, does that in and of itself pose a systemic risk to our financial system and our economy?

Mr. Qazi. It absolutely can. I mean, you see with what happened over the last few years where Chinese equities just got absolutely hammered because of the tech crackdowns, of course everything that's happened in the economy.

But most of the stories coming out of the investment banks were always rosy. Beijing is about to become pragmatic. Tech crackdowns are about to come to an end. Don't worry, there is going to be a stimulus. The economy is looking really great. You

name it. But it's all based on just guesswork and really bad data.

Chairman Gallagher. What should we then do -- or what should the SEC and other financial regulators do to address and diminish this systemic risk?

Mr. Qazi. Yeah. I think the first thing is we need to figure out on what basis the banks -- we need to first, I think, give the SEC the tools to establish higher standards for research and all of that, as I discussed. I think we can treat data, official government data coming from the PRC, as if it were just any other country, like the Census Bureau data we produce or something else. So we need to, first of all, make sure that's not being done.

And I think -- look, we need to ask the banks: On what basis are you going out there and making recommendations about different investments and specific companies or specific sectors when you can't trust the numbers they are utilizing?

Chairman Gallagher. And then quickly, Mr. Shum, since I'm running out of time, if we -- Mr. Qazi wants us to bring all the major asset managers in front of the committee -- I suspect they're not going to be eager to come -- and ask them some questions. I suspect they would also disagree with your analysis that China is no longer a good place for long-term investment.

What aren't they seeing? Or is it willful ignorance on their part?

Mr. Shum. Well, I think one of it is a lot of them now in the last few years have been investing into China, setting up companies in China, and they are raising money in China. And then the CIC, the China Investment Corp, the state-owned essentially central investment fund, has been investing into many different companies with those funds. So they, in a way, their hands are tied. They have conflict of interest.

Chairman Gallagher. Mr. Krishnamoorthi is now recognized.

Mr. Krishnamoorthi. Thank you. Thank you, Mr. Chair.

Good evening, everybody.

Mr. Shum, here's a very nice picture of you, your son Ariston, and your former wife Whitney. And Whitney, by some accounts, was the richest businesswoman in China. And in 2017, the CCP took her hostage after Xi Jinping came to power and purged his opponents. Isn't that right?

Mr. Shum. That's right.

Mr. Krishnamoorthi. In your book "Red Roulette," you expose widespread coercion and corruption associated with doing business in China, and so the CCP tried to stop you from publishing this book. And the way that they did it is they basically had Whitney call you on the eve of publication in 2021 and hinted that you or your son Ariston's safety was in danger. Isn't that right?

Mr. Shum. That's right.

Mr. Krishnamoorthi. Let's dive a little bit into why the CCP wanted to silence you.

In your book, you recounted an argument with Whitney where she wanted to keep investing in China, but you wanted to invest outside of China. In fact, you wrote, quote, "The party thinks nothing of confiscating property. What the party gives, it can take away."

Mr. Shum, obviously your wife was arbitrarily seized in 2017. But if you fall on the wrong side of the CCP, your assets can be arbitrarily seized. Isn't that right?

Mr. Shum. Yeah.

Mr. Krishnamoorthi. Because of this arbitrariness -- and I think in your written statement you said that there is no rule of law in China -- it turns out that a lot of people are voting with their feet and leaving China.

The Washington Post just recently said that 300,000 people left China last year,



which they called a brain drain, and China ended up being the world's number one exporter of high-net-worth individuals, with almost 14,000 millionaires leaving last year. It turns out money is leaving the country, too.

[Chart.]

Mr. Krishnamoorthi. I want to point you to a chart about Hong Kong.

If you could put it up on the big screen, too.

In 2020, as soon as the CCP imposed the national security law in Hong Kong, which restrains various freedoms there, including the right to even criticize the CCP, investment in Hong Kong plummeted. You see that, right, Mr. Shum?

Mr. Shum. Yes.

Mr. Krishnamoorthi. Why did that happen in Hong Kong?

Mr. Shum. Hong Kong became one of the major wealth management centers of the world over the last decade. The reason is all Chinese money. It's people like us, we always have this fight in the past as to how much do I put money outside so it's safe from the CCP, and how much do I invest in the growth economy?

So Xi Jinping, he basically -- well, China's economic model has run its course, and then his policy exacerbated the issue. And so people are running with their money at the moment.

Mr. Krishnamoorthi. So they're voting with their feet, and they're voting with their wallets.

Mr. Shum. Absolutely.

Mr. Krishnamoorthi. And now it looks like the CCP is trying to cover up the facts on the ground in China.

[Chart.]

Mr. Krishnamoorthi. I want to point you to one final chart.

If you could put that up.

And, Mr. Qazi, I think that you were kind of alluding to this.

In this chart, between 2012 and 2016 the number of public indicators regarding the economy has plummeted from 80,000 that are published by the government down to 40,000 in 2016. And from 2016 onwards, it's going down rapidly.

So, Mr. Qazi, is it fair to say that when the CCP is trying to hide the reality of the economy from investors, that investors, American or otherwise -- including investors, by the way, in China -- are at great risk?

Mr. Qazi. Yes, absolutely.

Mr. Krishnamoorthi. And why is that?

Mr. Qazi. Look, China is becoming an information desert. You can't invest if you don't know the basic data and how every sector is performing and so on and so forth. Look at how much data we rely on in just this country alone.

When you don't have access to the right information, you'll make the wrong investments. They'll backfire. Or you'll start to speculate and, of course, create all sorts of problems there.

Mr. Krishnamoorthi. It seems to me that the CCP is arbitrarily seizing people, arbitrarily seizing assets. It's arbitrarily snatching away freedoms.

And so, to me, the American people need to see this, and American businesses need to see the reality of what's happening now, and they've got to put the days of blindly shipping innovation and jobs to China behind them.

Thank you, and I yield back.

Chairman Gallagher. Mr. Luetkemeyer.

Mr. Luetkemeyer. Thank you, Mr. Chairman.

And thank our witnesses for being here this evening.

Mr. Qazi, in your testimony you summarize in your recommendations that -- you suggest China should pass -- or Congress, excuse me, Congress should pass legislation requiring banks to include their investment exposure to China in their annual reports and disclosures. Would you like to elaborate on that just a little bit?

Mr. Qazi. Yeah, absolutely. There is a big problem right now where we don't know what exposure American banks have domestically. Forget knowing sectors. Forget knowing specific industries. We just don't have data on even overall information. And I have asked around for it.

So I think we need to give, again, as I said earlier, tools to the right bodies here, whether it be the SEC or another body, so that they can start collecting that information, because before we can figure out which companies are getting American money that perhaps is a national security concern, let's even start by figuring out just how big the problem is.

Mr. Luetkemeyer. I thank you for that.

And one of the things -- I sit on the Financial Services Committee myself, along with Mr. Barr here, and we've had the CEOs of the five largest banks in front of us. And we've asked the question of them: On your website, you talk about all the social justice things you support and all the civil rights things you support in this country, yet you go to China and you ignore the genocide that's going on, you ignore the slave labor that's going on, and you basically ignore the fiduciary responsibility that you have to your investors by continuing to do business with the Chinese Communist Party. And so what do you have to say about that? And their answer is silence. They really can't give you a good answer.

So my concern is we need to be forcing them somehow to -- they have a fiduciary responsibility to give this information to their investors. Just like the BlackRocks, the

Vanguards, the State Streets of the world when they invest your pension funds in China and Chinese companies, they need to be giving the information to their investors, saying: These are your risks.

I think Ms. Lounsbury was talking about the vectors of risk here, if I'm not mistaken. We have got to start talking about that and force these companies to do that.

Do you have some ways that we can make that happen or some ideas or recommendations?

Mr. Qazi. Look, I think this is -- let's start thinking about this a little bit more. We have to figure out what the right bodies are.

To me, this is, quite frankly, very straightforward. Why is it that when they're disclosing -- doing annual disclosures to the SEC, they do not put this out there? The information is there, the information specifically that I'm talking about in terms of exposure to different companies. It's not like they don't have it. Why are they not making this clear?

And it can be done in a manner that doesn't jeopardize their distinct competitive advantages when it comes to investing while getting, I think, the government the proper oversight that it needs access to.

Mr. Luetkemeyer. Mr. Shum, thank you for being here, and we certainly empathize with your situation with your wife, sir.

Somebody just made the comment about the CCP thinks nothing of arbitrarily seizing property. I believe you made that comment, if I'm not mistaken. Would you like to give us an idea?

We sit here, and we've done a military exercise, a war game exercise where China invaded Taiwan. And the exercise that we -- our choices were that we actually sanctioned China.

At that point, what do you think would happen to the American businesses in China once they go into Taiwan and we sanction them? What would happen to all American businesses and assets that are there?

Mr. Shum. I think the starting point is they are hostage to -- that's the starting point. And then the decision they're going to make is -- so it essentially is, if you put it bluntly, it's a rich hostage that I'm going to slaughter. I would guess, for their own sake, they may not slaughter everybody, but they would selectively slaughter some for sure.

Mr. Luetkemeyer. Okay. With regards to the business -- are you talking about individuals or businesses there?

Mr. Shum. Yes. I'm talking about business.

Mr. Luetkemeyer. Business. Okay. So they're going to absorb the business. They're going to nationalize all the businesses, is what you're saying.

