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THE CHINESE COMMUNIST PARTY'S THREAT TO AMERICA

Tuesday, February 28, 2023

House of Representatives,

Select Committee on the Strategic Competition Between

the United States and the Chinese Communist Party,

Washington, D.C.

The committee met, pursuant to call, at 7:01 p.m., in Room 290, Cannon House Office Building, Hon. Mike Gallagher [chairman of the committee] presiding.

Chairman Gallagher. The select committee will come to order.

Welcome, everyone, to the select committee's first hearing, on "The Chinese Communist Party's Threat to America."

In 1991, a Chinese academic by the name of Wang Huning wrote a book called "America Against America." This was a critique of the internal conflict he found at the heart of American society.

These days, that academic is one of the most powerful people in the world and a member of the seven-person Politburo Standing Committee, the highest governing body within the Chinese Communist Party.

"America Against America" also describes the strategy that Wang, General Secretary Xi Jinping, and the Chinese Communist Party have pursued in the years since, pitting Americans, who they believe to be greedy and factional, against each other to undermine our country.

The CCP has found friends on Wall Street, on K Street, in Fortune 500 C-suites, in the public health community, who are ready and willing to oppose our efforts to push back.

This strategy has worked well in the past, and the CCP is confident it will work again. Our task on this committee is to ensure that it does not.

Thanks to Speaker McCarthy and Leader Jeffries, we have an excellent group of thoughtful legislators on this committee on both sides. We will be working hand-in-hand with our teammates on the standing committees, particularly my friend, House Foreign Affairs Committee Chairman Michael McCaul, who helped set the stage for our work through the 2020 China Task Force.

Chairman McCaul's leadership produced a number of bipartisan proposals that we

must build upon as we investigate and expose the ideological, technological, economic, and military threat posed by the Chinese Communist Party.

We may call this a strategic competition, but it is not a polite tennis match. This is an existential struggle over what life will look like in the 21st century. And the most fundamental freedoms are at stake. The CCP is laser-focused on its vision for the future, a world crowded with techno-totalitarian surveillance states, where human rights are subordinate to the whims of the Party.

For the time being, it is still up to us to decide if that is the future we want for our children, but it won't be for much longer. Time is not on our side. Just because this Congress is divided, we cannot afford to waste the next 2 years lingering in legislative limbo or pandering to the press. We must act with a sense of urgency.

I believe our policy over the next 10 years will set the stage for the next 100. We cannot allow the CCP's tech-power dystopia to prevail.

Therefore, we must learn from our mistakes. For much of the past half-century, we tried to win the CCP over with honey, with engagement, believing that economic engagement, in particular, would lead to reforms in China. Both parties made the same bet. The only problem is, it didn't work out. We were wrong. The CCP laughed at our naivete while they took advantage of our good faith.

But that era of wishful thinking is over. The select committee will not allow the CCP to lull us into complacency or maneuver us into submission.

Tonight, we are joined by a distinguished group of dissidents in the audience, including Wei Jingsheng, a titan of the Chinese democracy movement. You will hear some of their voices momentarily in a video that looks at some of the suffering the Chinese Communist Party has inflicted since it came to power over 70 years ago.

This should remind us at all times and in all the work that we do together that we

must constantly distinguish between the Chinese Communist Party and the Chinese people themselves, who have always been the Party's primary victims.

And now I would like to introduce a joint video that the ranking member and I put together to help set the stage for the hearing.

Without objection, the video shall be entered into the record.

And the clerk will play the video.

[Joint video from the chairman and ranking member shown.]

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

Mr. Krishnamoorthi. Good evening. And thank you, Mr. Chairman.

It is an honor to serve as the ranking member of this select committee and to join the chairman and my colleagues in a bipartisan effort to address the economic security and technology challenges our country faces from the Chinese Communist Party, also known as the CCP.

I believe three overarching themes will underpin our success as a committee:

First, we must always, always protect American values and interests.

Second, at our best, this committee can help us as Americans to up our game as a people -- for example, through investments in technologies of the future, workforce improvement, and by fixing weaknesses in our economy, such as in our supply chains and even our legal immigration system.

Third, we must practice bipartisanship and avoid anti-Chinese or Asian stereotyping at all costs. We must recognize that the CCP wants us to be fractious, partisan, and prejudiced. In fact, the CCP hopes for it. But what they don't get is that the diversity of our viewpoints and backgrounds is not a bug in America's operating system; it is our defining feature and strength.

As Nancy Pelosi, for whom this room is named, has said, our diversity is our strength, and our unity is our power -- our unity of purpose, our unity in action, and our unity as Americans. We must summon that unity if we are to safeguard our values and our economic way of life going forward.

Over the last three decades, both Democrats and Republicans underestimated the CCP and assumed that trade and investment would inevitably lead to democracy and greater security in the Indo-Pacific region, including in the PRC.

Instead, the opposite happened. As China's economy has grown more than tenfold since gaining access to U.S. and world markets, the CCP has, among other things, strengthened its authoritarian control at home, including engaging in a genocide of the Uyghur people. The CCP has funded a massive military buildup, threatening its neighbors, including Taiwan. And it has pursued economic and trade policies that flat-out undermine our economy.

The goal of the CCP has become clear: to displace U.S. and other competitors, especially in tomorrow's strategic industries. As Chairman Xi himself recently said, quote, "The East is rising while the West is declining," close quote.

And by 2049, a mere 25 years away, which would mark the 100th anniversary of the birth of the People's Republic of China, Chairman Xi wants to ensure that China, quote, "leads the world in terms of strength, national composite strength, and international influence."

As a committee, we must use the insights we learn here today to make our country stronger at home and more secure in the world. Here are some principles I respectfully submit for our consideration:

First, we must continue to invest in high-technology sectors of the future and boost U.S. manufacturing. The CHIPS and Science Act and the Bipartisan Infrastructure

Law were a strong start, but more work needs to be done.

Second, we must deter aggression by the CCP. We do not want a war with the PRC -- not a cold war, not a hot war. We don't want a clash of civilizations. But we seek a durable peace, and that is why we have to deter aggression.

Last August, I joined Speaker Pelosi and my colleagues in visiting Taipei to show support for the people of Taiwan. Together, we demonstrated that the CCP will not be allowed to dictate Taiwan's security or ours.

Third, we must strengthen our global partnerships and coalitions, not only to counter the CCP's security challenges but also to address its anticompetitive economic policies.

Finally, we have no quarrel with the Chinese people or people of Chinese origin. That is why we should never engage in anti-Chinese or anti-Asian stereotyping or prejudice.

Comments that question the loyalty of Asian-American Members of Congress are completely unacceptable and must be rejected. These comments only feed the scapegoating and targeting of Chinese Americans, further endangering them and other Asian Americans.

Indeed, these xenophobia and stereotyping, as I mentioned before, is what the CCP would want to happen. The CCP is counting on us to be divided. We must rise to the occasion and prove them wrong.

Thank you, and I yield back.

Chairman Gallagher. Thank you.

If any other member wishes to submit a statement for the record, without objection, those statements will be added to the record.

[The information follows:]

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Chairman Gallagher. There being none, we are privileged today to have an all-star lineup of witnesses, each of whom brings an important and unique perspective on the Chinese Communist Party.

First is Matthew Pottinger, a fellow Marine who I first met in the desert in western Iraq, who has graciously and patiently converted a recovering Arabist to a China watcher. He served as Deputy National Security Advisor under President Trump and now serves as chairman of the China Program at the Foundation for Defense of Democracies, among other affiliations.

Next is Lieutenant General H.R. McMaster, who had a distinguished military career. He is also a distinguished historian. His book "Dereliction of Duty" remains among the all-time classics in terms of histories of the Vietnam War. And his service to our Nation culminated most recently as National Security Advisor during the previous administration. He is now the Fouad and Michelle Ajami Senior Fellow at the Hoover Institution.

We are also very privileged to be joined by Ms. Tong Yi, who, as you will soon hear, has an incredibly moving personal story to tell. Without spoiling anything, let me just say that there are few people who are better equipped to speak on a personal level about the true nature of the Chinese Communist Party.

We are honored to have you here.

And, finally, we have Scott Paul, who is president of the Alliance for American Manufacturing. Mr. Paul is a true expert on manufacturing policy, and few are better equipped to speak on the CCP's malign economic practices and their consequences for American industry and American workers than him.

Welcome to all of you, and thank you all for being here this evening.

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

Do you swear or affirm, under penalty of perjury, that the testimony you are about to give is true and correct, to the best of your knowledge, information, and belief, so help you God?

Mr. Paul. I do.

Ms. Tong. I do.

General McMaster. I do.

Mr. Pottinger. I do.

Chairman Gallagher. You may be seated.

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

And, Mr. Pottinger, you may begin.

TESTIMONY OF THE HONORABLE MATTHEW POTTINGER, CHAIRMAN, CHINA PROGRAM, FOUNDATION FOR DEFENSE OF DEMOCRACIES; LIEUTENANT GENERAL H.R. MCMASTER, SENIOR FELLOW, HOOVER INSTITUTION; TONG YI, HUMAN RIGHTS ACTIVIST; AND SCOTT PAUL, PRESIDENT, ALLIANCE FOR AMERICAN MANUFACTURING

TESTIMONY OF THE HONORABLE MATTHEW POTTINGER

Mr. Pottinger. Thank you, Mr. Chairman.

As part of my opening remarks, I'd like to enter into the record a video that has been provided to the committee.

Chairman Gallagher. Without objection, the video will be entered into the record.

The clerk will play the video.

[Video provided by witness Matthew Pottinger shown.]

Mr. Pottinger. Chairman Gallagher, Ranking Member Krishnamoorthi, and distinguished members of the select committee, if any of the Xi Jinping quotations that I just displayed in that short film surprised you, you're far from alone. And that's because China's Communist leaders are masters at disguising their true intentions. Those quotes you heard, some of them from previously secret speeches and from military textbooks, are just a few reflections of what China's Communist leaders really think.

The success that the Chinese Communist Party once enjoyed presenting itself as constructive, cooperative, responsible -- normal -- was one of the great magic tricks of the modern era.

Leader Xi Jinping might actually agree on that point. He refers to the Party's

influence and propaganda activities as a "magic weapon" for advancing the regime's interests. You could say that the Chinese Communist Party is the Harry Houdini of Marxist-Leninist regimes, the David Copperfield of communism, the Chris Angel of autocracy.

But the magic is fading. There is really no excuse anymore for being fooled about Beijing's intentions, and the canon of Chairman Xi's publicly available statements is too voluminous and the accumulated actions of his regime too brazen to be misunderstood at this late hour. We simply know too much.

Thank you for the opportunity to testify today.

[The statement of Mr. Pottinger follows:]

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Chairman Gallagher. Thank you, Mr. Pottinger.

General McMaster, you are now recognized for 5 minutes.

TESTIMONY OF LIEUTENANT GENERAL H.R. MCMASTER

General McMaster. Chairman Gallagher, Ranking Member Krishnamoorthi, and distinguished members of the committee, it is a privilege to testify before this committee at this critical moment for our Nation and the free world. And it is an honor to be seated next to three people for whom I have tremendous admiration and respect.

This committee's work is urgent and important, because the United States has fallen behind in the consequential competition with the Chinese Communist Party.

For too long, leaders across the private sector, in academia, industry, and finance, as well as in the public sector across multiple administrations and Congresses clung to the assumption that China, having been welcomed into the international system, would play by the rules and, as China prospered, would liberalize its economy and its form of governance.

Reality proved otherwise, but many leaders were slow to overcome wishful thinking and self-delusion concerning the intentions of the CCP.

As a result, the United States and other nations across the free world underwrote the erosion of their competitive advantages through the transfer of capital and technology to a strategic competitor determined to gain preponderant economic and military power.

This committee can help the United States catch up in the competition with the CCP. It can do so by holding hearings that reveal the nature of the CCP aggression and

what is at stake for Americans and citizens of the free world.

[Disturbance in hearing room.]

General McMaster. And, perhaps most important, the committee can help determine the combinations of policies --

Chairman Gallagher. There will be order.

General McMaster. -- and legislation necessary to counter CCP aggression and rebuild America's and the free world's competitive advantages.

Chairman Gallagher. General McMaster, why don't you pause for a second. You'll be --

General McMaster. Okay.

Chairman Gallagher. -- given additional time. And we'll take care of this.

[Disturbance in hearing room.]

Chairman Gallagher. All right. General McMaster, you may continue.

General McMaster. Thank you.

This committee, as I was saying, can help the United States --

[Disturbance in hearing room.]