Mr. Shum. Yes. Just to give you an example, I mean -- so my ex-wife, she was never accused of anything, never been charged with anything. She disappeared for 4 years. She came out -- she was released on the eve -- she came out on the eve of my book publishing to come out and call me.

And then one of the projects we did is we developed Bulgari Hotel in Beijing. So one of the most luxury hotels in China. And it has been taken. And there's no explanation, no process, no nothing. Gone.

Mr. Luetkemeyer. So it would seem to me that that should also be another risk that should be disclosed by investment managers, asset managers, banks, anybody who invests and does business in China, to their stockholders, their shareholders, their investors, this sort of activity, that this thing could happen in a way that they could lose all of their money?

Mr. Shum. Yes.

Mr. Luetkemeyer. Thank you very much.

With that, Mr. Chairman, I yield back.

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

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

Mr. Qazi, what is the size of China's debt?

Mr. Qazi. We don't know.

Mr. Moulton. What's your best guess?

Mr. Qazi. Hundreds and hundreds and billions of dollars, if I had to be conservative. We fundamentally don't know because these are on various bank balance sheets. Obviously, that information is -- these are state banks.

Also, how much of the debt just gets washed away under a rug, we don't know. There's a lot about China's, this mountain of debt that they have, which we simply don't know. We can guess all day long, but we probably can't get at anything realistically.

Mr. Moulton. Do we have any idea what their debt-to-GDP ratio is and whether it's getting better or worse?

Mr. Qazi. China has a very serious problem when it comes to its companies being overleveraged. There's just no question about that. State firms are incredibly overleveraged. They've got these massive problems. Chinese banks have an immense amount of bad debt, debt that they know for a fact will never get paid. They'll never get that money paid back.

So there are very serious risks when you talk about any of that.

Mr. Moulton. What about youth unemployment? I mean, here in the United States, back home in Massachusetts, restaurants can't hire enough people. I mean, we have historically low unemployment.

What does unemployment look like in China.

Mr. Qazi. Yeah. We're talking about something like 26 percent youth unemployment, 22 percent youth unemployment. It's a big issue.

And by the way, it's tied into this whole problem where China's economy -- the state firms being privileged, they being given the loans, private firms being denied access to credit -- means they can't create the jobs that all these hundreds of thousands of young graduates now need.

Mr. Moulton. So it sounds like China's economy is in dire straits, and there's not a lot of hope on the horizon. I mean, what does Xi Jinping need to do to turn this around?

Mr. Qazi. What they are trying to accomplish here is try to bring down leverage and try to transition the model so they move away from this build, build, build, high-investment, high-debt model.

Will this succeed? That's a huge question. Where do we get in the next few years? We can't even sort of say that.

But, yes, the old growth model has run out of road. The years of China being 6, 8 percent growth, it's over. In the next several years you might be looking at China realistically growing closer to 2 percent, 1 percent numbers. We consider it great here, but are not great for China.

Mr. Moulton. Now, Xi Jinping doesn't need to worry about a democratic election, but our experience here in the United States is that people sitting in power don't do too well when the economy is failing. It sounds like the economy is going to get worse. It sounds like youth unemployment is particularly high.

We've heard similarly dire assessments of China's economy. And during our last hearing, we heard from a witness who painted this similarly dire picture. He also laid out some of the ways that we could make the situation even more acute. But then he

also said that doing so would make the chances of Xi Jinping starting a war, quote, "somewhat more likely."

So competitiveness is the coin of the realm today. It's in the title of our committee. But deterrence is key too. I mean, we don't want to have a great competitiveness strategy with China and find that it actually leads to increasing the likelihood of war.

So how do we figure out a competitiveness strategy that also contributes to our strategy for deterrence?

Mr. Qazi. I think the focus needs to be right now on figuring out where do we have American companies that are involved in China and create those national security red lines. That's a very, very important --

Mr. Moulton. So we all agree on red lines. We all agree we've got lots of sticks. Where do we find the carrots? Where do we use our economic power, the leverage of American businesses, the fact that so many Chinese businessmen and women want to leave to actually push China in the right direction and away from war?

And I'd be delighted to hear from the other witnesses as well.

Ms. Lounsbury, do you have anything to add?

Ms. Lounsbury. I think the main problem Xi Jinping is facing right now is the fact that the [inaudible] most of the people in China are giving the party a D on the report card.

And most recently you saw the -- I think it was a New York Times or Washington Post article on Jack Ma and the Ant Financial 3-year investigation.

Mr. Moulton. Right. I understand the situation is bad.

Ms. Lounsbury. Right. And so the small-to-medium-size enterprises are strapped for cash. The local provinces are looking for money. There's no more real



estate investment. So he could fix that.

Mr. Moulton. Mr. Shum, how do we push them in the right direction? Are there any carrots that we can offer? Or does it have to be a strategy --

Mr. Shum. The various estimates on where the debt -- to answer your earlier question -- where the debt level is, is between three to five times of GDP.

Mr. Moulton. I've got 5 seconds left. Does anyone have a carrot?

Mr. Qazi?

Mr. Qazi. I don't think we can really incentivize Xi Jinping to go one way or another, to be very honest with you, sir.

Mr. Moulton. Okay.

Thank you, Mr. Chairman.

Chairman Gallagher. Mr. Barr.

Mr. Barr. Thank you, Mr. Chairman.

Thanks to our witnesses.

And I've said to my colleagues on this committee and elsewhere several times that we can't counter China by becoming more like China. And that means we have to have confidence in the superiority of capitalism versus central planning and communism and the way in which state-run economies misallocate resources and limit productivity.

We must exploit this weakness in China, the strength of the dollar, Chinese debt, and demographic challenges, and that means American businesses should not turn inward reflexively away from international cross-border activity.

And there is a certain truth to the idea that, in this economic competition, telling American businesses to not access Chinese markets, that that would in fact undermine American competitiveness.

But on the other hand, we cannot counter China by allowing American businesses

to submit to China's authoritarian, coercive, and high-risk communist system.

American businesses therefore must be highly selective and carefully avoid the dangerous risks, espionage, theft, and corruption that are inherent in the Chinese Communist state-controlled economy.

And so to that point, let me ask Ms. Lounsbury about VIEs.

Since 2019, the U.S.-China Economic and Security Review Commission has highlighted the risk of investing in Chinese companies that are listed through Variable Interest Entities.

Can you describe the differences in the rights of a shareholder that is invested in a Chinese VIE structure versus ownership in a traditional structure?

Ms. Lounsbury. I don't know if you ever saw that movie "The Laundromat," but the VIE structure is just hard to track and trace. And you can put all sorts of things in various islands and this and that hiding money here and there through a VIE versus a traditional structure where at least you can have a Chinese or an international accounting firm take a look. It makes it very difficult when those VIEs are hard to find.

Mr. Barr. And to you and to Mr. Qazi, I mean, how can the Congress or the government communicate the risks to Americans of investing in PRC firms that use this VIE structure that limits recourse for U.S. investors due to the uncertain legal status of VIEs under PRC law?

Mr. Qazi. Well, I think several ways to do it. If I could be a bit cheeky, I would say that let's start with warning labels the way you would put them on cigarette packets. I think we need to warn investors -- especially the average American, now that we're talking about the risk -- in a very simple way, but making sure they fully understand it. Most people do not.

Mr. Barr. So disclosure is one thing. But I think the Congress should consider

banning VIEs. Any thoughts?

Mr. Qazi. I haven't thought about that, to be very honest with you.

Mr. Barr. Banning a VIE with Chinese entities. This is a highly unconventional way for investors to take an equity stake in a company where they don't have any legal -- material legal rights.

Mr. Qazi. I have not thought about that before. I'm not prepared --

Mr. Barr. Well, I think this committee ought to consider recommending a ban of VIEs into PRC companies.

Now, that doesn't mean across-the-board decoupling of all economic cross-border activity with China, but it means protecting U.S. investors with VIEs.

To any of our witnesses, the Department of Defense keeps a list, the 1260H list of Chinese military companies operating in the United States, many of which are publicly traded on exchanges around the globe. And Treasury maintains a list of Chinese military and surveillance companies, many also who are publicly traded internationally.

These are companies with clear ties to the PLA who use international exchanges and Western capital to feign legitimacy while actively working to undermine U.S. national security.

What risks does investing in these companies pose to U.S. investors?

Ms. Lounsbury. Well, I'll answer. I mean, I think we need to reiterate again that the Chinese Communist Party's central view is to create growth. I mean, I mentioned real estate earlier. That was in the 1990s and the early 2000s. But acquire science and technologies as fast as they can.

So you've got that fundamental problem where the Civil-Military -- Military-Civil Fusion motive is here in our borders and is represented by multinational companies who are in partnership with these very firms in the United States.

So, yes.

Mr. Barr. Well, consistent with my thought, we shouldn't deny Americans access to emerging growth investment opportunities, but certainly, when it comes to these national security risks, we need to protect U.S. investors.

I yield.

Chairman Gallagher. I'm going to assume the ban VIE proposal has the full support of the House Financial Services Committee, and I'm going to run with it.

With that, Mr. Auchincloss is recognized for 5 minutes.

Mr. Auchincloss. Thank you, Chairman.

Through the written and oral testimony here, we have seen and heard directly that the Chinese Communist Party has created an environment in which there is no such thing as a private company, there is no such thing as the private sector, and there is no rule of law. There is rule by fiat at the whims of a dictator.

By contrast, the United States has earned a reputation as a place where businesses and industry can make long-term investments. We've got deep and liquid capital markets. We have rule of law. We've made investments in science and infrastructure.

But we are not doing enough to sustain and sharpen that contrast in the decade ahead. We have seen attacks on our democracy and on rule of law. We have underfunded science.

I will note for the committee that while we passed CHIPS and Science last term, we have not appropriated for the science portion, \$200 billion that would help us accelerate our edge in research and development. And we have not sufficiently recovered the learning loss from COVID and the effects on children's math and science scores and literacy scores.

One area that I want to highlight that we can particularly do better and that is under the remit here of Congress is on trade. In 2020, the GSP expired, and for the last 3 years we have been without the Generalized System of Preferences, which offers American businesses an alternative to importing and doing business with China.

And I'm pleased that this committee, with the unanimity of the Democrats on this committee and the majority of Republicans, including the chairman and the ranking member, have written a letter to Ways and Means asking for the reauthorization of GSP to help accelerate options available for American businesses and American consumers so that we can outcompete the CCP as they are degrading their own economy.

And I would like to enter that letter for the record, Mr. Chairman.

Chairman Gallagher. Without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

Mr. Auchincloss. And I want to thank my colleague, Mr. Dunn, for his partnership on that letter as well.

To my questions now. First for you, Mr. Shum. And I want to start by expressing my sympathies for the personal tragedy that you have experienced at the hands of the CCP.

Xi Jinping is doing a bad job running this economy, and that has got to inspire discontent within the Chinese Communist Party. And yet we are repeatedly told that it's monolithic, that there is no dissent, that he has flattened all orthogonal points of view.

I find that impossible to believe. There's always politics. In any group bigger than four people, there's always going to be politics. There's 80 million people in the CCP.

Where might emerge alternative power centers to Xi Jinping if economic growth continues to flag and if mayors and the people continue to be frustrated with the lack of growth and opportunity?

Mr. Shum. Actually, he devoted the last decade, of his first 10 years of rule, of crushing dissent and crushing all possible alternative power centers.

I'm sorry to say, at the moment, I really don't see any organized activity or political force to force his hand in any way in China.

RPTR SCHOETTLE

EDTR ZAMORA

[7:59 p.m.]

Mr. Auchincloss. Not even from the mayor of a city like Shanghai?

Mr. Shum. Yeah, nobody.

Mr. Auchincloss. Ms. Lounsbury, you mentioned in your written testimony that one way that we can continue to draw sharp contrast with the degrading business environment in China is to work with the American National Standards Institute. Could you expound upon that and what role they can play?

Ms. Lounsbury. In my experience, talking with companies and being within a company that really had to work with standard certification processes in China, there's just a lot of corruption on that side. And the optics of the way those organizations work together are very different when you get into quiet conversations with them and find out how much money is trading hands or this and that, a deal for a certified product that could, you know, gain market share. It's just a dirty business. So I'd like to just request that this committee take a closer look at what could be done to create some audit or checks and balances on that.

Mr. Auchincloss. And finally, Mr. Qazi, for you, do you think that you can be a fiduciary as an American company of shareholder value if you have significant exposure to the Chinese market and are relying on Chinese sell-side information?

Mr. Qazi. Not the way it's done today, in reality. The data's completely unreliable. A lot of this -- there's a lot of guesswork that goes into it.

Truthfully, no. Are there legal loopholes around it and ways you can get away with it? Yeah, of course.

Mr. Auchincloss. Thank you. I yield back.

Chairman Gallagher. Well, first, let me apologize to Ms. Sherrill who was here at the gavel. You know, I did not deliberately overlook, but as Mr. Qazi's testimony warns, we should be skeptical of the data we receive.

Mr. Newhouse.

Mr. Newhouse. Thank you, Mr. Chairman.

Thank you very much for being with us tonight. China's technology transfer regime remains a problem to this day for foreign companies operating in the PRC, as you know, particularly for firms and high-tech sectors where the PRC is determined to obtain an advantage.

United States Department of Energy has a significant presence in my district in the State of Washington, which is home to the Hanford nuclear site, as well as the Pacific Northwest National Laboratory. And I can tell you the committed staffs at these facilities take very seriously the safety and the security of the intellectual property of their work. And that's key to supporting our Nation's nuclear energy programs.

I don't believe China shares that same respect. For example, in the year 2010, the PRC forced Westinghouse Electric, a U.S.-based firm, to transfer some 75,000 documents related to its flagship nuclear reactor technology. That was developed with support from U.S. taxpayers in order to do business in the country. Despite the promise of billions in new revenue from the Chinese market, in less than a decade, the PRC used this force technology transfer to build and subsequently market domestically and overseas their own reactor.

So, first of all, Ms. Lounsbury, thank you for your testimony. Thank you for your detailed recommendations. Very much appreciate it. If any, could you describe what circumstance you would recommend a Western business transfer intellectual technology to the PRC or a CCP-related firm in exchange for market access?



Ms. Lounsbury. Are you saying should I recommend that? I would never recommend that. The problem is that's the reality. I think that, you know, all companies -- you know, you can't really talk to a company -- I'm sure you just -- you know, you were here with the Doorknock recently from American Chamber of Commerce China, the market is so attractive that companies continue to think they're going to have a piece of that forever. And in effect, the Chinese, in my experience anyway, even witnessing and looking at the central -- the Chinese Communist Party curriculum that they're teaching to their own officials who are then getting sent out into the provinces, their mission is to replace foreign companies, full stop. It's not to have a win-win. It's not to have a shared equity partnership. It is specifically told to their officials in training to find ways to replace that collaboration, cooperation.

And so coerced acquisition of technology is a tactic, and companies do it because they think they're going to get long-term market access.

Mr. Newhouse. Thank you.

Mr. Shum, thank you for your personal stories. Very enlightening and very illustrative. And my sympathies for the situation with your wife.

What are the implications for U.S. companies of the extraterritorial research and the retaliatory provisions in China's economic security laws, the regulations, and other measures? And I don't mean for this to sound like a naive question, but could or is the forced transfer of certain intellectual property be used by the CCP to pressure U.S. firms?

Mr. Shum. Yes, of course. I think it's -- I think what's happening -- you know, I think a lot of firms and as well as trades have learned their lessons of transferring -- letting its IP slip into China. And obviously, China market -- attractiveness in China's market today is not what it used to be 10 years ago. So I think the situation will be reversing.

Mr. Newhouse. Thank you very much.

And just real quickly, Mr. Qazi, thanks for your perspective on information, the black hole. To what extent do you see any U.S. firms benefiting from the PRC industrial policies and related support for firms willing to transfer technology and base certain capabilities in China? Are they receiving any benefits?

Mr. Qazi. They're supposedly receiving market share for the moment, but that's not a long-term thing. They're going to get replaced by other companies, domestic indigenous Chinese companies eventually.

Mr. Newhouse. So the question comes to mind, why in the world would any company want to locate in China, and is it just because people aren't aware, and do we need to do a better job of educating people as to the risks?

Mr. Qazi. No, sir. I think it's greed. CEO's only think about the next earning statement, maybe a few after, their big paychecks. And then, you know, and then they go to retire. They don't care about the long run.

Mr. Newhouse. Yeah. Thank you.

Thank you all very much.

Mr. Chairman, I yield back.

Chairman Gallagher. Ms. Sherrill.

Ms. Sherrill. Thank you.

It's an unfortunate reality of the CCP's growing hostility to foreign businesses that we have to hold this hearing today. But the fact that companies in my district are forced to expend significant resources to navigate China's internal politics just to do routine business makes our work a necessity.

For years, Beijing allowed a pseudo free market economic system to flourish, welcomed foreign direct investment, and became the factory of the world. Previous

PRC leaders allowed companies to operate independently and worked to establish a degree of separation between the CCP and the market. However, under President Xi, it is clear that the party is now the economy and the party is a party of just one man.

The world put our economic hopes into a different system under a different leadership, and now we are feeling the dramatic effect of returning to the days of consolidated strongman rule in Beijing.

Businesses everywhere must make note that this is not the same China that they've done business with since the nineties. The CCP has clearly laid out that it wants to take the lead on this century's strategic technologies by whatever means necessary, including through forced technology transfers, intellectual property theft, and illegal raids on foreign businesses.

And President Xi is not going anywhere anytime soon. These actions hostile to the free market are only beginning. He's the first PRC President since Mao to have no limit on his time in office, and we all must now recognize that this is the new status quo.

So, Mr. Shum, in a recent New York Times interview, you mentioned that the CCP fears losing its grip on power and will obscure China's economic reality to hide faults in its system, and we've heard testimony of that tonight. We have also seen President Xi increasingly taking a strongman view of running the country, including by using the Central Commission for Discipline Inspection of the CCP, or CCDI, which is essentially the CCP's investigatory arm that can oversee every aspect of a business, government agency, or person's life.

Can you explain how pervasive the CCDI is in the Chinese economy, how it's used, what CCDI can look into, and if a company's assets in mainland China have any way to recuperate or combat a CCDI investigation or legal challenge?

Mr. Shum. Two things. One is, actually, you know, along your line, it's -- what

happened -- in 2012, about just 52 percent of all companies -- international, domestic -- have party cells. And throughout -- in 3 years, 2015, the last data point, over 73 percent. So a growth, 20 percent in 3 years of all companies party cells. Seventy percent of all companies have party cells installed in them.