Chairman Gallagher. Your sign is upside-down.

[Disturbance in hearing room.]

General McMaster. Well, you know -- thank you, Congressman Gallagher.

You know, I think these eruptions are indicative of really the effect that the United Front Work Department has had. And maybe we can talk more about that during the course of the hearing.

I think they have reinforced to some degree what you might call a bit of a curriculum of self-loathing that has taken hold in academia for many years. They reinforce, I think, the idea that America is the problem in the world, and only if America

disengages, or in this case becomes more passive, that things will get better.

But the reality is that this committee's work is really important because we have to catch up, mainly because of the complacency that you hear reflected maybe in an extreme way in these two outbursts, but we have to catch up in the competition with the CCP.

And as I was saying, I think what you'll be able to do is hold hearings that reveal the true nature of CCP aggression and what is at stake for Americans and citizens of the free world and the people of China.

And, perhaps most important, this committee can help determine the combinations of policies and legislation necessary to counter CCP aggression and rebuild America's and the free world's competitive advantages.

The 1-year anniversary of Russia's brutal reinvasion of Ukraine and the degree to which the CCP has covered for its authoritarian partner adds a sense of urgency to your vitally important work.

And I'm confident that the committee will help our government, as well as leaders in the private sector, understand the implications of the war against Ukraine for the competition with the CCP and the urgent actions we must take to restore and preserve peace, promote prosperity, and build a better future for generations to come.

Thank you for the privilege of being with you and for the bipartisan spirit in which you have undertaken this important work for the American people.

[The statement of General McMaster follows:]

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Chairman Gallagher. Thank you, General McMaster, and I apologize for the interruption. I should not have told him that his sign was upside-down, I guess. But --

General McMaster. I've experienced worse, Congressman Gallagher. It's okay.

Chairman Gallagher. I know you have.

Ms. Tong, you are recognized for your opening statement.

TESTIMONY OF TONG YI

Ms. Tong. Mr. Chairman, Ranking Member, distinguished members of the committee --

Chairman Gallagher. Would you please turn your microphone on?

Ms. Tong. Mr. Chairman, Ranking Member, distinguished members of committee, it is a privilege to be here.

In late November of last year, students and others in several large Chinese cities gathered in spontaneous protest. On the surface, they were angry about a lethal fire in a high-rise apartment building in the city of Urumqi in Xinjiang, but their real protest was against the lockdowns that Xi Jinping's Zero-COVID policy has imposed on hundreds of millions of people.

At an even deeper people, the young people were protesting a political system that could allow the whim of one muddle-headed dictator to cause such harm. The students' protests resonated deep in society. "Stop the ridiculous anti-COVID tyranny." The challenge to Xi Jinping was how to change the COVID policy but keep the tyranny. He did both.

The November 2022 protests were but the latest bubbling to the surface of this discontent that has lain beneath the surface of Chinese Communist society ever since 1949. The Chinese people have shown repeatedly that Communist rule has been a problem for them.

Three decades ago, in 1989, I myself was a student protester. I witnessed the killing of the innocent people by the PLA near Tiananmen Square on that fateful night of June 3rd and 4th.

Many others more experienced and articulate than I could be sitting here before

you but cannot risk harm to themselves or their families, especially those with relatives in China.

I stayed active in pro-democracy work and in 1993 began assisting and interpreting for Wei Jingsheng, a leading dissident who had been released as part of the CCP's bid for the 2000 Summer Olympic Games. Wei was urging the U.S. to condition trade on China's human-rights performance.

I interpreted for his meetings with then-Senator John Kerry, Congressman Chris Smith, and Assistant Secretary of State John Shattuck. Our meeting with Mr. Shattuck alarmed the regime, and we were arrested soon afterward.

In the detention center in Beijing, in the wee hours of many consecutive mornings, police interrogated me about what Wei Jingsheng had said to the U.S. dignitaries. They were truly afraid that the U.S. might listen to Wei.

You can imagine my disappointment when I heard on the loudspeaker inside my detention cell that President Clinton had decided to de-link the issues of human rights and trade. I was handed a 2-1/2-year sentence for disturbing social order and sent to a forced labor camp.

In the labor camp, the food was poor, and we worked 12 hours a day -- technically illegal under Chinese law. I protested, and, for that, the camp authorities organized other inmates to beat me up. The beatings were terrible for two nights, then tapered off.

Eventually I was able, with the help of a fellow inmate, to smuggle a note about my condition out to my mother, who faxed it to a human-rights organization in New York. Voice of America broadcast a story. Other media picked it up. Mr. Shattuck asked for me on his next trip to Beijing. And with all that, my treatment in the camp improved dramatically.

From my own experience, I can say this with certainty: Those who have been arrested or disappeared would want us who live on the outside here in freedom to shout about their injustice as loudly as we can. I can also say, based on what happened to me and many others, that our shouting will likely improve their condition, not hurt it.

In the U.S., we need to face the fact that we have helped to feed the baby dragon of the CCP until it has grown into what it now is. Since the 1990s, U.S. companies have enriched themselves by exploiting cheap labor in China and have, in the process, also enriched the CCP.

The regime has acquired the tools for its digital dictatorship from the U.S. through forced transfers by theft and sometimes with the blessings of U.S. companies by purchasing it. Wall Street, through its passive investment portfolios, sends billions of dollars from the retirement accounts of ordinary Americans to the discretionary use of the CCP.

It didn't have to be this way. After the June 4th massacre in 1989, George H.W. Bush did not have to undermine Western sanctions on Beijing by secretly sending emissaries to assure Deng Xiaoping that nothing important had happened. In 1994, Bill Clinton did not have to sell out human rights to business interests by abruptly de-linking the two. In 2001, the U.S. did not have to give the CCP the undeserved and later cynically abused boon of WTO membership.

We are seeing now the consequences of these policy choices. Under Xi Jinping's rule, there is increasing oppression inside China, increasing aggressiveness outside of China, and an enormous U.S. trade deficit.

I am a proud immigrant citizen of the U.S., and I want my country to do better.

Thanks for having me.

[The statement of Ms. Tong follows:]

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Chairman Gallagher. Thank you very much, Ms. Tong.

Mr. Paul, you are now recognized for your opening statement.

TESTIMONY OF SCOTT PAUL

Mr. Paul. Thank you, Mr. Chairman, Mr. Ranking Member, members of the committee, and fellow witnesses. I appreciate the opportunity to testify.

I think it bears saying that those protesters have a right to an unlimited amount of free speech in the United States and to petition their government for the redress of grievances. They would have no such right in China. It wouldn't be broadcast. Their voices would be silenced, perhaps permanently.

The economic policies of the Chinese Communist Party represent a clear and present danger to the American worker, our innovation base, and our national security. For decades, the CCP has telegraphed its intentions with 5-year plans, the Made in China 2025 program, military-civil fusion, and the Belt and Road Initiative. Its goal is to dominate key industries, set global standards, seek opportunity from crisis, and weaken competitors.

The CCP has attracted American investment to do this.

And I now ask consent to play a video.

U.S. big company investment in China grew tenfold in two decades, \$1.3 trillion in total. Their R&D in China grew at nearly three times the domestic rate.

Cheating is a core tenet of CCP ambition -- stealing intellectual property, cyber-hacking, piracy. The cost: tens of thousands of factory closures in America, \$600 billion in IP losses alone.

The CCP also created an impossibly cheap "China price" that masked the true cost of production. It made China the world's factory floor. Trillions in subsidies, currency manipulation, exploiting workers and the environment, even using forced labor. Lax safety standards that harmed our consumers.

I ask consent to roll the next graphic.

Overproducing at state-owned zombie factories that just wouldn't die, and roiling global markets.

The CCP demands the complicity of global businesses operating in China, and these firms have conformed. Big Tech, Hollywood sports leagues, retail legends all say the right things in America but are silent in China, bending the knee to the CCP.

Meanwhile, Chinese firms must support the military ambitions of the People's Liberation Army through the CCP's fusion strategy. No business is untainted.

While CCP policies have been destructive, our own policies in some cases have made matters worse. Bringing China into the world trade system in 2000 seemed like a slam dunk but, instead, became a spectacular failure of conventional wisdom and elite opinion.

And after writing a blank check to Beijing, we turned a blind eye to its cheating, time and time again accepting empty promises to reform, with no real consequences.

Governors sought out Chinese firms for projects that cost American jobs: the San Francisco Bay Bridge; railcars for Boston, Chicago, and other cities; even the Alexander Hamilton Bridge in New York City, named for the father of American manufacturing policy.

Meanwhile, taxpayer-financed Federal research was handed to China. One example: A breakthrough battery was invented at a U.S. national lab but made in China.

American workers suffered as a consequence. The trade deficit surged.

Three-point-seven million jobs vanished. Wages plunged. Communities were wrecked. The China import shock led to more depths of despair and evidence of social unraveling.

America became too dependent on China for many essential goods. Think of PPE during the pandemic, 5G hardware, commercial drones, critical minerals, medicine. The list is long and terrifying.

At the same time, U.S. manufacturing capabilities eroded. The defense industrial base weakened. We are behind the curve on clean-energy manufacturing. We couldn't make enough semiconductor chips, which broke supply chains.

It doesn't have to be this way. And, thankfully, U.S. policy has started to shift.

Here is what we should do next: build on the highly effective semiconductor technology export restrictions; vigorously enforce the new law called UFLPA that bans forced labor imports; sharpen trade tools; pass the bipartisan Leveling the Playing Field Act 2.0, taking trade actions to accelerate the return of key supply chains.

Reform the de minimis policy that gives Chinese shopping apps, such as Temu and Shein, as well as Amazon a way to evade inspections and tariffs; screen the outbound investments of U.S. companies in China and tighten up oversight of Chinese investments in the U.S., particularly in critical sectors; expand the law that now bans Chinese firms from Federal transit contracts to all other public investment streams.

We must also build on the CHIPS Act, Infrastructure Law, and energy investments to reduce our dependency on China.

Finally, we should suspend or revoke normalized trade relations with China. The CCP certainly doesn't deserve the same trade status as our allies and reciprocal partners.

In closing, our hubris and neglect aided Beijing's ambitions, weakened our capabilities, and hollowed out our middle class. But a brighter future for American

manufacturing is possible, even in the wake of the CCP's destructive policies. Factories are rebounding, and it's not accidental. It's the result of public policies and pressure on corporations to rethink their supply chains.

But there's more to do. We have a long list of vulnerabilities, starting with medicine ingredients, critical minerals, machine tools, and microelectronics. And the CCP isn't slowing down.

While conflict with China isn't inevitable, fierce economic competition is. We look forward to working with you on building a new American strategy to defend our workers.

Thank you very much, Mr. Chairman.

[The statement of Mr. Paul follows:]

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Chairman Gallagher. Thank you, Mr. Paul.

I commend all of our witnesses' written testimony. They are all exceptional.

We will now move on to the question portion. I recognize myself for 5 minutes.

Mr. Pottinger, few issues have received as much bipartisanship attention recently as TikTok. Could you elaborate on your concerns, both in terms of potential espionage, control over the algorithm, as well as potential precedent a mitigation agreement could set when it comes to TikTok and other CCP-directed technology companies operating in the United States?

Mr. Pottinger. Mr. Chairman, thank you.

Well, certainly, the data privacy issues, which have gotten a lot of attention, are a real problem for the privacy of Americans but also for our national security. Already, the Chinese parent company that controls TikTok has been confirmed as having used the app to surveil U.S. journalists in order to try to identify their sources and to retaliate against their sources. And that's just one small example of the universe of potential abuse that would be in the offing.

Look, there's nothing in Chinese law that suggests that the Chinese Communist Party would back off of its legislated privilege to access all of the data produced by social media platforms and other Chinese apps. I simply don't think that it's possible to mitigate in a credible way against that threat.

But the bigger coup for the Chinese Communist Party if TikTok is permitted to continue operating in the United States and if WeChat and other Chinese platforms are allowed to continue to operate is that it gives the Chinese Communist Party the ability to manipulate our social discourse, the news, to censor and suppress or to amplify what tens of millions of Americans see and read and experience and hear through their social media

app.

TikTok is already one of the most powerful media companies in American history, and it's still growing. It's not just dances and kid stuff; it's becoming a major source of news for a generation of Americans.

Chairman Gallagher. Thank you, Mr. Pottinger.

General McMaster, in your written testimony, you write that, "One year later, we might ask ourselves what more we could have done to deter a Russian invasion of Ukraine."

What lessons from the failure of deterrence in Ukraine can we apply to Taiwan?

General McMaster. Congressman Gallagher, thank you very much.