CCDI essentially is the special investigating enforcer, because the way the system is built, corruption in the way we define it globally is everywhere throughout a society and throughout every cell of the system. So having an enforcer like that essentially gives Xi Jinping the right and the ability to go after anybody he doesn't like. It's not about wiping out corruption. It is about enforcing his ruling.

Ms. Sherrill. Thank you.

And Ms. Lounsbury and Mr. Qazi, I have a number of large multinational firms headquartered in my New Jersey district, many of whom understand the risks of doing business in President Xi's China and are diversifying their operations in response. However, small- and medium-sized firms that play critical roles in supporting those larger firms and driving new innovation often lack the same degree of resources, legal support, and staff to perform due diligence on their future investments or how to realign their supply chains. Sadly, these firms are targets too of PRC espionage and technology theft.

So in your opinions, what should Congress do to better support small- to medium-sized firms who have economic linkages to China?

Ms. Lounsbury. Well, actually, doing background checks. Quick due diligence is not expensive. Companies can do it. And I think it would be helpful for Congress to highlight some types of firms, like Strategy Risks and others, that can help companies do this type of simple due diligence to understand who their partners are, who are they affiliated with, are they working with PLA labs, are they working with, you know, Xinjiang protocols, testing in Xinjiang. You know, these types of affiliations can be easily

identified for small- to medium-sized enterprises just by using tools and methodologies that we offer to clients every day. So it's easy enough to do.

Ms. Sherrill. Thank you all so much for your testimony today, and I yield back.

Chairman Gallagher. Mr. Moolenaar.

Mr. Moolenaar. Thank you, Mr. Chairman. And thank all of you for participating today.

Ms. Lounsbury, your work specifically focuses on how businesses reduce their risk with regard to the PLA and the CCP. Is there any separation at all between the CCP and the PLA?

Ms. Lounsbury. Well, the short answer is no. I think, though, for certain companies, there is perhaps a less risk that the PLA would be interested in certain industries. So it's not as relevant for, say, a certain product versus, you know, telecom or any of the strategic emerging industries that are on the top, you know, tier of our own national competitiveness.

Mr. Moolenaar. Okay. And in your testimony, you deal largely with the issue of American companies doing business in China. Do you have any information regarding how the CCP and their affiliated businesses operate in the United States? Are there practices here through subsidiaries largely as manipulative as they are in China?

Ms. Lounsbury. I would also say that there is something called a hybrid structure or a quasi-private structure where a Chinese company might look like it's private but, in fact, does have a CPC [sic] cell that will not be disclosed. So finding that is very, very difficult, and even here in this country.

Mr. Moolenaar. We have a situation in my district where there is a company that is an American subsidiary of a Chinese-owned company. And in the parent company, which is based in China, the articles of association, it basically pledges to

advance the goals of the Chinese Communist Party and requires them to do that.

To what extent do you feel that that would sort of, you know, infiltrate the American-owned version of that or American-located version of that?

Ms. Lounsbury. Well, it may not be what you want to hear, but you have to be very careful. There is -- you know, companies have to go back and forth. They are, you know, funded by a parent company. There are internal service agreements, I'm sure, and those will be contingent on X, Y, and Z metrics. So just check that.

Mr. Moolenaar. And, you know, I've been told by people in business that there may be 50 or more companies that are based in our home State that have, in order to do business with an affiliated business in China, these kinds of messaging in their articles of association. Are you finding that around the country? Is that a common thing?

Ms. Lounsbury. Could you define -- articles of association that are back at the China headquarters that are not showing up in the American subsidiaries?

Mr. Moolenaar. Yes. Right.

Ms. Lounsbury. Articles of association for China headquarter firms, again, it may not work this way for our companies going to China. There are different accountability, different standards. But again, I would say that there is a sieve. There is a connection between those articles and the overall, again, China Communist Party requirements to follow and obey the party's intent. So it is not clean cut.

Mr. Moolenaar. So what does that mean, if we're looking to on-shore some of the supply chain and then we're partnering with Chinese-based companies in doing that?

Ms. Lounsbury. It means, again, look closely at the degree of affiliation to -- you know, it's -- it is interesting, and perhaps Desmond will have more to say about that. But there's one thing to have a state-owned enterprise; there's another to have that quasi-private firm. And then there's a third level, which is the foreign firm or foreign

subsidiary. There is a degree of separation, but it is still tangible that any sort of party affiliation in any of our companies is still palpable. Less so, but still there.

Mr. Moolenaar. Mr. Shum, would you care to comment on that?

Mr. Shum. I would say the metaphor will be you are having sleeper cells in your community. So they operate normally as a company, but in every company and the way the party sees it, every company, every individual is a tool that the party can call upon any time. So essentially, you're having sleeper cells that may be activated as the party sees fit.

Mr. Moolenaar. Thank you very much. I yield back.

Chairman Gallagher. Mr. Torres.

Mr. Torres. Thank you, Mr. Chair.

The business community is confronting a China radically reshaped in the image of Xi Jinping. What distinguishes Xi from his predecessors is an unyielding ideological insistence on prioritizing politics over economics and consolidating control at the expense of growth.

Exhibit A, China's draconian zero COVID policy lead to a severe and sustained slowdown in the Chinese economy, a slowdown from which China has not yet recovered and from which it might never fully recover. The weight of debt and demography has come crashing down on China at the very moment it can least afford.

Exhibit B, China's ill-conceived declaration of a no-limits partnership with Russia on the eve of the war in Ukraine has reshaped the relationship with Europe to the detriment of China and to the benefit of the United States.

Exhibit C, China's systematic coercion of businesses since lifting zero COVID, as well as the enhancement of the anti-espionage law, continues to raise ever deepening doubts about the safety of doing business in China.

Xi Jinping is China's most powerful leader since Mao Zedong, and yet he seems to be using his consolidated power to catastrophically mismanage the economics and geopolitics of his own country. The CCP is not merely malevolent, it is increasingly incompetent.

Mr. Shum, is that a fair assessment or do you see it differently?

Mr. Shum. It is absolutely the assessment, and most of the Chinese, a billion four Chinese would agree with you. The issue is -- the issue is the way that Xi Jinping calculate and people like him calculate is they think all these issues are short in sacrifice. They're willing to do -- they're willing to exchange because, in their view, they have another vision, grand vision to be realized at its core somewhere down the road.

Mr. Torres. Now, the strategic competition between the United States and China contains a paradox. The great competitive advantage of the United States is the rule of law, but the great competitive advantage of China paradoxically is the opposite. The CCP's lawlessness creates the economic equivalent of asymmetric warfare.

China benefits from a rules-based international order without following the rules. It benefits from an open global market without opening its own domestic market. And when it opens the market, it does so deceptively to expropriate the intellectual property and technology of others.

And so, Ms. Lounsbury, how do we win a competition in which we follow the rules and the other side wholly disregards them?

Ms. Lounsbury. Well, I did outline a few ideas in my written testimony. And you eloquently just stated accurate characterization of the asymmetry.

I don't know what to do other than try to find some incentives for our own companies to really allow for the market to, you know, change on its own through perhaps some pricing rebates, some tax, you know, credits. There's got to be other



ways to incentivize our own companies to make that decision to, you know, add some supply chain or a resilience and/or, you know, reshore to the degree that will make that asymmetry less and less palpable.

I also just think that, in general, the data monopoly that the party has right now is something that's got to get more attention. I think you had Dr. Eric Schmidt here last month. He made some great comments, but I would urge you to look at how we are managing our data and what types of silos we could create to lessen that asymmetry that the Chinese have on our own data.

Mr. Torres. You know, humans are creatures of motivated reasoning. It's human nature to believe what we want to believe. It's human nature to reason from our emotions and from our economic self-interests. And when I see leaders of Wall Street or Silicon Valley or corporate America accuse us of overreacting to the coercive conduct of the CCP, what I often see is motivative reasoning at work.

And so, Mr. Qazi, to what extent does the American business community, which is heavily invested in China, remain in denial about the reality of the CCP as a strategic challenge and the reality of China as an increasingly unsafe place to do business?

Mr. Qazi. You know, the business community has spent a lot of time coming back to Congress and complaining about, as a matter of fact, the very same issues that you've highlighted, up until when Congress and other members in DC said, look, China's actually a coercive power. Now, they're starting to push back.

The short answer is they are very much in denial because there is -- the idea is there's money to be made, and there are ways for us to, you know, perhaps take a stricter line on China in certain things, especially things that affect us, like IP theft and all of the rest. But we don't have to get up and leave right away. There's business to be done and money to be made.

Mr. Torres. And recently, Elon Musk said that he is going to uphold socialist values. So he's a free-speech absolutist, except in China.

So thank you.

Chairman Gallagher. Mr. LaHood.

Mr. LaHood. Thank you, Mr. Chairman.

I want to thank the witnesses today for your valuable testimony here.

When we look at or review U.S. companies or U.S. businesses operating in China, I think it's important that we distinguish between two very different groups of U.S. companies. The first group is made up of what I would call legacy companies. These are your more mature businesses, often large multinational corporations that have been operating in China for decades, coming in at the beginning of China's economic rise.

In many cases, these businesses have a distinct economic advantage in that they opened their operations in China during a time when China was effectively weaker and much more inclined to develop strong relationships and engage in fair and competitive economic practices. It is with these companies, though, where we're seeing or have seen a lot of concessions being made to the CCP to, quote, not rock the boat and disrupt the advantage of market access. We see examples of this with censorship in the film industry, a willingness to share or allow for the theft of personal data, the violation of civil liberties, and the turning of a blind eye to gross human rights violations.