I think, first of all, hard power matters. And what matters much, much more than pledges of more defense sales, for example, are real capabilities on the ground and integrated, in this case, with the Taiwanese Armed Forces.

As all of you know, there is a \$19 billion backlog of what the Taiwanese have already purchased to make that island indigestible and to achieve deterrence by denial, by convincing the People's Liberation Army and the Chinese Communist Party they cannot accomplish their objectives through the use of force.

I think the other big lesson that we've been talking about and certainly Mr. Paul talked about is, it's a big mistake to give an authoritarian regime coercive power over your economy. Germany learned that the hard way in the energy sector, and Europe did broadly in connection with the Kremlin and Russia. But there are all sorts of supply-chain vulnerabilities associated with batteries, magnets, certain minerals and the upstream processes of producing those minerals, and many of the equipment and hardware and upstream components that are critical to the energy transition, you know, for example. So we could be creating a form of energy dependency on the Chinese

Communist Party, for example.

And then, finally, I think what is really important is the need for us to recognize that we have to build our defense capabilities. The assumptions that have underpinned defense planning for a long time have been that we can do one thing at a time. And I think what China has been able to do is take advantage of crises elsewhere to advance their interests through coercion in other places, whether it's bludgeoning Indian soldiers to death on the Himalayan frontier or building islands and fortifying them in the South China Sea to control the ocean or at least a part of the ocean through which one-third of the world's surface trade flows.

So I think there are really clear lessons from Russia's reinvasion of Ukraine, but I think lesson, maybe, number one that is above all these is urgency, that we have to, I think, act with a real sense of urgency.

Chairman Gallagher. Thank you, General McMaster.

I don't have time for another question. I'll use what time remains to explain how I feel about the 5-minute rule on this committee.

I will enforce it among our members gently in the first hearing and then ruthlessly thereafter, because I've spent most of my time at the far end of the low dais, and so I know that you can spend hours waiting to ask a question.

That being said, if you are the eager student that stays until the end, I will entertain a second round of questioning. So you may find yourself alone with me and the witnesses at 1:00 a.m. asking endless rounds of questions if you are so interested in the topic.

And, with that, I will stop talking and recognize the ranking member for 5 minutes.

Mr. Krishnamoorthi. Thank you, Mr. Chair.

Can you please put up the slide with the graphic?

Mr. Paul, I wanted to just bring your attention to this particular graphic. It's titled "Manufacturing Employment and the U.S. Trade Deficit with PRC from 1973-2015."

You see two lines on that graph, right? The top line actually tracks manufacturing employment over time between '73 and 2015. It starts out at roughly 18.8 or 19 million American jobs in manufacturing, and it goes all the way down to about 12.4 million jobs in 2015.

You see that, right?

Mr. Paul. Absolutely. Yes, sir.

Mr. Krishnamoorthi. And, at the same time, we see the trade deficit. It starts out at zero in 1973, because that's when we really began trading with the People's Republic of China after a long embargo before that. But then it gradually rises until we reach about \$367 billion in trade deficit, meaning they're selling \$367 billion more in stuff than we are selling to them, right?

Mr. Paul. Correct.

Mr. Krishnamoorthi. And you see that it's gradually increasing in the 1980s, the 1990s. And, then, all of a sudden, in 2000, an event happens, at which point, all of a sudden, manufacturing employment falls off a cliff, and the trade deficit rises dramatically upward.

Talk to us about what happened in 2000.

Mr. Paul. Yeah. Thank you for the question. It is a product of some of the features that I mentioned in my testimony.

First of all, U.S. policy liberalized trade with China through the grant of PNTR, which reduced tariffs to virtually zero. We opened up investment into China with that guarantee, and, as I mentioned, we saw \$1.3 trillion of foreign direct investment in China by U.S. companies over that period of time.

Put simply, it displaced American workers. What we were once producing here was now being produced in China. And I'm certain that you and your colleagues saw that reflected in your communities. There were factories all over the place that once stood but are now gone.

And these went up the value chain. At the beginning, it was T-shirts, it was blue jeans. But one-third of our trade deficit with China is in advanced technology products. That's, like, nuclear technology, bio-health, sophisticated metals.

So it is not simply an equation that we are getting cheap T-shirts in exchange for this liberalization. We've had an enormous crisis here for manufacturing.

Mr. Krishnamoorthi. Thank you, Mr. Paul.

I want to turn my attention to Mr. Pottinger for a second.

So the Center for Strategic International Studies, CSIS, recently developed a war-game simulation for Taiwan, an invasion of Taiwan by the CCP today. And they found that in roughly 24 out of 24 times they ran the simulation the CCP would fail to successfully invade Taiwan today and that gaps exist in their capabilities to do what Chairman Xi Jinping has commanded the PLA, the People's Liberation Army, to be able to do by 2027.

Can you talk about what some of those gaps are today that Chairman Xi Jinping is trying to address on his side?

Mr. Pottinger. Congressman, the PLA, the People's Liberation Army, has been receiving massive amounts of investment that increased by double digits in many years, precisely to try to fill gaps that they would need to fill in order to successfully invade Taiwan. And that's really what we should be working to prevent, is an invasion.

It includes things like amphibious lift, more ships that can carry tanks and equipment. It includes more missiles to add to already the thousands of missiles that

are pointed at Taiwan. That's very scary, because those missiles would cause enormous devastation.

But countries rarely submit to air strikes alone, and so there are other things that they need to do to get people, soldiers, on the ground and equipment there. Helicopter lift is another key area.

But then, also, the capabilities that are designed to threaten the United States, to keep us out of the fight long enough --

Mr. Krishnamoorthi. Well --

Mr. Pottinger. -- for Xi Jinping to make it a fait accompli.

Mr. Krishnamoorthi. -- let me ask you something. In your testimony, you actually quote Chairman Xi in a speech that he gave in November 2021 where he praised Mao Zedong for a preemptive strike on General Douglas MacArthur in 1950. He said, "With 1 punch, 100 punches will be avoided."

Could you envision a scenario of a preemptive attack on America?

Mr. Pottinger. It's possible. We know that the PLA is training for the likelihood that the U.S. would be part of the fight. And that raises the escalatory pressure on China to try to eliminate U.S. capabilities right there in the Western Pacific to buy them time.

One of the other quotes -- because Xi Jinping has been, as you mentioned, talking, telling the Chinese Communist Party to study the Korean War, which they call the "War to Resist America." He has also said that we and China -- quoting Mao Zedong, he says that "we should be willing to ruin our own country internally in order to rebuild it anew."

So those are the kinds of quotes that don't give me, you know, great sleep at night.

Mr. Krishnamoorthi. Thank you.

Chairman Gallagher. The gentleman's time has expired.

Mr. Wittman is recognized for 5 minutes.

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

I'd like to thank our witnesses tonight.

And let's begin by, as a committee and as a Nation, making one thing clear to everyone around the world: The Chinese Communist Party is a threat to the United States. It is the threat of our lifetime.

The CCP actively undermines the U.S. and our world economy. It also attempts to use the principles of our Republic against us. Beijing is intent on building a military that not only threatens the world in the Indo-Pacific but across the globe.

Beijing also has no problem exploiting our financial systems against us. It also illegally seizes natural resources both here in the United States and with our friends around the world.

And, insidiously, it attempts to shape the thoughts, the ideas, and the viewpoints of our children through their use of media. And there are many other elements that we can talk about there.

Mr. Pottinger, I want to get you to elucidate, why does the Chinese Communist Party seem so intent on challenging the United States? And how does Beijing view America?

And, maybe most importantly, what are the CCP's vulnerabilities? What are their weaknesses? And what do we have as an advantage over the CCP?

Mr. Pottinger. Sir, the Chinese Communist Party has viewed us as the primary adversary going back quite a long time but very clearly around the time of the end of the Cold War. So, when the Soviet Union, which had been China's primary adversary up to that point, fell apart, Beijing focused on us as their primary ideological threat, military

threat. Chairman Gallagher spoke about the paranoia that really runs through the heart of the CCP, fear that it's going to be subjected to color revolutions, that democracy and freedom might come to their shores in ways that would unseat them.

Look, the vulnerabilities are significant. I think the most important vulnerability of all is that the Party fears most of all its own people. The Chinese Communist Party fears the Chinese people.

And we've seen that on display. We saw it, as Tong Yi mentioned, the recent demonstrations in China where Xi Jinping was unwilling to remove this draconian Zero-COVID policy of lockdowns even when it was causing their economy to crater, even when it was not working against containing the virus. And yet when did he finally give up the policy? It was when those brave young people, many of them young women, who led those protests on the streets of Chinese cities -- once that happened, he gave up the policy overnight and announced that COVID was merely a cold and nothing to worry about.

So they are fearful of their own people.

Mr. Wittman. Very good. Thank you.

General McMaster, we've heard our military leaders over the past 5 years define what they believe the growing threat is of China. We've heard the Davidson Window. And, now, most recently, we've heard, too, maybe within the next year or two is the window the Chinese would look to try to take Taiwan.

First of all, what would be the cost of that conflict for the United States and others around the world?

And we know, too, that a conflict there would be of a scale that I don't think anybody in this Nation realizes. It would be of the scale even greater than, I think, World War II because of the massive amount of power between those two nations.

Can you also tell us, what would be the cost if we failed to deter the CCP?

General McMaster. Congressman, thank you for that question.

We are in a difficult position, because we have been underinvested in modernization for quite a long amount of time. What has happened is, the People's Liberation Army studied us --

Mr. Wittman. Yeah.

General McMaster. -- and, instead of trying to recreate some of our exquisite capabilities, they developed countermeasures: tiered and layered air defense, offensive cyber capabilities, counter-satellite capabilities, long-range precision fires. And so what they have done is tried to figure out how to take apart what they saw as our differential advantages.

We need now, and we've needed for some time, investments in countermeasures to those countermeasures, but we haven't been able to pull it off. We also have problems in capacity at the same time.

So I think what Xi Jinping sees is a fleeting window of opportunity -- an opportunity to move while he perceives weakness in the United States.

It's worth going back and reading the joint statement between Xi Jinping and Vladimir Putin on the eve of the Beijing Olympics. The message is, "Hey, United States, West, free world. You're over. It's time for a new era of international relations, and we're in charge now."

The other factors that I think add impetus to this is really the sense that the frailties in the Chinese economy that they have incurred in the race to surpass us are really beginning to show cracks in the Chinese system. What better way to divert the disappointments of the Chinese people than through jingoistic nationalist sentiment focused largely on Taiwan?

There's a Taiwanese election in 2024. It's not going to be good, I think, from the view of Xi Jinping. And then our own election, which -- we tend to be, sometimes, fractious during an election. I think he may perceive weakness.

If we think of deterrence as capability times will, our capabilities are not where they should be, and capacity. And their perception, which I don't think is right -- but the Party's perception of our will, I think, makes it a dangerous period.

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

Chairman Gallagher. Ms. Castor is recognized for 5 minutes.

Ms. Castor. Thank you, Mr. Chairman.

Ms. Tong Yi, thank you very much for being here. Thank you for your bravery, for your defense of human rights, freedom, and democratic values.

At the outset of our committee work, what do we, as Americans, need to understand about Chinese culture, ideology, traditions, to help us think about how we strategically compete with the CCP?

Ms. Tong. I think Chinese people fundamentally are not different from the American people. They all want more freedoms in all aspects of their lives. And the most recent white paper protests showed that desire for leading a normal, you know, free life in China. But because of the draconian Zero-COVID policy, it deprives them of their most basic freedoms, such as even get sick at their home and be forced into a quarantine center.

So the young people rose up from the tradition -- I wouldn't say, you know, the traditional Chinese would just obey the authority. Look at what Taiwan has showcased us, that the traditional Chinese values, they keep that very well, but they also live in a very vibrant democracy. So Taiwan's example is actually the sore for the CCP.

That's why -- the main reason why they would like to take Taiwan over, to say that

the Chinese people only deserve dictatorship. But it's not true. Since 1949, there are multiple movements, freedom movements, such as the Democracy War Movement in 1978, Tiananmen movement in 1989, and the Hong Kong people's demonstrations in a mass scale in recent years, and also these most recent protests that showcase that Chinese people -- just to have the same values and principles like other Western people.

Ms. Castor. Thank you.

Mr. Pottinger, under President Xi, the Chinese Communist Party has vastly expanded digital surveillance of the Chinese people. The Chinese people are unable to do anything without the CCP being aware.

And I understand that they aim to use all that personal data collected on individuals as a method of social control. I believe Ms. Tong Yi said it's something like a digital dictatorship.

If this Orwellian state of affairs is not bad enough, the CCP has dramatically increased the export of surveillance technology abroad. Companies like Huawei, Beidou, WeChat, and others work on behalf of the CCP to route surveillance technology across the globe. Sometimes it's called "safe" or "smart city" systems, but, in reality, these are tools for authoritarian governments to surveil citizens and repress human rights.

But it gets worse. These companies can gain access to any data these systems collect and hand it over to the Chinese state security.

What's your view on this? We're going to need to develop strategies going forward and policies. What is your view, and how bad is it?

Mr. Pottinger. Congresswoman, thank you. I think that we need to have a much more rigorous defense and offense.

On the defense side, it means that we don't allow those same capabilities that you

were describing that are being used to impose what one former Chinese Communist Party official who is now in exile calls an "exquisite totalitarianism," right? A digital dictatorship, as you put it. We don't want that to be exported onto our shores to give the Chinese Communist Party the ability to manipulate our own discourse and to steal our data and to silence and intimidate people, as it's already doing through social media platforms here in the United States.

On the more offensive side, I would say that we're a free country; we don't need to peddle disinformation or deepfakes, which are now part of the stock and trade of the things that the CCP is experimenting with. All we have to do is connect people. We need to make it easier for Chinese people to connect with the outside world and see news and information flowing in safely without the digital panopticon of the Communist Party looking over their shoulder, and we need to make it easier for them to communicate with one another.

I don't think we've tried very hard. So this thing that looks so formidable I think is actually made of papier-mache. I think you can punch holes in the Great Chinese Firewall. I think we've not made a concerted effort, a public-private effort, with Silicon Valley firms leading the way.

Let's face it, Silicon Valley firms aren't going to gain access, like Google and Facebook and others who've tried years ago to work in China. They've been banned. They have nothing to lose by working for the cause of freedom.

And the U.S. Government, there's a lot more that we can do in that front as well. I think we haven't gotten started yet.

Chairman Gallagher. Okay. Mr. Newhouse is recognized for 5 minutes.

Mr. Newhouse. Thank you, Mr. Chairman Gallagher as well as Ranking Member Krishnamoorthi.

And I want to thank this evening's witnesses for being with all of us tonight.

Just last week, the United States Department of Agriculture forecasted that in 2023 the U.S. would run a record \$14.5 billion trade deficit on food and agricultural products.

China will remain and has been one of our most significant markets for U.S. agricultural products. However, similar to what we heard from Mr. Paul in his testimony, China has and will continue to treat our American farmers and ranchers unfairly, with significant tariffs as well as nontariff trade barriers. The bottom line is, China does not play by the global rules on trade.

You might already know this, but entities associated with the PRC as well as the CCP have made and continue to make investments in U.S. agricultural land and assets. Some of the proposed purchases are in close proximity to national security assets. And, obviously, this is not a good trend for U.S. agriculture. And, as I've always said, food security is literally national security, which could not be more true today than at any point in history.

So my question I'll direct to General McMaster.

First, how concerned are you by the CCP-backed purchases of American agricultural land and those potential purchases near strategic sites, such as military installations or critical infrastructure?

And the second part of my question: I don't know if you were involved with CFIUS decisions in your previous role as National Security Advisor, but do you think that CFIUS has a statutory authority to block and should block land purchases by the CCP on national security grounds?

RPTR ZAMORA

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[8:07 p.m.]

General McMaster. Congressman Newhouse, thank you for that question. You know, I think I'm very -- I'm very concerned about that, about the purchase of lands and buildings next to sensitive sites. It's extraordinary the degree to which the Chinese Communist Party has pursued a massive campaign of espionage. That's one facet of it.

The other aspect I think what you're getting at as well is the dependency on Chinese investment, which then gives them really coercive power. I describe in my written testimony the three Cs of co-option, coercion, and concealment. Co-opt, by trying to build dependencies from U.S. agriculture onto Chinese market and then, hey, once you're in, then to use that for coercive purposes.

The commercial aspect of this is often tied to the United Front Work Department, an arm of the Ministry of State Security, which forms organizations that look innocuous, that promote U.S.-China dialogue and economic discourse, in the area of agriculture in particular, in the American heartland. But those are organizations that are designed to advance the PRC's agenda. And then, you know, co-option, coercion, and then to conceal all of this as just normal business practices.

So I think you're quite right to be concerned about this, Congressman Newhouse. And I think what you're doing, what the committee's doing to pull the curtain back and shine the light on this behavior I think is the most important first step.

Mr. Newhouse. Appreciate that.

Ms. Tong, in the time that I have remaining -- and thank you very much for your moving testimony, someone who has lived through a repressive regime in China. In your written testimony, you touch on the courageous individuals in China who

participated in the white paper protest just last fall. Could you talk a little bit about what was both similar and different in these protests compared to maybe previous dissident movements in China?

Ms. Tong. On the similarities, both Tiananmen movement and the white paper protest were massive and took place in many large cities. In both cases, young protesters, very, very idealistic, and felt it's my duty to stand up for more rights and against the totalitarian regime.

On differences, the Tiananmen movement lasted for more than 50 days, and the white paper movement just last a few days, a couple of days. And the difference is due to the CCP's enhanced surveillance capabilities today and its vastly greater police manpower. The number of the white paper protests was smaller than the 1989 participants. But in light of the enhanced surveillance capacity by CCP, their individual courage, I would say, was greater than the Tiananmen generation. And for the cases that came to light, more women were detained this time than men, it seems, and it is the first time in China.

I also want to state this point: Recently, the Chinese Government announced it has won a victory over COVID. In fact, the victory should belong to these white paper protesters, whose number one demand was to get rid of the zero-COVID policy. So they achieved the result while the Tiananmen student movements did not. Now, the CCP is trying very hard on the internet and on social media to erase people's memories about their draconian zero-COVID policies and matters. If this is not what the white paper protest victory, what should we call it?

Mr. Newhouse. Well, thank you very much.

And I appreciate all of you being here and helping educate us and the American people of the challenges that we face from the Communist Chinese Party.

Mr. Chairman, I yield back.

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

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

And this question is for everyone. How do you recommended we ensure the new law imposing limits on importing goods produced using forced labor in China, specifically the Uyghur minority? Is there anything we should be focusing on to ensure that this law is having the desired effect?

Mr. Paul. Mr. Carson, I'd be happy to take a crack at that.

Mr. Carson. Sure.

Mr. Paul. Thank you for the question. The Uyghur Forced Labor Prevention Act was, I think, a tremendous example of the bipartisan concern. It passed nearly unanimously. It had the support of the administration obviously.

Implementation is the key here, and importers are fighting against it every step of the way. But we've seen some results. There have been 2,300 seizures of goods that have been made, and the Customs and Border Protection continues to need to scale up its capabilities here. It is an overwhelming volume that we still see. It should expand the priority areas of concern.

Right now, they include polysilicon, tomatoes, some fibers. There's evidence that has been uncovered by researchers that a -- an alarming amount of the automotive supply chain has tentacles into Xinjiang. And most, you know, brand name, original equipment manufacturers have either subcontractors there. And so metals obviously should be another area of concern.

But I think from a congressional perspective, oversight is very important and ensuring that the importers that are complaining that their goods are being seized need a different business model and shouldn't be depending on forced labor in Xinjiang, because

we have to presuppose that any article made from that region is made with forced labor. There's virtually no transparency there that human rights groups have into the atrocities that are taking place.

Mr. Carson. To that point, Mr. Paul -- and this is my final question -- in your written testimony, you emphasize the problems stemming from the erosion of U.S. manufacturing capabilities for goods such as EVs and batteries and semiconductors. In many regions, like my own, the Midwest, particularly the great Hoosier State, we have a very strong industrial base. In your opinion, what is needed to reverse this negative trend and bolster American production in these critical sectors?

Mr. Paul. Thank you again for the question. As a fellow Hoosier, I can relate to your concern about manufacturing. And Indiana has a long and proud history of that, as does Wisconsin, I would quickly add for the chairman's benefit, and many other States as well.

But specifically, it takes intent, and for too long, for decades, we did not have that intent. We had a philosophy, and we also took for granted that China would play by the rules. And so there is no single policy that is going to change this, but it is going to take an all-of-government approach.

We are starting to see that take place. We've seen reforms to trade policy. We've been smarter about trade enforcement actions. We've -- we've tried to invest in our manufacturing capabilities through offsetting the costs of setting up fabs in semiconductors, and the same with EVs, batteries, and also clean energy, wind, solar, as well.

But it is going to take that effort, along with other competitiveness measures, such as making sure our infrastructure is 21st century and our workforce is prepared, to compete. We have to be ready for this reshoring as well. Our trade policy can start it

happening, but our competitiveness policies will finish the deal there.

Mr. Carson. Chairman, I yield back.

Chairman Gallagher. Thank you.

I've been informed there's coffee in the back. We've spared no expense, given the late hour. I can't vouch for the quality of this coffee, but it has caffeine.

Mr. Moolenaar is recognized for 5 minutes.

Mr. Moolenaar. Thank you, Mr. Chairman. Thank you, Ranking Member, for this opportunity. And I want to thank all the witnesses as well.

Mr. Pottinger, good to see you again. I wanted to ask you, the opioid crisis has killed hundreds, thousands of people, some in my own district. And in your assessment, what is the role of the CCP in contributing to the fentanyl crisis here in the United States, and how should we counter that?

Mr. Pottinger. Sir, it's good to see you again.

Only a few years ago, China was shipping fentanyl directly into our markets or into the black market using the mail. We made progress, the U.S. made progress during the Trump administration in turning back that and also getting China to classify fentanyl as a controlled substance.

But what has now happened is that the Chinese state-owned firms and other companies governed by the party state in China are sending the precursor chemicals in mass quantities to Mexico and perhaps a few other markets, but primarily Mexico, to the drug cartels, to create fentanyl that then washes into our streets and kills tens of thousands of Americans each year.

The best that you could say is that there -- the Chinese Communist Party is practicing malign neglect in allowing that business to continue. They could stop it if they wanted to, and that's been the judgment of many DEA and FBI officials, former officials.

Craig Faller, an admiral who commanded SOUTHCOM for us, also pointed to the fact that China has become the number one -- or Chinese organized crime has become the number one provider of illicit money flows, money laundering flows, and that has fueled the fentanyl trade in the U.S. So there are things that we need to do to really go after those illicit flows of money, and that means updating our know-your-customer laws and anti-money laundering regulations for banks so that they can identify Chinese organized crime activity and Chinese United Front activity in that area, for starters, sir.

Mr. Moolenaar. Okay. Thank you. You also mentioned that Xi Jinping has called for the deepening CCP control over Chinese companies. I wanted to -- and also, Mr. Paul, you had mentioned the CCP fusion strategy and that no business is untainted. I wonder if you could both speak to that situation.

Mr. Pottinger. Well, one of the remarkable things that Xi Jinping has ushered in has been really the recentralization of party control over the economy and over businesses, including private companies. And that's why we've seen the decimation of private companies in China over the past couple of years, the pushing out of the founders of dynamic companies like Alibaba, Jack Ma, who was identified as, you know, really the -- one of the founders of that whole sector. They've been pushed out of their companies.

And Beijing has been trying to promote the idea that it's now safe again to invest in China. But in a classic example of dual messaging, we see one message being provided to foreign investors, you know, at Davos, and at the same time, in Chinese language-only side notes that are being issued by Xi Jinping, literally simultaneously, he's saying we need to double down and strengthen the party's control over economic activity. And the party now governs the major actions of these companies. They've taken what they call a golden share. So the Communist Party now owns a veto vote on

the board of nominally private companies in China.

Mr. Moolenaar. Thank you.

Mr. Paul. Thank you for that.

I would just add that the military-civil fusion program has been in operation for 9 years. Its goal is to quickly scale up the technological capabilities of the PLA and to use commercial applications to do that. Businesses in China are under an obligation to participate in it. You see many commercial entities in China, state owned and private, that have research tentacles into the PLA and other defense affiliates there. And you've seen also cases where joint ventures, which have involved U.S. investment, have necessarily had to -- had to turn over technology as well. So this is an area, I think, of increasing concern for -- for me and should be for lawmakers.

Mr. Moolenaar. Thank you very much.

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

Mr. Moulton. Thank you, Mr. Chairman.

I want to thank our distinguished panel of witnesses for joining us here this evening.

Lieutenant General McMaster, the success of Ukraine, NATO, and the principle of the rule of law against Vladimir Putin and his illegal war is a great cautionary tale for Xi Jinping and his stated desire to invade Taiwan. But for all the success of the West in Ukraine, we have to admit the deterrence failed.