The second group, which I would describe as newer companies in the bioscience field, technology, AI, biomedical, medical tech, national security. These companies ranging from mom-and-pop small businesses all the way up to large enterprises in these critical sectors that have to play by a different set of rules. But their concerns are obviously the risk of IP theft, coercion and duress from the CCP. And it seems to me that with these businesses operating under a different set of rules and standards, the CCP

is focused on one thing: How do they replace the United States in many of these sectors.

So, Ms. Lounsbury, I'm wondering if you could comment on the distinction that I just made there? And then secondarily, as you work with businesses that are either just getting started in China or considering doing that, to what degree would you say these companies are pressured to make serious concessions to their values or business model to have the necessary market access to the CCP that maximizes their bottom line?

Ms. Lounsbury. Thank you. To your first point on the established companies since the, say the eighties, right. So a lot of these companies went in very early, as you said. I do think it's important to remember that there is a way -- the Chinese operate -- I think Matt Pottinger might have spoken about this in the first hearing. The Chinese have a dual kind of way of communicating. And I think, you know, you will say one thing and do another. I think American companies who have been in China that long may -- not always, but may be giving the impression when they're in country that they are abiding by or kowtowing, if you will, to Xi Jinping and/or the party's demands. Whereas, when back here and meeting with you all, you might hear a different story.

I do know, in the Department of Commerce, there are a number of industry advisory committees, and I think that there's a way, perhaps, of this committee to hear more in closed doors with maybe some security clearance to try to get to the bottom of what these larger, more established companies are really going through as they're thinking about all of that investment, hundreds of millions of dollars per company in some of these cases, how do they reshore? How do they find resilience in supply chain without alerting their partners that this is something that they're going through. So that's something to look at.

For the smaller companies, you know, that's a tough one. I think, you know, in

my role as an advising small biotech companies and being in that sector, watching what's happening with, you know, AI, and, you know, in general the strategic and emerging industries, the companies are hungry. They don't have the capital. So I also think that's a very dangerous area, and those companies are probably more willing and hungry to collaborate and find ways to exchange and give up IP. So I would be concerned for that area.

Mr. LaHood. And, Ms. Lounsbury, these larger, multinational corporations, many of them legacy companies, do any of them feel any shame for doing business in China?

Ms. Lounsbury. I don't think I'm the best person to ask.

Mr. LaHood. Maybe I'll ask --

Ms. Lounsbury. I've met with many, many companies. There are some who went in -- I mean, even I started working on U.S.-China business when I was in my 20s, and was very much a proponent of PNTR. I wanted to have China be part of the World Trade Organization. I wanted to see the trade negotiators have some success in, you know, every 6 months, you know, ticking off the checklist of all of the commitments that hadn't been done. It just wasn't happening.

So shame? Maybe just regret, I think. We aren't where we need to be.

Mr. LaHood. Thank you.

Chairman Gallagher. Ms. Castor.

Ms. Castor. Well, thank you, Chairman Gallagher, for organizing this very important hearing. And thank you to the witnesses for your very insightful testimony.

Reading recent press reports, it appears that the Biden administration is poised to impose new restrictions on American investments in Chinese companies, especially companies involved in quantum computing, AI, and semiconductors. Now, the U.S. already prohibits U.S. companies from directly selling certain advanced technology to

China, but this would be the first time that we target equity -- private equity and venture capital investment in highly strategic sectors. It looks like they're going to prohibit investments in sensitive military and surveillance technologies, and then require greater transparency reporting of different private investments. Others are calling this unprecedented.

How do you characterize this? What do you see? How will -- do you think China will react, and how will -- what can we anticipate from the private equity companies?

Ms. Lounsbury, I'll start with you.

Ms. Lounsbury. Well, unprecedented means -- I think that's a positive. Unprecedented means it's new. There are a lot of private equity companies who don't have the same disclosure requirements because they're private. We don't know what they're investing in. And also, you know, there are lots of Chinese state-owned funds that these funds -- this money is going into, which are then doing the same thing that we've just been talking about, which is investing in the state-owned enterprises. And that is all, you know, especially in the high-tech sectors mission is to replace American competitiveness.

So I think unprecedented in this case is positive. Some larger scrutiny on private equity firms and what they're doing is not a bad thing. And again, it doesn't mean you can't invest. It just means, look a little bit more under the hood and find out what it is they're investing in.

Ms. Castor. Mr. Qazi?

Mr. Qazi. Yeah. You know, I think a lot of folks have been arguing -- well, some, including Derek Scissors, who's a colleague of mine, has been arguing for a long time to have a reverse CFIUS in place, right. And some of this outbound investment

stuff, this is supposed to get at that, although this is supposed to be very minor comparative to what a reverse CFIUS would look like.

Look, there's always going to be industry pushback, but the job of Congress needs to be, as I said I think earlier tonight, to increasingly specify what the redlines are, to increasingly specify what the threats are. That clarity in the long run is actually a good thing.

Ms. Castor. So and maybe even if that's done by executive order, Congress -- do you recommend Congress maybe codify that?

Mr. Qazi. I think folks in Congress have some expansive ideas. You know, debate needs to certainly take place around what a stronger version could look like.

Ms. Castor. Mr. Shum, do you have an insight on that as well?

Mr. Shum. I think two things to say. One is actually direct investment -- direct investment fund into China, fundraising is already collapsing. This first quarter, China raised -- foreign investment to China is 20 billion. Last year, first quarter is a hundred billion. So it's a drop of 80 percent compared to COVID year. So direct investment to China is collapsing.

The second thing is, when U.S. -- while U.S. is looking into restriction, actually China's doing the same thing. They are restricting -- they are restricting foreign company to investing into their own high-tech company because, they stated, their view of national security. So there is a push on both sides, actually, on this issue. And to illustrate that, that was the -- I think that is the reason Sequoia, the richest -- the biggest venture capital investor in China by far is separated. They separate into a China unit, an American, and India unit. And China unit will only do China. So that is a force pushing on both sides.

Ms. Castor. And then on the other side, Ms. Lounsbury, you said in your

testimony you would recommend that the Congress invest in reshoring America's supply chain infrastructure, consider tax credits, purchase credit investment.

So the Congress, we took major steps to strengthen America's economy by enacting the CHIPS and Science Act, the Infrastructure Law, the Inflation Reduction Act. Do you see these as working, and how would you -- how would you improve upon them?

Ms. Lounsbury. I think that's the first step. I do think that it's an -- you know, it does need to be said that these -- that that is going to -- the products will be more expensive. So how do you incentivize the other companies that need these products, a part of the CHIPS Act, to actually buy them?

And so for the range of users here in this country -- and not to mention allies. I think that's something that is really important, look at ways of bringing that purchase back.

Ms. Castor. Thank you very much.

Chairman Gallagher. Dr. Dunn.

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

I think it's become clear that the strategic competition with China is one of the defining issues of the 118th Congress. Reducing U.S. reliance on China is a shared policy goal across party lines, across the spectrum, and also for many American companies.

This week, Mr. Auchincloss and I, joined by 64 other Members of Congress, including both Chairman Gallagher and Ranking Member Krishnamoorthi, sent a letter to the Committee on Ways and Means, underscoring the necessity of legislation to help the supply chains shift out of China, specifically by renewal of the Generalized System of Preferences in tariffs. That's the GSP program.

Mr. Chairman, I'd like to thank you and the ranking member for your support of this letter, and I ask that it be submitted into the record for --

Chairman Gallagher. Without objection.

[The information follows:]

\*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*



Mr. Dunn. Thank you.

The GSP is one of America's oldest and largest trade agreements that's been consistently renewed by -- both from Democrat and Republican administrations since 1974. Forty-nine years of clean bipartisan renewals.

GSP boosts economic development by removing tariffs on nonsensitive goods from 119 different developing nations. And China is not one of the qualified countries.

The GSP expired in December of 2020. And the last time it was renewed, it passed the House by a vote of 400 to 2. I am confident that GSP renewal legislation will again be delivered under this leadership of Ways and Means. Without it, billions of dollars in additional costs from current tariffs will burden American companies and our allies. Right now, American companies are forced to choose between hiking processes or absorbing the profit losses or finding a cheaper place to manufacture, like China.

China's never qualified for GSP benefits, but many of its competitors do. In our competitive race with China, GSP is a valuable tool to help American companies find non-Chinese suppliers. The GSP results in tariff savings, averaging a cost of more than 5 percent on all products, frequently rises to 20 percent, and nearly all of the GSP-eligible products are also subject to 301 tariffs when imported from China.

So if we can do renewal on GSP, we can provide tariff advantages as high as 45 percent to key products, compared to doing these imports from China.

I think GSP benefits the consumer goods. It helps families stretch their paychecks, and a renewal would also demonstrate the United States' trade leadership to the world, our allies around the world. We want to unleash that potential. Renewing this program will keep the businesses open at home and abroad and instead of moving to China.

Mr. Chairman, to reiterate some of these points, I'd also ask to enter into the record an article, *Manufacturers Move Back to China as a Result of U.S. Trade Deal Delay*.

Chairman Gallagher. Without objection.

Mr. Dunn. Thank you.

Mr. Qazi, your company operates the largest private data collection network ever developed to track Chinese marketplace. Are you tracking companies that are moving their operations into China now?