So in the Pacific, we can't afford to let deterrence fail. How do we prevent that from happening?

Like Vladimir Putin, Xi Jinping seems to believe his own propaganda. So how do we make our powerful deterrent believable to Xi and the Chinese Communist Party so that they don't draw us into war?

General McMaster. Congressman Moulton, thank you for that question. I think it's through strength obviously. Peace through strength still works, and that's our defensive capabilities and those of our partners and allies in the region. I think it's immensely encouraging that Japan is doubling its defense investment. I think new formats that encourage defense cooperation, like Aukus, very encouraging.

But I think we have to recognize that we are very far behind. If you remember the runup to the reinvasion of Ukraine, many people thought, well, we just need to lay out our red lines. We just need to allay Putin's security concerns. But this is a narcissistic view of the world in which we think what we do or what we say is decisive toward achieving the favorable outcome. But both Vladimir Putin and Xi Jinping have aspirations that go far beyond those that are in reaction to us. And so, therefore, it's important for us to demonstrate the strength necessary to convince Xi Jinping, leaders in that party, and leaders in the People's Liberation Army, that they cannot accomplish their objectives through the use of force.

I think, you know, the modernization efforts that are ongoing are inadequate, but the direction in policy is starting to turn in the right direction. For example, some basing activity so that we can project power more readily back to the Philippines, for example. So --

Mr. Moulton. So one of our most powerful components -- one of the most powerful components of our strength, as clearly demonstrated in Europe, is our partners and our partnerships, but they're not as developed in the Pacific.

So you just mentioned the Philippines. What do we need to do to strengthen our allies and their partnership with us?

General McMaster. Well, Congressman Moulton, I think, first of all, we ought to thank Xi Jinping, because he's really helping us in this connection with his brazen

aggression from the Himalayan Frontier to the South China Sea, to 1,771 violations of Taiwan's air defense identification zone just last year, many other violations oriented on Japan, on South Korea.

And what you would typically hear from our friends in the Indo-Pacific region oftentimes is that, hey, don't force us to choose. Don't force us to choose between Washington and Beijing. But I think it is being clear -- it is becoming clear to the countries in the region that it is not a choice between Washington and Beijing; it's a choice between sovereignty and servitude. And I think that we see that especially in this vision for the free and open Indo-Pacific, which we owe to the late Prime Minister Abe, and I think that that is building momentum. You know, China has their One Belt, One Road, but, you know, we are on the side of many belts, many roads.

Mr. Moulton. Mr. Pottinger, what are some of Xi's vulnerabilities?

Mr. Pottinger. Well, I think one useful statistic to keep in mind is that China is spending more on its military than the rest of Asia combined. And yet that number is still smaller than the amount of money that Xi Jinping is spending on his domestic security apparatus to surveil and oppress his own people.

So it really is fear of his own people. It's fear of losing access to our capital markets. They -- he -- another vulnerability for him would be losing access to American technology. It's clear that China has not yet achieved this self-sufficiency, self-reliance that he wants to achieve so that he can wield that as a coercive leverage against other countries.

So we should not make it so easy. I mean, imagine if we were actually taking more than the baby steps that I think we've taken in the right direction and actually made the Chinese Communist Party sweat for a change, to actually have to fight to try to achieve its vision rather than serving it up on a silver platter.

But more than anything else, he's fearful of his own people. If you remember, when he just had a party Congress where Xi Jinping gave himself -- awarded himself a second decade in power, he had his predecessor walked out of the proceedings and then announced, perhaps secretly at first, had arranged secretly, for only loyalists to be elevated to the Polit Bureau, in the standing committee of the Polit Bureau. So he fears people within his party too. He fears factions. He fears any kind of dissent or even constructive criticism at this point.

Mr. Moulton. Thank you very much.

Thank you, Mr. Chairman.

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

Mr. LaHood. Thank you, Mr. Chairman.

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

I also want to thank Speaker McCarthy for creating this committee, and it's, frankly, long overdue that we put together a committee like this and that it's bipartisan. The CCP fears more than ever is Republicans and Democrats working together to expose the malign activities of the CCP. And what I love about our committee is its members that are serious, substantive, and conscientious members.

I want to make two points and then ask a question. One is, over the last 2 years, I've been fortunate enough to serve on the Intelligence Committee. And it's become more clear to me than ever that China has a plan to replace the United States, and they're working at it every day, replace our economy, replace us in technology, replace us when it comes to national security and the military, and diplomatically.

Number two, Mr. Paul, I'm glad you talked about the history of China being led into the global economy. I look back at the -- when we let China into the WTO, and I don't think any of us were in Congress at the time when that happened, but the argument

was bring them into the WTO, they're going to westernize, they're going to reform, they're going to liberalize their ways. And here we are 20 years later, and there's some spotty things that we can find, but I would argue they've really taken advantage, manipulated the World Trade Organization and many of our global economic systems that we have in place.

And, you know, I look -- well, we hear a lot from people in D.C., particularly in the business community, well, we need engagement, we need diplomacy, people that apologize for the CCP. But I look at -- and it's been alluded to here today, just in the last 4 years here, we've heard about, obviously in Ukraine, China siding with Putin on an unprovoked illegal invasion, right. He talked about an unbreakable bond with Putin.

The COVID outbreak. Originally, what did the CCP do? They blamed it on the U.S. Army, right. You look at their deceitfulness when it related to the World Health Organization. You couple that with the wolf-warrior mentality and diplomacy that's been put forth across the globe. Democracy doesn't work anymore. That's what Xi tells people around the globe.

It was alluded to by my colleague Mr. Moolenaar, the fentanyl, a staggering 110,000 deaths last year in the United States. Ninety-nine percent of the fentanyl is coming from precursor drugs from China. We have consistently, over the last 4 years, asked China to do something. They've done nothing. And just yesterday, it was announced, China, in 2022, issued two new coal-powered plant permits per week, 104 new coal-powered power plants in there. So they talk about doing stuff on the environment. So I mention all that in those two points.

Now to my question. Mr. Pottinger, we hear often from Wall Street and corporations and global businesses that are many of our friends that you need to continue to engage. You've got to turn the other cheek. We hear, well, China is not

North Korea in the business community and how we deal with them in terms of -- you know, their argument, China is going to change.

I would just be curious, the video you played was very powerful. What would be your advice as we engage with corporate America that really doesn't like what we are doing up here and is scared and worried?

Mr. Pottinger. General McMaster has a phrase, first do no harm, which I could let -- allow him to talk about a little bit. But, look, we want to keep channels open with Beijing, particularly high-level channels. One of the reasons we want to do that is that we want to prevent Xi Jinping from making a grave miscalculation. Miscalculations are the things that dictators do, especially when they've been in power for a long time.

But we shouldn't kid ourselves, our corporations, well-meaning protesters, whoever it is, we should not joke to ourselves that Beijing has any interest in collaborating with the United States or others in trying to prevent and mitigate serious problems in the world, whether it's drug abuse, whether it's proliferation of weapons, pollution of our oceans, if it's our atmosphere is getting hotter, or pandemics.

Usually, when you actually wait -- take the time to study the causes of these problems, the CCP is usually one of the primary contributors to those problems. It is very rarely in any kind of a honest way trying to mitigate against those problems.

Mr. LaHood. General McMaster, if you could reply.

General McMaster. Congressman, thank you. I think that you hit the nail on the head in terms of the false promises of liberalization or cooperation. And what I wrote in the statement for the record is that we do have to take almost a Hippocratic oath.

And this isn't just the work of this committee. This is the work in corporate board rooms to first do no hurt or harm in three areas: Don't give the CCP or invest in

companies that will give them a differential advantage over us militarily; the second is, don't compromise the long-term viability of your business and your workers' jobs in exchange for short-term profits; and the third, immensely important I think, is don't help them perfect their technologically enabled Orwellian police state or commit genocide.

I think, as we saw with Russia's reinvasion, the private sector took measures that went beyond what we -- what we had done in terms of sanctions on Vladimir Putin and on Russia. They're -- I believe the genocide, for example, should be an ESG issue in boardroom discussions across the country.

Mr. LaHood. Thank you.

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

Mr. Khanna. Thank you, Mr. Chairman.

I want to start by saying a word about the protesters. Even though I disagree with them, I respect them. It takes guts to come into the halls of power with a dissenting view. It's not just because I'm a Bob Dylan fan who told Congresspeople and Senators to heed the call, not block the doorways or block the halls. It's because when we listen to dissent, when we listen to people who question the very existence of the committee, we show by example exactly what makes the United States of America different than the Chinese Communist Party.

And, Mr. Chairman, I think you did the right thing by asking them to leave. You can't disrupt democratic meetings. But I hope -- I was told they're in handcuffs outside. I hope they're not going to be arrested simply for speaking their mind.

I want to now move on to Mr. Scott Paul. I thought your testimony was very telling about the mistake we made as a country for the last 40 years in basically deindustrializing the Nation, saying manufacturing didn't matter. We could just have the MIT folks win the Nobel Prizes, and somehow production was not relevant.

Your statistics, I just want to amplify them because I had my staff look up after your testimony, we used to make 20 percent of the world's steel, down to 4 percent. China is making 57 percent. We used to make 37 percent of aluminum, down to 2 percent. China is at 57 percent. We used to make 36 percent of paper, down to 17 percent. China is at 30 percent. You can go industry by industry. And I commend your testimony.

Here's my question. The Chinese scholar, Hu Angang, wrote, the rise of China resembles that of the United States a century ago. China basically incorporated many elements of Hamilton's formula. They copied, in part, what we invented with Alexander Hamilton and the American system.

You note in your testimony that China spends 1.73 percent of its GDP on industrial financing. We are at 0.39 percent. Would you agree that part of what is going to help us reindustrialize is having some government financing and government purchasing that the government has to be a partner of the private sector in rebuilding American industry?

Mr. Paul. Congressman Khanna, thank you for your observations, and I appreciate the question.

I think there is no doubt that the government has to be a partner in this. In a perfect world, the market would work, and it would settle things out. We are not in that world, as the Chinese Communist Party has demonstrated. We have a market failure, and we are starting from behind.

If we can have public financing to leverage private investment, we will have more success than the Chinese Communist Party because we have more entrepreneurship, we have more opportunity, and there is not state control. There may be state financing, and this makes a difference. We have seen this with the CHIPS Act already. A small amount of money has leveraged \$200 billion in private investment in the United States

that may not have --

Mr. Khanna. I appreciate you saying that, Mr. Paul, especially as a coauthor of the CHIPS Act with Haley Stevens and others. I -- and bipartisan. I appreciate your support for that. And you point out, China is putting in \$150 billion.

Let me just ask you this on chips. You know, I was in Taiwan. We met with Morris Chang and Ben Thompson. One of the things is, TSMC is going to lead when it comes to 3-millimeter chips. Intel may lead between 3- and 10-millimeter chips. But when it comes to the actual chips in most of our cars, in most of our refrigerators, in most of our dishwashers, those are 28-nanometer, 50-nanometer chips. Guess where those are being built? In China.

I don't want us to make the same mistake on chips where we are the leading at chips and let every American buy made-in-China chips for all their consumer goods. Do you think there should be some effort at a CHIPS Act that actually is going to have the chips that are being put in most Americans' products?

Mr. Paul. Congressman, I think it's essential to expand to that scope, not only the array of chips that you mentioned, but also the value chain in semiconductor fabrication, because they have to be tested. They have to be fabricated, as you well know. They have to have printed circuit boards, and they have many components.

And for an effective ecosystem to be created for that, you have to bring it here. You have to bring it here or you have to near shore some of it as well. You can't rely on China. And the last time we did that, as I mentioned in my testimony, if we are dependent on China for these sources, we end up with supply chain disruptions at worst; we have incredible leverage against us as well in a time of crisis, if there's a national security event happening. So, yes, I think the scope needs to be expanded.

Mr. Khanna. Thank you.

Chairman Gallagher. Thank you.

We've asked the Capitol Police for clarification on what happened to the protesters. We defer to them in these matters. They have well-developed SOPs. I'm certainly not pressing charges, nor is General McMaster, so we will get you more information on that. And I appreciate -- I was with you in that meeting with Morris Chang. I found it fascinating.

Mr. Dunn is recognized for 5 minutes.

Mr. Dunn. Thank you, Mr. Chairman.

I also want to thank the panelists for their excellent testimony.

I believe everyone here could tell a story of how the CCP infiltrated their congressional district, and I'd like to tell of one instance that happened in Panama City, Florida. But anyone with a shipyard could be at risk for this. And what I seek to know is, are the Chinese weakening our Navy and our Coast Guard from within?

In 2016, a domestic shipyard in Panama City was awarded U.S. Coast Guard's phase one contract for the first four of 25 offshore patrol cutters. These cutters are being completed on time and on budget, despite Hurricane Michael's Category 5 devastation to our region. And the Coast Guard has repeatedly stated that the quality of these ships is as good or better than any they have.

In spite of this success, the Coast Guard went on to award the OPC stage two contract to another company, Austal USA, which is the largest shipbuilding contract the United States Coast Guard has ever awarded, at \$3.3 billion. This is the same Austal that was awarded the contract to build the littoral combat ships for the U.S. Navy. And as has been widely reported, these ships are plagued by cracked hulls, broken equipment, and technologies that just don't work.

Now, you would think the Navy would be hesitant to award another contract to a

company that delivered such faulty products, but Austal was also awarded a contract to design and build the Navy's fast expeditionary ships, also a failure. Most recently, Austal was awarded the contract to build the command and control modules of the U.S. nuclear-powered submarines in the Virginia and the Columbia class. These are essential to our nuclear defense triad.

Now, how does this story of Austal connect to our hearing on China today? Well, it happens that Austal USA is part of Austal International, a company with close China links. In fact, they co-owned a shipyard, building ships in China until December of '21. The entire time they were building ships for the U.S. Navy. It should alarm everyone here that a company like this has won multiple defense and homeland security contracts with -- in spite of close ties to the CCP. This is a national security threat.

General McMaster, with decades of combined experience of constructing ships for the U.S., you'd think it -- you would surmise why would both the Navy and the Coast Guard place such high-value sensitive contracts with a shipbuilder that has such close ties to China.

General, I draw your attention to the poster in front of me. This published report states a new frigate design being built for China's PLA Navy bears a striking resemblance to the U.S. Navy's littoral combat ship. General, would you speak to the threat of proprietary information, national security information being acquired by the Chinese Government given the close connection between Austal and the CCP?

General McMaster. Well, Congressman, thank you for the question. I don't know the specifics in this case, but I do know that there are a lot of weapon systems that the People's Liberation Army is designed and fielded that look a lot like our designs and our capabilities. And that is because we have been lax in the area of counterespionage and in enterprise hardening.

And, of course, it's quite dramatic when it's in the defense sector, but this applies to other sectors of our economy as well, defense-related technologies but also technologies, as Mr. Paul knows, that are really critical to maintaining our competitive advantages economically as well.

So I think it's incumbent, obviously on your work and on the administration, but on the private sector themselves to really harden their enterprises against Chinese industrial espionage. And there are many ways to do it. There's cyber espionage, but also there's oftentimes penetration of MSS and agents or PLA scientists. There's the Thousand Talents Programs, where China recruits top scientists, many of whom have worked in our most sensitive labs, to then travel to China and essentially get debriefed to share their knowledge with essentially the party state and the People's Liberation Army.

So there are many vectors of attack. We know for sure that if your front door is open, the MSS is coming in the front door. You know, if you bolt your front door, then they're coming through the window. If you bolt your windows and put up screens, they're going to tunnel under your house. So it's incredibly important to take a holistic approach to enterprise hardening certainly in our defense industry, in our defense labs, in our universities, but also just across the private sector wherever sensitive technology or intellectual property is housed.

Mr. Dunn. Thank you very much, General McMaster.

I have other questions to submit to the panel in writing, and thank you very much for coming. I yield back.

Chairman Gallagher. Thank you.

Mr. Kim is recognized for 5 minutes.

Mr. Kim. Thank you, Mr. Chairman.

And thank you to my colleagues who are raising so many different issues and to

the witnesses here for laying out a lot of the different threats that are out there. Since a lot of the things that were talked about have been raised already, I want to kind of come at this from a slightly different angle.

Mr. Pottinger, I know you came and spoke in front of the Congress last year and you spoke at a hearing condemning January 6th, and you said it harmed our national security. And there was a line that you said that really stuck out to me. You said, quote, emboldened our enemies. And you said that it fed, quote, a narrative that our system of government doesn't work.

First of all, I just want to say, thank you for saying that. And second, I just want to kind of get at this. It sounds like you're saying that a critical part of our success in our competition is to show that our democracy works, that it's strong. Is that right? Am I getting the right sense from you?

Mr. Pottinger. I agree with that, yes.

Mr. Kim. So one thing that I'll just say here is, look, right now, we have before us in Congress a lot of big decisions that we are trying to deal with. So I guess I would ask you, would you also say that if we in this room are not able to get our work together and solve some of these challenges, let's say that we end up defaulting on our national debt if we can't get this showdown on the debt ceiling done, would you also say that that would feed into a narrative that our system of government isn't working well?

Mr. Pottinger. Well, I think that people understand that democracies are messy. It's -- it is democracies that aim high, don't always reach the north stars that we guide ourselves by, but it is the process of trying to create a more perfect union. Doesn't mean that we always reach perfection. We strive for it. If the democratic process is -- follows rules and follows traditions and that there is respect that's shown, I think that people understand that it's not always going to look pretty.

Mr. Kim. Yeah. I -- I get that. And I think you point out correctly that if it does stray into dangerous territory and break those rules, that that's a problem. But what I'll just get at, just, you know, for my couple years that I've been here in Congress, things are broken here. We have a level of dysfunction here.

And the reason I raise this is that I want us on this committee to try to recognize that this dysfunction in our democracy right now, that this is a national security problem too, and that we have deep global consequences if we are not able to solve problems amongst ourselves. We are certainly not setting a good example for how democracies can go.

And when we see some of the quotes that you raised earlier about China talking about Western decline, you know, we've got to make sure we are not feeding into that. We've got to make sure we are not making it easy for them to do their job in terms of, you know, to spread that propaganda about our own country.

So that's something that I just hope that we can meditate on and try to commit to ourselves, not only in this Chamber and in this committee, but across our Congress in recognizing that this isn't just a battle between two political parties. The dysfunction between us is causing space for the CCP, for China to be able to gain strength globally and push that kind of narrative.

Mr. Pottinger, when you talk about China and some of the actions that are out there, I share concerns about the threats, but I will say that in the six principles that you outlined in your testimony, a lot of them felt to me very reactionary. I wanted to kind of give you an opportunity, because I thought Mr. Paul's comments were very strong here, that what was missing from your testimony was about, you know, these questions about investing in our own economy, about healing our democracy, about building the kind of coalition that we need. We cannot take on the CCP alone.

So I just wanted you to kind of expand on this, and are those as central to those six points that you raised?

Mr. Pottinger. Certainly, they are. I think that our alliances and our example are one of the greatest assets that we have. And, of course, during my time in office I spent a massive amount of time cultivating and nurturing those alliances, and I think it's paid off very well.

I think that the main thrust of what I was trying to get through with the testimony today was just to open people's eyes to the fact that, right now, the Chinese Communist Party is the protagonist, because we've been complacent, we've -- and before we can seize the initiative, we have to react to the fact that our national interest has been deeply undermined over the course of the last quarter century. And you heard a lot of testimony about that tonight and saw some very good charts and graphics about that.

I want us to take the initiative. First, we have to actually follow through and recognize that Xi Jinping is the protagonist, that we are not seeking a cold war. One was already -- has been waged against us for the last several years. And I don't relish a cold war. I certainly don't want a hot one. I think that we -- it's incumbent upon us to try to deter a hot war now that we are already seeing proxy wars waged against our allies.

Mr. Kim. I agree. And I'll close here, but I just want to say, I agree with a lot of what's been said about addressing these threats that we are facing, about fixing the vulnerabilities within our own economy and our own country. But I just want to express that I really do believe that the defining factor that will shape how we fair in this competition very much comes from this idea of will we as a country get our act together, that can we heal this democracy, and can we fire on all cylinders going forward. And I really do believe that we can still do that, and I'm hopeful that this committee will play a role in doing so.

Thank you, Mr. Chairman.

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

Mr. Banks. We have already discussed fentanyl. The leading cause of death of Americans my age, of working age, killing more Americans than the entire -- of those -- of the entire -- who died in the entire Vietnam war.

After Speaker Pelosi visited Taiwan, China stopped cooperating with U.S. on counternarcotics. In a response to U.S. export controls to combat the ongoing Uyghur genocide, China's embassy declared that they, quote, seriously affected China's examination and identification of fentanyl substances.

Mr. Pottinger, you already said that China was intentionally allowing fentanyl to be shipped to the United States. I believe that China is using fentanyl to commit diplomatic blackmail. Mr. Pottinger, can you -- what can the Biden administration do diplomatically to restrict the flow of Chinese fentanyl precursors that are coming to the United States?

Mr. Pottinger. Thank you, Congressman. I think that going after the money laundering networks, which are now the most potent money laundering networks in the world, those are -- that is Chinese organized crime. And when you pull on the thread of Chinese organized crime groups, it often goes back to United Front groups which are responsive to the Chinese Communist Party.

One of China's top law enforcement officers, back in the nineties, he was the minister of public security, said publicly that China should look to work with and unite with organized crime groups so long as those organized crime groups are, quote, patriotic, by which he meant loyal to the party and its interests.

So what we've seen with recent cases that haven't gotten a lot of attention here, I would recommend that members read a major expose on October the 11th by

ProPublica. Sebastian Rotella and Kirsten Berg wrote a major story looking into this money laundering and the fentanyl trade. Australia has just busted a \$10 billion money laundering scheme which ties back to Communist Party interests.

So I think we have to look at it from the financial side, that means much better regulation, much more informed screening of customers, much more informed AML and KYC rules. It also means that we need to start sanctioning the Chinese companies that are providing those precursor chemicals. Some of them are state-owned firms. All of them are subject to the rule of the Chinese Communist Party. Why are -- would not -- would we not punish those companies by sanctioning them? And I haven't seen a lot of effort on the part of the Treasury Department in that area.

Mr. Banks. I completely agree.

Mr. Pottinger, less than an hour ago, the FBI Director, Christopher Wray, confirmed that COVID-19 originated in a Wuhan lab. Do you think there is a chance that the Wuhan lab was involved in bioweapons research?

Mr. Pottinger. Well, I think that we know for certain that the Chinese military is involved in research into coronaviruses. We know that they were experimenting using U.S. technology, by the way, to work on chimeric viruses, that is ones that had been engineered. We know that the Chinese military had been involved in trying to develop vaccines for coronaviruses.

So I think that this is an area that there is still a great deal of information that has yet to come out that will show that there was an enormous amount of interest.

Mr. Banks. Okay.

Mr. Pottinger. There are publicly published peer-reviewed articles by PLA generals.

Mr. Banks. Completely understand.

Do you believe that China has taken the appropriate steps to make a future lab leak less likely?

Mr. Pottinger. I think that the system that's in place in China does not permit for or prize serious safety. We've seen multiple leaks of dangerous pathogens out of Chinese laboratories over the years. We've seen fatal leaks from Chinese Government labs, by their own admission, of the original SARS coronavirus. This is the 2002, 2003 virus.

Mr. Banks. Let me move on. General McMaster, what message were the -- was the Chinese Communist Party sending to the American people with the Chinese spy balloon?

General McMaster. Congressman Banks, they'll take everything that they can get, and they've been used -- over time to complacency. And I think the message is that, you know, that we are intending to continue a broad range of surveillance activities. The balloon, I think, is in many ways, you know, a metaphor for the massive effort at espionage. And I think you can see from the path that the balloon took -- and, of course, I'm not privy to anything that's -- anything that you are or that our government is at this stage -- they've maneuvered over strategic locations.

I think when we figure out where previous balloons have gone, that's the same -- we'll see the same pattern of trying to get a better look from signals intelligence, communications intelligence, as well as imagery of some of our most sensitive sites.

And then when you combine that, though, with the massive buildup of Chinese strategic forces, nuclear forces, I think that's a cause for concern. And then you combine that with Xi Jinping talking about preemptive war, that's an even greater cause for concern. So I think the balloon is important to look at, but I think placing the balloon in context, I think, is what is perhaps most important.

Mr. Banks. My time is expired.

Chairman Gallagher. Ms. Sherrill is recognized for 5 minutes.

Ms. Sherrill. Thank you, Mr. Chairman.

And thank you to each and every member of this committee. As we met for an organizational meeting, and I heard stories and statements from members about their deeply held belief in and love for our country and our democratic values, I was reminded once again that, even in these very fraught times, there is always more that unites us than divides us.