Mr. Qazi. There's a subset of -- that are moving their operations out of China, you said?

Mr. Dunn. Into.

Mr. Qazi. Into China. There is a subset within the sample that is, you know, private companies, and that should include companies that have moved in. That's a very, very niche thing. That's not something we're specifically looking -- on the lookout for.

Mr. Dunn. So we're catching this on the front end, I hope. How much risk do you think it poses overall for the American consumers' businesses if this trend of moving manufacturing back to China continues?

Mr. Qazi. I think the pandemic made very clear that we can't have all our eggs in the China basket. You know, so to the extent that's going on, I mean, that's obviously a big risk. Reshoring, near-shoring, diversify supply chains, especially the most critical stuff, like pharmaceuticals, et cetera, needs to happen. We can't go back to thinking like the way we did in the nineties.

Mr. Dunn. I pray you're right.

Ms. Lounsbury, according to the Coalition for GSP, the GSP lapse has already cost American companies \$2.6 billion through April of this year. Can you quantify the risk

assessment to businesses, individuals, how that affects corporate strategy broadly?

Ms. Lounsbury. I do not have the latest ability to quantify that here, but could absolutely follow up with you after the session.

Mr. Dunn. You would agree that GSP renewal would be a good thing?

Ms. Lounsbury. Would be a what?

Mr. Dunn. Renewing GSP would be a good thing?

Ms. Lounsbury. You know, companies are going to ask for help, so leave it at that.

Mr. Dunn. Excellent.

I want to thank the panel for your participation, your insights today. We really appreciate it. Thank you so much.

Mr. Chairman, I yield.

Chairman Gallagher. Thank you.

Ms. Brown.

Ms. Brown. Thank you, Chairman Gallagher and Ranking Member Krishnamoorthi.

Treasury Secretary Yellen has spoken publicly about a U.S. need to friend-shore and diversify certain U.S. production out of China. At the same time, the Secretary has spoken about the economic costs to the United States of decoupling from China, arguing that two-way commercial ties are important.

Ms. Lounsbury, what are your views on those comments and these options facing U.S. firms and the United States more broadly?

Ms. Lounsbury. Thank you for the question. I think that "decoupling" is probably not the right word to allow for our population to have some sort of a smooth transition. It's going to take time. Some companies need more time than others. I

think most companies are savvy enough to know -- we saw it during COVID-19, the supply chains shutdown, you know, there was disruption all around, we're seeing the geographic tensions. I mean, obviously, companies are understanding what they need to do. And I mentioned the industry advisory committee approach where you could actually learn more directly from companies in closed-door session.

I think that we talked about the dual speak. There's an important need to reassure but to keep our conversations going with our Chinese counterparts.

Ms. Brown. With that, Mr. Chairman, thank you so much. I yield the balance of my time.

Chairman Gallagher. Thank you.

Mr. Johnson.

Mr. Johnson. We talked a lot about data tonight. And, Ms. Lounsbury, in your testimony, you noted that China wants to seek additional control over global logistics, including over U.S. supply chains. This has been an interest of mine. I've done a fair amount of work in this area in the last couple of years. And, in fact, Mrs. Steel and I just this week were able to get into the annual defense bill that we're all voting on this week, a provision that would make it impermissible for American ports to use LOGINK

For those of you who don't know what LOGINK is, you really need to get a load of this. I mean, this is a logistics tracking software system that has been developed over the course of the last 10 years by the CCP so that they can coerce ports and logistics providers to gather data. Now, of course, once that data is all gathered, just like we've been talking about tonight, in other industries, that information could be provided to the CCP and provide quite an asymmetry, really injure American competitiveness.

And so, Ms. Lounsbury, tell us a little bit more about this threat.

Ms. Lounsbury. Well, I think the original threat starts with the One Belt, One

Road initiative, and that was a, you know, more kinetic let's find out ways through the Asian Infrastructure Investment Bank to fund the channels between China direct to Germany and back to China.

Now, the LOGINK, you know, concept is to take that and create a digital structure. So, you know, the business model is quite brilliant, actually, but it is actually a big concern, because offering something for free is never for free. So signing companies up, ports, you know, logistic carriers, shipping companies, is, you know, one thing, but then turning around and taking the data is another.

Mr. Johnson. When you think about how valuable this data is, it's an almost breathtaking suite of the types of freight, how much, the location within the system. I mean, this is the holy grail of data.

Ms. Lounsbury. Right. So my question back to the committee would be, what is the alternative? Because I think companies are interested in that concept. It's just fraught with risk for the shipping companies globally, not just American. But in reality, six degrees of separation, anything to do with any of the shipments are going to touch America.

Mr. Johnson. So you'd say, it's all good and well, Mr. Johnson, Mrs. Steel, for American ports to be prohibited from using LOGINK -- and again, thanks to our legislation they will be -- but they need an alternative. Am I saying that right?

Ms. Lounsbury. Yes. And I think that's a creative problem to solve, and I think it's possible.

Mr. Johnson. Should the Biden administration's FLOW initiative deal with this in any way?

Ms. Lounsbury. I do believe so, yes. And I think there are -- you know, obviously ports are considering this. I talked to one of the largest shipping companies in

the world just a few days ago and, sure enough, they're watching carefully. They're maybe signing up to look under the hood of LOGINX, but they have not agreed to disclose the same type of data that you know is intended or desired and that we are witnessing in other markets.

Mr. Johnson. So, Mr. Qazi, you've told us time and time again tonight that we should be highly skeptical of data that comes from the Chinese Communist Party or really from any of their partners.

So the Shanghai Shipping Exchange is a major international freight shipping exchange. Of course, it's state owned, as so many major institutions and entities in China are. It is the basis for a lot of indexes. And increasingly, in fact, the -- I want to make sure I get this right -- the Shanghai Containerized Freight Index is used by all kinds of market participants to figure out what freight rates will be.

Now, I know this is not an area of your expertise, but give us -- should we be trusting of these indexes at all?

Mr. Qazi. No single index should be just believed as being, you know, the Word of God. So we need other data to verify, we need to have it cross-checked even if we are using it, and that one I see it all the time.

Mr. Johnson. And that seems like a good rule of thumb, don't ever put all of your eggs in one basket. But I guess I'm asking the question: Should these Shanghai Shipping Exchange indexes be in the basket at all? Should they even be among a number of data points that somebody would use to make decisions?

Mr. Qazi. Number one, not without verifying it as much as possible. And if there's repeated signs that there's, you know, data that's been fudged and manipulated, take it out.

Mr. Johnson. Well, the good news is that we've got a solution for that too. The

Ocean Shipping Reform Act 2.0 or Implementation Act does address this issue that you and I are talking about, sir. And I would just reiterate what some of my colleagues on both sides of the aisle have said tonight: We do need to be aware of the serious coercive economic pressure that China is applying to companies in this country and around the globe.

With that, Mr. Chairman, I would yield back.

Chairman Gallagher. Ms. Stevens.

Ms. Stevens. Mr. Qazi, who's winning this competition?

Mr. Qazi. Well, I think we are trying to correct for a lot of mistakes we made over the last 20 years, so I suppose in many ways could argue --

Ms. Stevens. We've got a trade deficit, but we still have the largest economy. We've got some innovation. We're not necessarily leading in technology area as we want to, but we've got openings with CHIPs and Science and the investment and manufacturing.

Do you believe that the CCP's motivations are economic or are they political? What's driving them?

Mr. Qazi. Well, fundamentally it is absolutely political. It's using economic tools, financial tools for political ends, I would say.

Ms. Stevens. And, Mr. Shum, listening to your testimony, would you say that the United States' motivations at the global stage are economic? What do we deem our motivations to be?

Mr. Shum. I think ultimately the biggest prize of all competition of this is political.

Ms. Stevens. It's political. And the question, I guess, becomes, as we inch towards the quarter 21st century mark, is, are free, open democratic societies going to

continue to lead the free world? And is that the marker of winning this competition? Is the dollar still the currency? Would you agree with that, Mr. Qazi?

Mr. Qazi. I think -- what I would say is that free and open societies can then lead to kind of the problem we have right now where we say, look, it's free market capitalism for everybody, and you have a bunch of companies that go and relocate to China. And turns out, that we have very serious and complicated supply chain dependencies that hurt us at the most critical moment, again, as seen during the pandemic. So just there's no, you know, guarantee that free and open societies can necessarily just win. Again --

Ms. Stevens. Through laissez-faire economics.

Now, Ms. Lounsbury, I deeply appreciate your robust testimony and your series of recommendations that came to towards the end of your written testimony, and particularly, how we can bring alongside our -- bring along our allies and utilizing different diplomatic channels to put into place some policies or guardrails or recommendations.

And this isn't going to be presumptive. And you've rejected tonight this notion of decoupling, even presented, I believe, some skepticism around derisking. And certainly an area of bipartisan agreement is, on this committee, from what I've discerned, is United States doesn't need to replicate the CCP. We've got our own way of doing things.

So is this better defined as tolerance? Do we have to move into a place of tolerance and bring alongside our allies to strengthen free market democratic nations on the global stage vis-à-vis political motivation?

Ms. Lounsbury. I think --

Ms. Stevens. You can answer yes or no.

Ms. Lounsbury. I mean, yes. We need some tolerance in order to give some time to us to make sure that these alliances are going to be effective.



Ms. Stevens. Yeah.

Ms. Lounsbury. But the flat-out answer is we've got to -- we have to find resilience --

Ms. Stevens. We've got to find resilience.

Ms. Lounsbury. -- in other ways. We cannot rely the way we are anymore. There's just too much at stake from most of the life-essential industries that were absolutely made clear to us during the COVID-19 pandemic.

Ms. Stevens. What does resilience look like?

Ms. Lounsbury. "Resilience" is a great word. How can we cherish our free and open democratic society, which is a diverse ecosystem. Diversity is what we know makes an incredibly rich ecosystem.

Ms. Stevens. It might be supply chains. It might be -- it might be supply chain.

Ms. Lounsbury. It might be --

Ms. Stevens. It might be lessening reliance. And certainly, you know, coming from the industrial Midwest, I care a lot about that.

But let me just conclude by talking to you directly, Mr. Shum. It is highly significant that you came here this evening and shared your testimony, a testimony that would never be heard in your native land. And I extend my heartfelt gratitude to you as a human being, as an entrepreneur, and as a father and a husband. And what happened to you and what happened to your beloved Whitney would never happen here. And I don't believe that you will see justice. And that's another deal, is that democracy might not be perfect, but we do inch towards justice.

Thank you, Mr. Chairman. I yield back.

Chairman Gallagher. Mr. Banks.

Mr. Banks. Thank you, Mr. Chairman.

A few days ago, Treasury Secretary Yellen went to China as part of what the Biden administration is calling their thaw strategy with Beijing. It doesn't appear that Beijing is really interested in the same thing that the Biden administration is when it comes to that so-called thaw strategy. But also today, Secretary Blinken met with the top diplomat from China in Jakarta, to also talk about the same strategy and talk about -- and denouncing -- Secretary Yellen literally denounced the idea of decoupling our economy from China's economy when she met with him a few days ago.

Mr. Qazi, can you talk about maybe -- give this committee an idea of what the -- what is the thaw strategy? What's the administration going for here?

Mr. Qazi. Well, the idea is that supposedly a lot of pressure has been ramped up over the last 4 to 5 years, and that it's time to make sure that we're telling Beijing that we are not trying to get into a war with you.

But if I may, I think right now the time is to clarify our intent, but to showcase that, you know, we have resolve here, that their -- the problems that we're facing that we've been talking about, all the supply chain stuff, the investment stuff, et cetera, that we are going to be taking corrective measure here. And that's the message that needs to be delivered.

There's very competent people in the administration. I wish, you know, Katherine Tai, the USTR, would have more of a role in delivering America's messages.

Mr. Banks. So you're as skeptical of the thaw strategy as any of us on this committee are? It obviously doesn't --

Mr. Qazi. Yeah. I think, again, clarifying intentions is a great thing between two great powers, but now is not the time to say, well, look, you know, we're not really trying to derisk, we're not really trying to decouple, et cetera, et cetera. I think, you know, we need to explain what the problems are and what solutions we're trying to

implement.

Mr. Banks. Help us out, Mr. Qazi, as well. To what degree are U.S. financial investments powering China's military civil fusion strategy?

Mr. Qazi. The problem is that the lack of disclosure and transparency means that we simply don't know that today, to my knowledge at least.

Mr. Banks. Can you speculate?

Mr. Qazi. Pardon me?

Mr. Banks. Can you speculate or expand on that?

Mr. Qazi. So, look, we don't know where American, you know, financial companies are investing their money, right. We don't know which companies -- we don't know which companies are invested in or even broadly what sectors they're invested in. I mean, that information needs to be obtained in order to answer the specific question you're asking.

Mr. Banks. Yeah. Would you agree that there's no such thing -- we've already explored this question -- but there's really no such thing as a truly private company in China?

Mr. Qazi. Everybody thought the Alibabas of the world were the big, bad private, you know, entrepreneurial companies out there. Well, look, the Golden Share policy that's taking place, how the Communist Party has a position on the board to these big tech companies now. They will have a voice in the strategic direction of the company, so that gets at the point you're trying to make.

Mr. Banks. Yeah. So when Secretary Yellen goes and literally bows to her Chinese Communist Party counterparts and talks about the administration softening its stance on decoupling our economies, how damaging is that toward sending a clear message to Beijing that we're not screwing around anymore?

Mr. Qazi. Yeah. I think we need to send a stronger, more powerful message. Responsible way? Absolutely, but that we have resolve.

Mr. Banks. Okay. Thank you. I yield back.

Chairman Gallagher. And now we go to Mrs. Steel.

Mrs. Steel. Thank you, Mr. Chairman, for hosting this hearing on the growing threat of the CCP's control and manipulation data.

Since I was elected, I've been working with many of our colleagues on the committee to stop the CCP from engaging in espionage using LOGINK, after Congressman Johnson was talking about. They're a state-backed shipping logistic platform. As mentioned, LOGINK provides Chinese companies unprecedented insight into their competitors' business, allowing China to undercut competition and strengthen its position in the global marketplace.

Ms. Lounsbury, legislation I'm working on with Senator Cotton would require the President to work with international partners to stop their use of LOGINK and prevent its inclusion in any economy or trade package. In your testimony, you mentioned that LOGINK became a member of International Port Community Systems Association.

Since the United States is engaging in the Indo-Pacific Economic Framework, which the administration claims will include efforts to promote trade facilitation and would include steps to promote logistical streamlining, how concerned should we all be about the utilization of LOGINK by IPEF countries? By the way, they didn't include Taiwan on that. It's really, you know, trying to stand up to CCP. I just don't understand, and they don't have any plan to do it. I already asked. And how this would impact United States' interests.

Ms. Lounsbury. I am as surprised as you about the Association's affiliation. So that's an opportunity to figure out what's going on there and what is, again, like we

discussed earlier, an alternative. So I would encourage more conversation and discussion with allies about the opportunity to create something else. And I think companies could support that.

Mrs. Steel. I think this is national security issue too.

Ms. Lounsbury. Absolutely.

Mrs. Steel. Because South Korea, Japan, you know, as you said, they're free and all these countries that our partners are using, Spain, Portugal, you name it. So all of our Navy ships are going out there. China knows exactly when these ships are coming in and when they're going to leave.

So Representative Banks and Johnson and I worked on an amendment for the current NDAA that would ban all Department of Defense usage of LOGINK. The use of LOGINK at ports around the world could subject sensitive U.S. military logistics to more surveillance by Chinese intelligence and military operators.

Can you explain why LOGINK would make it hard to maintain secrecy in movements and ports abroad?

Ms. Lounsbury. I think that you also, not only in America, but our allies, and even just, you know, other nations where we have to do business, and to have the LOGINK have complete visibility on what's happening is just a national security threat.

Mrs. Steel. Actually, I talked to Korean Government, and they're reviewing it, and they tried to change to the system itself because when all these countries, they thought that it's free, actually nothing's free out there --

Ms. Lounsbury. Correct.

Mrs. Steel. -- right? So they said they're going to change all the systems. We don't know exactly when, but it's very dangerous process here. So thank you so much for coming out today. Really appreciate it.

I yield back.

Chairman Gallagher. Mrs. Hinson.

Mrs. Hinson. Thank you, Mr. Chairman.

And I have learned a lot already tonight from our witnesses. Thank you for appearing before us. I think you're helping us to get to one of the core missions of our committee, a core challenge that we face, which is addressing, as you called it tonight, a complete asymmetry that we are dealing with with the Chinese Communist Party.

They are not an impartial market regulator. Unlike the United States where we do try to protect individual rights, they do not. They don't have that value. They try to advance the interest of a corrupt state over their people. They have a huge disadvantage for American investors and American companies located in China. So I really appreciate the conversation we've already had tonight to get to the heart of this issue.

I'd like to direct this question to Ms. Lounsbury, but if any of you have some feedback, I'd welcome that. One of the top concerns, and I continue to hear about this from businesses in Iowa, but is related to IP theft. And we've already heard a little bit about that tonight. But this is not just large-scale businesses. This is also smaller scale businesses that are bringing that concern to me, how they're trying to work within the patent and regulatory frameworks but are met with that straight IP theft.

And we know China is a massive economy. We've had discussion about why the interest would be there for people to want to try to access that economy and tap into that market. But there are a lot of resources out there, but there's a huge challenge and a huge gap there. So I guess my question would be: What do you see as the top issue that Congress needs to do to tackle this? And we've heard some solutions tonight, but if there's one area where you would just zero in and say this is what we should be doing, I'd

welcome that recommendation.

And then, how can we better track frequent offenders that are blatantly stealing our intellectual property here in the United States?

RPTR DETLOFF

EDTR ZAMORA

[8:58 p.m.]

Ms. Lounsbury. Thank you for your question. One thing that just pops to mind immediately, based on my experience and knowledge since those experiences, is universities. We're seeing a lot of -- I have, anyway -- PRC nationals in universities, very high-tech universities, that are then starting up, you know, small, you know, startups, tech startups. They are coming in with small business capital. And then the enticement of funding that startup then requires either a transfer of IP and/or more investment with a Chinese partner.

I think it's really important to take a closer look at the universities, how they are funded by the Communist Party, as well as the students and where they're going, and, you know, sort of the small business incubators that are coming out of those universities.

Mrs. Hinson. So it comes down to follow the money again?