And this committee is so important as we work to promote and protect our values and our economic interests here at home and across the world. America's ability to hold the Chinese Communist Party accountable is central to that and is the most complex and important aspect of our foreign and economic policy. Protecting human rights, ensuring a fair economic playing field, promoting freedom and democracy.

Generations of Americans have fought to protect these ideals, and the more successful we are, the more America and her citizens prosper and thrive. This is now our generation's challenge, and this committee, each and every member of it, stands ready to answer that call to action.

So we are here to learn how to strategically compete with China and enforce a rules-based system. We are here to protect human rights and promote democracy around the world. We are here to promote American ideals, which have led millions out of poverty and created opportunity and prosperity across the world. And make no mistake, this cannot happen soon enough.

For too long, the CCP has flaunted human rights and economic norms. They have aided in the encroachment of authoritarian regimes throughout the world through surveillance architecture and aiding would-be autocrats and shutting down free speech

and thought. The CCP has engaged in illegal subsidies and dumping, making New Jersey companies less competitive in the global marketplace. And CCP theft of U.S. trade secrets and intellectual property cost American families and workers hundreds of billions of dollars each year.

Just about everyone has heard about the surveillance balloons or the Chinese alliance with Putin against Ukraine, but just as insidious is the CCP's attack on the global and U.S. economy that has resulted in job losses, lower wages, and the outsourcing of American jobs that has harmed families, small businesses, and communities across the Nation.

So, Mr. Paul, can you discuss where manufacturers in your association have seen rule breaking by the CCP and how that has impacted their ability to compete and create jobs?

Mr. Paul. Thank you for the -- for the statement and for the question. Very grateful.

Manufacturers have been impacted by CCP policies in a number of different ways. First of all, they're competing against firms, in some cases, that are owned by the State, particularly in the steel sector but others as well. More than half of the world's biggest steel companies are actually owned by the Chinese Government, for example.

Second, we have a system where China agreed to a set of rules in 2000, 2001, when it joined the World Trade Organization and has completely ignored them. The USTR just released its most recent report on China's compliance with World Trade Organization obligations and found that China's compliance has been completely inadequate and nonexistent.

So the state-owned enterprises, who have a different cost of capital than U.S. firms, the dumping, as you mentioned, where they're selling products into the U.S.

market at a cheaper rate than they are at home, the direct subsidies that the government provides for energy, lacks labor and environmental standards. They're low standards to begin with and they're rarely enforced.

From time to time, there's been misalignment of the yuan, the Chinese currency, that has artificially given Chinese imports an advantage into the U.S. market. And as a result, we shed an enormous amount of manufacturing capacity in just over a decade, a stunning amount. Ninety thousand factories closed. We saw those job losses in the chart as well, and we saw the intellectual property theft. So it has been staggering for American manufacturing.

Ms. Sherrill. Thank you. We certainly saw that in New Jersey.

And in October, the Biden administration announced sweeping new sanctions and export restrictions against China related to semiconductors, a sector that the CCP has built up in no small part with IP theft and forced technology transfers. Earlier this year, both Japan and the Netherlands also joined us in imposing these restrictions.

Can you discuss how these types of export and investment restrictions will impact the CCP's illegal activity such as IP theft and dumping?

Mr. Paul. Thank you again for the question, Representative. I think the long-term impact isn't entirely clear at this point, but the short-term impact has been profound. We've seen a screeching halt to a lot of U.S. personnel and company involvement in Chinese semiconductor manufacturing, which was the intent of this. The addition of Japan and Netherlands, because of the supply chain with respect to semiconductors, critically important.

As we enlist more allies and we expand the scope of the technology restrictions, I think we have a decent chance to be successful that if China wants to develop high-tech semiconductors in the future, it's going to have to try to do it indigenously without the

United States or our allies handing over the keys to the CCP.

Ms. Sherrill. Thank you so much to you and all our panelists today. I yield back.

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

Mr. Johnson. I fear that too many Americans view the Chinese Communist Party as a threat over there when in reality it is a threat here. That's why I was so grateful to hear General McMaster say tonight, it is a real mistake to give an adversary coercive power over your economy. And I was so grateful to hear Mr. Paul say, we need tighter controls over CCP investment in this country, particularly in critical sectors.

And so with that, Mr. Pottinger, others, I want to draw your attention to what is most assuredly a critical sector, and that is food. Food security is national security. We know that in recent years the Chinese Communist Party has increased their holdings of farmland outside of China by 1,000 percent. During that same timeframe, they have acquired 1,300 agricultural processing facilities. This is a deliberate and focused attempt.

And so, Mr. Pottinger, to you, do we know to what extent those efforts by the CCP are motivated by their desire to gain the kind of coercive power that the general was talking about?

Mr. Pottinger. One of the reasons that we should be extremely careful about permitting purchases of farmland in the United States by companies that are beholden to the Chinese Communist Party is that sometimes those -- that farmland is in proximity to sensitive installations, nuclear facilities, or other military bases. There may be more that's at play as well. It's -- it certainly bears close scrutiny. Why has there been such a significant increase in Chinese purchases of farmland?

I think that with the Committee for Foreign Investment in the United States, there should be closer scrutiny on these purchases. We've seen some purchases go through,

even recently, that were in relatively close proximity to military bases. I'm not sure why CFIUS chose not to scrutinize that particular deal. CFIUS in -- has had a trend of not exercising its ability to actually block. Instead, they frequently try to mitigate, but those mitigation measures are usually hollow and don't actually protect our national security.

RPTR BRYANT

EDTR HOFSTAD

[9:05 p.m.]

Mr. Johnson. So, with regard to the domestic investment, there are many in Congress -- myself, Mr. Newhouse, others -- who have legislation that would address that.

I mean, let's focus on Chinese investment in food supply elsewhere. I mean, I think about the southern globe -- Africa, South America, Southeast Asia. To what extent should that investment concern Americans?

Mr. Pottinger. Well, I think that the Communist Party's actions to try to lock up major supplies of commodities and goods, probably including food but also certainly rare earths and materials, cobalt and things that go into everything from regular consumer products to military goods, is part of a grand strategy. It's not just haphazard. It's not just about making a buck.

Mr. Johnson. Yeah, I think that bears repeating. This is part of a grand strategy. And I think it's something we want to be focused, thoughtful, and deliberate about. As we work to strategically decouple from the Chinese Communist Party, I think we want to -- there is an opportunity there for us to draw our allies in the Indo-Pacific and elsewhere more closer. I think that's going to give us a great opportunity to protect freedom.

It's not just, of course, in food security that this investment has the potential to create coercive power. I have a letter here, Mr. Chairman, from many within the communications industry that is talking about the importance of the rip-and-replace regime regarding Huawei and other Chinese telecommunications infrastructure.

I'd ask for unanimous consent to enter it into the record. Hearing no objection --

Chairman Gallagher. I'm sorry. I was consulting. There is no objection.

[The information follows:]

***** COMMITTEE INSERT *****

Mr. Johnson. Perfect. Thank you, sir.

Mr. Pottinger, anything else you want to add with regard to telecommunications and potential threats for Chinese investment in infrastructure there?

Mr. Pottinger. Only that, thanks to some enterprising reporting a few years ago by The Wall Street Journal, we know that Huawei was working with a couple of African governments to surveil political opponents in those countries, and, in some cases, those political opponents and activists were arrested and jailed.

So Beijing is exporting all the tools that you would need to run a totalitarian system.

Mr. Johnson. Thank you, Mr. Pottinger.

Mr. Chairman, I yield back.

Chairman Gallagher. Thank you. I would not dare object to you, Mr. Johnson.

Ms. Stevens is recognized for 5 minutes.

Ms. Stevens. Oakland County, Michigan, is home to 2,600 manufacturers, largely in the automotive space. We also boast the largest robot piece of equipment in North America, if not the world. We have a highly competitive economy whose GDP is larger than 14 States.

If you aren't aware of the industrial assets and their promise that exist in the Midwest, you certainly aren't paying attention.

Nearly every week that I've served as a Member of Congress, I have paid a visit to a manufacturer to see their product, to learn their equipment, and to meet their workforce. This has been done through pandemic and news of the day. What I've learned has been astonishing, inspiring, and motivating. This we know.

But what I must ask: Mr. Paul, from an economic standpoint, is it acceptable,

with regard to this competition, that 80 percent of battery manufacturing capacity takes place in China, yes or no?

Mr. Paul. No, in my view, it is not.

Ms. Stevens. General McMaster, from a national security standpoint, as it pertains to this competition, is it acceptable that 98 percent of the microchips that DOD purchases are manufactured in Asia?

General McMaster. Congresswoman, no, it's not. I think all of our supply chains need to become much more resilient.

Ms. Stevens. And, gentlemen, is it acceptable that an estimated 85 percent of the refining capacity for rare earth minerals is controlled by China?

General McMaster. No, it is not. This is a cause for grave concern. And it's going to take, I think, a lot of measures of this committee to rectify, including permitting and deregulation reform.

Ms. Stevens. So we are aware that we have a trade deficit. That has been articulated this evening. The existential question that we are facing, that we are reacting to deficits, we are reacting to supply-chain deficits -- supply-chain deficiencies, when we should be crafting, creating, and leading.

Mr. Paul, how can we expect to compete if we are operating industrial policy while we lurch from crisis to crisis?

Some of us have been ringing the alarm bell for decades on microchips. The tide rolled out. It hit us real here in the United States of America. It hit us in Michigan, with our automotive sector. Certainly, balance sheets paid the price, as well as the American worker.

How can we revitalize industrial policy in this Nation?

Mr. Paul. Representative Stevens, first of all, thank you for your leadership on

these issues. We are very grateful for your support for manufacturing workers.

I would say the first thing is assessing the problem. And there we have volumes of material. I mean, we were sounding the alarm a decade ago, but I know that in the last administration there was a defense industrial base review. The Biden administration has a 1,400-page supply-chain review that looks at these vulnerabilities with the same type of data that you provided not only in batteries and critical minerals but in other key sectors that we should be very, very concerned about, like medicines, as we move ahead.

Ms. Stevens. Or electrolytes manufacturing.

Mr. Paul. Absolutely.

Ms. Stevens. Which, by the way, we have one in Michigan and one in Tennessee. And there's no way to compete in the EV space and win that future if we don't resource these critical manufacturers here in the United States of America.

General McMaster, we've talked about our trade deficit, we've talked about the GDP investment. But, sir, I just wanted to very clearly ask, because of your profound background and contributions to this Nation, that if we were to invest more of our Nation's GDP in R&D, does that pose any national security threat that you are aware of?

General McMaster. Congresswoman Stevens, no, it does not, especially if it's in the right sectors and it's tied, obviously, to the private sector and that we can then apply those technologies to maintaining our economic and defense competitive advantages.

Ms. Stevens. So one might say that it provides dividends not only to our economy but to our national security to invest in R&D and invest in our manufacturing sector.

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

Chairman Gallagher. Thank you.

Mrs. Steel is recognized for 5 minutes.

Mrs. Steel. Thank you, Mr. Chairman.

I'm truly honored to serve as a member of this committee, and I take the job we have before us very seriously. More than one-third of my constituents are Asian Americans. Many of them are first-generation immigrants who, like my own parents, fled Communism to find freedom in this country. For them and for me, the threat from the Chinese Communist Party is personal. The threat of the CCP is not a partisan issue. It is not a talking point for the headlines. It is the greatest single threat facing the American people and democracy around the world.

As a member of this committee, I'm hopeful that we can come together to find real solutions to stop the CCP's advance, stand with our allies, and protect our national security. From calling on Olympic Corporation (ph) corporate sponsors to use their platforms to raise awareness of the CCP's long list of human rights abuses, to introducing legislation to revoke the CCP's absurd status as a developing nation, this is a top priority for me. It should be a top priority for all my colleagues. And I look forward to opportunities to work together on this most important issue.

Ms. Tong, thank you very much that, you know, you are sharing an inspiring story and your courage to stand up for freedom, your decades of sacrifice, including the fateful night in Tiananmen Square has led to you here tonight. And you have seen the CCP repression. Thank you for your work. Alongside with Wei Jingsheng, the CCP threw you into the labor camp.

Having said that, a lot of times we are very much discouraged when you see elected officials across Western countries and global corporate companies turn a blind eye to the CCP and Chairman Xi Jinping.

What do these CEOs and elected leaders need to do to protect those minority

groups and vulnerable populations in China?

Ms. Tong. I think what the U.S. Government could help most for the Chinese people is to help fund programs that do research how to bring down the Great Firewall.

The Chinese Communist Party is afraid of its people most. If the Chinese people have access to internet, free flow of information, then they would know the truth. And the truth is powerful on its own, and the lies the Chinese Communist Party has built up over many, many decades could crumble. And that will help the opposition forces to organize together and then to fight more effectively against the Chinese Communist Party's ideals or history.