Ms. Lounsbury. Follow the money. Yeah, follow the money. And I think the universities are -- you know, that's where this cutting strategic emerging industry -- you know, our cutting-edge, you know, technologies are coming out of. So really must take a closer look at how these universities are working.

Mrs. Hinson. Okay. Mr. Qazi?

Mr. Qazi. I don't have anything else to add.

Mrs. Hinson. She nailed it, huh?

Mr. Shum?

Mr. Shum. I think the U.S. Congress and your committee is doing the right thing. First, you start with restricting certain sensitive technology. And then that's the first thing.



And the second thing is, I think right now the private enterprises now are well aware of the IP issue when they operate in China. So the issue everybody is looking at is, so how much do I need to lose in order to -- in order to have access to market? It's the balancing it. So people are a lot more aware now and actually doing active calculation as they operate and move into China.

Mrs. Hinson. My next question relates directly to a company in my home district. I represent Cedar Rapids, Iowa, and Collins Aerospace is headquartered there. And as you're all well aware, back in 2018, United Technologies Corporation received a very delayed, I might add, Chinese regulatory approval for a \$30 billion purchase of aircraft parts maker, Collins Aerospace, that cleared the final battle, obviously, for the largest aerospace company deal in history. But that was conditional based upon the situation with escalating tensions with China and the United States.

So the questions were -- surrounding that, obviously -- did the CCP delay the deal because of the disputes happening here?

So, Ms. Lounsbury, if you could walk us through briefly in the time we have left your experience working with the CCP's antitrust regulators in this process to gain approval for the acquisition and kind of what circumstances surround that.

Ms. Lounsbury. I mean, well, I would say that that oversight body has changed a lot since I was in that position out in China, and that transaction happened after I was no longer in China. But I can tell you that, you know, from what I looked at and what I heard from my old colleagues, that this was a political moment with the Qualcomm merger that was, I think, obviously denied just before the Rockwell Collins transaction.

So I think, you know, there was a delay. There were more conversations with, you know, the Chinese partners. You know, written advisory, more meetings. And in the end, it went through, but it did -- it did get hung up in the U.S.-China political, you

know, back-and-forth tit-for-tat.

Mrs. Hinson. Absolutely. Coercion for sure.

Ms. Lounsbury. Absolutely.

Mrs. Hinson. Thank you. I yield back.

Chairman Gallagher. Mr. Gimenez.

Mr. Gimenez. Thank you, Mr. Chairman.

I think that the communists, especially the CCP, they don't like carrots. Actually, they view carrots as a sign of weakness. And they'll take advantage of the carrot, but after that, they'll go about their own business, and that the only thing that they understand is strength.

Do you agree with that, Mr. Shum?

Mr. Shum. Yes, absolutely.

Mr. Gimenez. Mr. Qazi?

Mr. Qazi. Yes.

Mr. Gimenez. Ms. Lounsbury?

Ms. Lounsbury. [No verbal response.]

Mr. Gimenez. Okay. Now, put on your futuristic -- you're seeing the future, Mr. Shum, and tell me, what is the fate of American companies in the short term, the medium term, and the long term that are doing business in China today?

Mr. Shum. That's interesting. I think in the -- I do think the Chinese economy is sinking. So in the short term, everybody's issue is, how do I diversify my operation? And then it's reglobalization minus China. So that's in the short term.

I think in the long -- in the medium term, everybody is looking, so how bad this -- where the Chinese economy is going to go? And then to heighten the risk of the Taiwan Strait, how do I derisk that issue?

And I think long term -- long termwise, I think every -- I mean, to be frank, I think, you know, if you look at globally, Europe is in its own mess. China with Asia with unpredictable and menacing power creating waves in Asia. All capital is coming to the U.S. So I think, you know, you talk to any major --

Mr. Gimenez. I'm specifically talking -- I'm talking about --

Mr. Shum. -- major large investors, they are looking at basically, how do I allocate my bulk of my bad side in the U.S., and how about sporadic bad based on growth market opportunities?

Mr. Gimenez. This was American companies now. The fate of American companies in China. Is that what you answered? Was that your answer?

Mr. Shum. Yeah.

Mr. Gimenez. Okay. Mr. Qazi, how do you see it?

Mr. Qazi. I think it's always been the case that you can do business in China, obviously, under the rules of the party. We pretended like that wasn't the case for a long time, but the fact is that has been the case, that will be the case moving forward.

You have to invest probably eventually in the sectors that the party wants you to go. If you are aligned with their vision, you succeed as a firm. If you're not, you don't. And that's the general direction at the macrolevel that's going to stay true.

Mr. Gimenez. Ms. Lounsbury?

Ms. Lounsbury. And if that is true, then that means we are replaced, because --

Mr. Gimenez. Correct. Right. We die.

Ms. Lounsbury. We discussed that.

Mr. Gimenez. We die. Okay. What do you see the future of American investors and their capital in the CCP, in China?

Same thing. Let's go backwards, though. You're first.

Ms. Lounsbury. I'm first this time?

Mr. Gimenez. Yes.

Ms. Lounsbury. I think investors need to take off the rose-colored glasses and make sure they know what they're investing in. For example, if you look at just pension funds, we have invest -- we are investing pension funds into Chinese state-owned enterprises. Those state-owned enterprises have the same risk that we've just been discussing. So your pension funds are at risk because the Chinese Communist Party can do whatever it wants whenever it wants. It can shut off market. It can -- you know, it's not good.

Mr. Gimenez. Can they take them? In other words, saying, okay, okay, thank you, thank you for your investments. They're ours now, and that's it. It's over.

Is there a risk of that?

Ms. Lounsbury. Absolutely.

Mr. Gimenez. So billions and billions of dollars that Americans -- everyday Americans are investing in their pension funds, 401s, et cetera, are at risk if they invest in China today?

Ms. Lounsbury. I would say yes. And the problem is, I don't think most Americans know where their pension funds are invested. And so when you do dig deeper, if you do know enough to look there, you'll see that that is a risk.

Mr. Gimenez. So I think that's fair enough.

Look, my colleague from Florida, you know, talked about the Biden administration and the restrictions they're about to place. Mr. Shum, your response, I found interesting. You said that basically that those restrictions are mirroring what the CCP is actually doing today. Is that correct?

Mr. Shum. Yes. They're doing exactly the same thing, actually.

Mr. Gimenez. Okay.

Mr. Shum. Actually, they're pushing it harder and stronger than the American system is pushing it.

Mr. Gimenez. So the Biden administration is actually mirroring what the CCP is already doing in China?

Mr. Shum. I'm not saying they're mirroring. I think both sides are actually pushing for -- effectively are pushing for decoupling.

Mr. Gimenez. I'll end with this statement. A very prominent businessman in Miami wanted to do business in Miami. He brought a consultant to Miami to teach all his managers how to do business in Miami -- or I'm sorry -- in China. And finally, the consultant said, but you have to remember this, that in China and the CCP, it's not about, you know, win-win situation. It's not even about they win more and you win less. It's about they win, you die.

Do you all agree with that?

Thank you very much, and I yield back.

Chairman Gallagher. Thank you, Mr. Gimenez.

Thank you, again, to all of our witnesses for your time, for your incredible testimony, for not only your oral testimony, but your extensive written testimony, which contained a lot of policy ideas that we're going to be able to analyze and debate and hopefully rally in bipartisan fashion behind some sensible and strong recommendations on how to selectively decouple.

I'd remind the committee members their questions for the record are due 1 week from today on July 20th.

We have a very busy week next week. The next 2 weeks are busy for the committee. We have a brief with the Chairman of the Joint Chiefs of Staff on Tuesday at

3 p.m. We have the first ever committee thunderdome on Wednesday, a big old debate on trade and economic issues, on Wednesday at 2 p.m., which is going to be very fun. And then we have a hearing that's not at night, in the morning on Thursday with administration witnesses. We have representatives from Defense, State, and Commerce. So it's going to be a very fun week.

Final thought, I've been thinking about this concept of anti-coercion. We spoke with Ambassador Emanuel from Japan, and he has this whole framework for anti-coercion. And initially I sort of thought, well, this is a new idea. We're sort of dealing with a new threat. And in many ways, the CCP is a more complex threat than anything we've dealt with before. But I came across something, because I'm obsessed with the early Cold War, and I was reading this this morning. This is Truman to Congress on March 12, 1947, asking for money to support Greece and Turkiye after the British pulled support and there were all these communist uprisings and the risk of communist minorities taking over the country.

He said, in requesting money from Congress, one of the primary objectives of the foreign policy of the United States is to create -- is the creation of conditions in which we and other nations will be able to work out a way of life free from coercion. This was a fundamental issue in the war with Germany and Japan. Our victory was won over countries which sought to impose their will and their way of life upon other nations.

To ensure the peaceful development of nations free from coercion, the United States has taken a leading part in establishing the United Nations. The United Nations is designed to make possible lasting freedom and independence for all its members.

We shall not realize our objectives, however, unless we are willing to help free peoples to maintain their free institutions and their national integrity against aggressive movements that seek to impose upon them totalitarian regimes.

There is no more than a frank recognition that totalitarian regimes imposed on free peoples by direct or indirect aggression undermine the foundations of international peace and, hence, the security of the United States. And thus, the Truman Doctrine was born.

So there you go. Bipartisan early Cold War offers lessons for the present day.

Thank you to all our members. Thank you to our witnesses again.

And with that, the committee hearing is adjourned.

[Whereupon, at 9:10 p.m., the committee was adjourned.]