Another way to help the Chinese -- I mean, to counter is to fund the programs for supporting journalists and rights lawyers. These two professions are trained for truth and justice, but they were heavily repressed inside China. So, if the U.S. gave more funding for the program to train these organizations or the professions, it would be great.

On the reciprocity principle and fairness principle, I would also advocate that, if the Chinese Government does not allow high-tech companies such as Facebook, Google, YouTube, Twitter to have presence inside China, the U.S. should certainly have the same right to block TikTok or super-app WeChat's presence in the U.S.

Many Congressmen and Congresswomen talk about the harm that TikTok has inflicted on the American teenagers, but I would call your attention to the harm that WeChat caused for the Chinese diaspora around the world. Because the super-app WeChat is a must-have inside China, and it also has become a must-have for every Chinese American or other Chinese living in Europe to have it to have ties to connect with friends and families inside China.

For people like me, WeChat has built an invisible wall so that my postings couldn't be viewed by folks inside China. And for those Chinese Americans who do not want to

sacrifice their ties with Chinese friends and families, they self-censor and they restrain themselves from passing sensitive information to folks in China.

So this has a pernicious effect on the free flow of information, and the U.S. should certainly find ways to counteract this kind of pernicious, menacing effect.

Thank you.

Mrs. Steel. Mr. Chairman, I have a question to General McMaster, but my time is up, so I'm going to submit it in writing, regarding trade violations. Thank you.

[The information follows:]

***** COMMITTEE INSERT *****

Chairman Gallagher. Thank you.

Mr. Auchincloss?

Mr. Auchincloss. This committee is about competition, and the competition is about values.

As the testimony of Ms. Tong Yi exemplifies, the Chinese Communist Party rejects the inherent value of the individual. It believes people are pawns of the state.

The United States, by contrast, was founded upon universal and self-evident truths centered on the dignity and freedom of the individual.

Mr. Pottinger, in your written testimony, you assert that free societies like ours need not employ disinformation. And I agree that truth is on the side of freedom and democracy, but I'm concerned that lies spread faster and deeper.

How can the United States engage other nations, particularly in the global South, in defusing propaganda and building civic support for the rules-based international order?

Mr. Pottinger. Congressman, thanks for your question.

I think that helping fund independent journalism in countries in the global South is critical right now. That includes small Pacific island nations. It includes large African countries. It certainly includes countries in our own hemisphere south of our border.

The work that is being done to identify government proxies and their bots and others who are really representing, but not always transparently, autocratic governments need to be called out. I think it doesn't mean that you have to silence autocrats, but it means making sure that there's truth in advertising, that people know about them.

Mr. Auchincloss. General McMaster, another element of binding allied and nonaligned nations to the rules-based international order, particularly in Southeast Asia, is through ties of trade and investment.

As the U.S. selectively decouples from China in order to prevent chokepoints, how might Congress structure a trade promotion authority for a revised Trans-Pacific Partnership to deepen and widen the bonds of trade with the rest of the Indo-Pacific?

General McMaster. Congressman, I think we have to do everything we can to foster an incentive for countries to do business with us, for companies to do business in the United States rather than with China or to accept the bad deals that they get from China.

I think the Indo-Pacific Economic Framework is a good start, but there are portions of TPP, especially, like, data standards, for example, that could be maybe adopted more broadly across the region.

But then, you know, I don't think there's much appetite, at least in my assessment -- you would know better than I would -- for multilateral trade agreements. So we need more capacity for really high-quality bilateral trade agreements. We haven't had a new one of those -- we've had revised ones. We haven't had a new one of those for 10 years.

Mr. Auchincloss. Well, we could start with a TPA for Taiwan.

General McMaster. Absolutely. Or how about one with Great Britain too? I mean, we could do that. Taiwan also. I think that should certainly be a priority.

Mr. Auchincloss. We should build the will for multilateral trade agreements in Southeast Asia. And we have received solicitations from our allies -- Australia, New Zealand, and others -- in that region that they are willing to revise the TPP. And I think an updated TPA from Congress would send a very strong signal about our constraint, I think as Mr. Pottinger would put it in his written testimony, of Chinese aggression.

I want to note, finally, in closing, General, your concluding paragraph in your written testimony, which I'll read in here.

You write, "We should be confident. We might remember how in May of last year the Kremlin leadership watched a well-choreographed military parade, even as its poorly led, ill-trained, and undisciplined military was failing in Ukraine. Meanwhile, the CCP was doubling down on its self-destructive Zero-COVID policy and continuing its crackdown on the tech sector as it scrambled to contain a real estate crisis. Authoritarian regimes are brittle. Democracies are resilient."

Well, the resilience of our democracy is up to us. Yes, the Kremlin and the CCP have committed public self-defeating errors in the past 2 years. But also in the past 2 years the world watched as an American President summoned a mob to overturn a free and fair election and kill officers of the law. January 6, 2021, was Xi Jinping's best day in office.

I hope the bipartisan spirit of competing with the Chinese Communist Party overseas extends to defending democracy here at home.

I yield back, Chairman.

Chairman Gallagher. Mrs. Hinson is recognized for 5 minutes.

Mrs. Hinson. Thank you, Mr. Chairman.

Well, it's very clear we have quite the challenging task ahead of us, not just tonight but for months and years to come. But I am confident, with the leadership of Chairman Gallagher and Ranking Member Krishnamoorthi -- thank you for your leadership -- our democratic Republic will win this strategic competition with the Chinese Communist Party. And we will also make sure that President Xi Jinping's Marxist outlook for a new world order that squashes freedom will never come to pass. We are not going to allow that to happen, and we cannot fail.

So, to our witnesses, thank you for appearing before us tonight and having the courage to tackle these tough issues with us.

I would like to start with you, Mr. Pottinger.

And I would like to review just for a moment -- I kind of made a list of if you want to call them the top 10 hits list of some of the activities that the CCP and PLA engage in. And these are just things that were discussed here tonight: human-rights abuses; mass surveillance of the Chinese people; genocide of the Uyghurs; trade exploitation; IP theft; economic coercion; funneling fentanyl via the drug cartels; international espionage; economic espionage; direct threats against our ally, the sovereign nation of Taiwan.

So that's just a start there; it's certainly not a comprehensive list. But would you agree that this is a fair summary of the CCP's malign activities?

Mr. Pottinger. That's a pretty good top 10. And the list is a lot longer, Congresswoman.

Mrs. Hinson. Yeah. Absolutely. I agree. And so it's the tip of the iceberg, as we would call it.

Would you say that -- another issue that I think is very important to all of the people who pay us to be here, the taxpayers -- that their hard-earned paychecks should certainly not be funneled to funding these activities or the CCP or the PLA, any of those organizations?

Mr. Pottinger. That's right. There is already a basis for halting the investment of American retirees' money and any American investment from going into Chinese-military-affiliated companies. It's just not being enforced by the Treasury Department.

Mrs. Hinson. And I'd like to highlight one other important issue. I think we are in agreement that a hardworking farmer in Iowa should never be on the hook for funding some of the same bad actors who are literally stealing the seed corn out of his fields, which happened right in Iowa, in our backyard. A spy ring was busted just about a little

over 10 years ago.

So what do you make of the reporting that American taxpayer funds have been funneled to the CCP and PLA? Can you provide some of the most concerning examples beyond what you mentioned just in terms of investment?

Mr. Pottinger. Well, the amount of money is vast. And that is because the Chinese Communist Party, like I was talking about at the beginning, they're magicians. They created incentives, through coercive measures, for Wall Street index funds to add more and more Chinese companies to their indices.

And a lot of investors, a lot of big fund managers in the United States don't actually look at the Chinese companies they're investing in, or the companies at all that they're investing in. They just follow those big indices, like the MSCI Index.

Well, according to reporting, the MSCI had been resisting adding more of these Chinese companies, including ones that are affiliated with the military, to their list, and the Chinese Communist Party said, if you don't add more of our companies, we will withhold data from you and withhold licenses for you to operate.

And, lo and behold, suddenly, the number of Chinese companies that appeared on these indices tripled, quadrupled, quintupled, and more and more money passively flowed from American pensioners and endowment funds at universities into these Chinese companies, which are opaque, and many of them are servicing the Chinese military.

Mrs. Hinson. Right. So it's short-term gain for long-term pain, in this case, right? It's exactly the opposite as normal.

Mr. Pottinger. It's fiduciary irresponsibility on top of that.

Mrs. Hinson. Absolutely.

And, Ms. Tong, I'd like to applaud you, as well, for bringing up the journalists.

That was my career before I got into politics. I started off trying to get to the bottom of the truth and show that truth, news of the day, every single day. And you really experienced that horrible truth of the CCP. So thank you for your bravery.

What would you say, in the propaganda space, is the CCP's biggest tool? What is the biggest threat there? And how are they utilizing that propaganda machine even here in the United States?

Ms. Tong. I think if the U.S. -- you know, if China does not allow, like, journalists' presence from Wall Street Journal or New York Times or Washington Post or CNN to have any presence in China, then the U.S. should ban the Chinese journalists from coming here as well.

And, currently, Chinese people certainly could not view the American programs such as this in China, so we shouldn't allow CCTV or CGTN's presence in the United States as well.

And, also, the WeChat actually played a very, very big role in sanitize the Chinese Americans here about what their values or outlook is. Within the WeChat, there are a lot of open platforms that are set up by the CCP. So, for example, they are targeting Chinese student organizations, overseas Chinese communities --

Mrs. Hinson. Uh-huh.

Ms. Tong. -- even for eating purpose. They could gather a lot of Chinese Americans to, for example, protest in front of some organizations for their purpose, to do their bidding.

So all of these are, you know, ways that the United Front Work has penetrated our society very effectively. And we should get smarter to counter the CCP's propaganda, especially against their United Front Work.

Mrs. Hinson. Yeah. Well, we had Chinese newspapers with that propaganda

being delivered to Members' offices here in Congress not too long ago, and we put a stop to that as well.

Ms. Tong. Yes.

Mrs. Hinson. So thank you, Ms. Tong.

And I yield back.

Chairman Gallagher. Thank you.

Mr. Torres is recognized for 5 minutes.

Mr. Torres. Following the end of the Cold War, Francis Fukuyama famously declared the "end of history." In the 20th century, the U.S. had high hopes that the world would bring freedom to China. Today in the 21st century, instead of hoping that the world will bring freedom to China, the U.S. fears that the CCP will bring a totalitarian police state to the world, and will do so to an extent that not even George Orwell himself could've imagined.

Under the leadership of Xi Jinping, the CCP has become more totalitarian and more ethno-nationalist. The totalitarian turn and ethno-nationalist ethos of the CCP has led to a genocide against Uyghur Muslims and heightened aggression against Taiwan.

Mr. Pottinger, I have a deceptively simple question: Has Chairman Xi fundamentally changed the CCP, or has he simply revealed the CCP for what it truly is and has always been?

Mr. Pottinger. Congressman, that's a great question.

I think it's more of the latter, that there have been aims that have been consistent, even though they've sometimes been kept quiet by the CCP, for decades.

If you look at a couple of recent books -- Frank Dikotter has a new book, "China after Mao," that goes into a lot of those documents. Rush Doshi, who is currently working in the Biden administration, wrote a book called "The Long Game" that explores

some of that.

But leadership matters in any system, including in a totalitarian dictatorship, and Xi Jinping is putting his personal stamp on this system. He's accelerating the goals that they've been trying to reach.

Mr. Torres. And I have a question about the mindset of Chairman Xi. Does Chairman Xi know that his consolidation of power likely comes at a cost to economic growth, as evidenced by the Zero-COVID policy? And if he knows, does he even care? It seems like --

Mr. Pottinger. Right.

Mr. Torres. -- he prioritizes ethno-nationalism and totalitarianism even at the expense of economic growth.

Mr. Pottinger. One of the departures of President Xi from his predecessors like Deng Xiaoping is that he clearly does not rank economic growth and the growth of prosperity first. It's a distant second, at best, to centralizing political control and grabbing hold of what he calls the "tools of dictatorship." That's the line he uses repeatedly. It means controlling all aspects of the society and the politics, the economy, the ideology and information.

Mr. Torres. Even though China remains intent on overtaking the United States as the world's largest economy, the CCP is confronting a perfect storm -- a debt crisis, a demographic crisis, and a declining productivity crisis.

Can you think of a single country in history that has achieved sustainable economic growth in the face of productivity decline, population decline, and a prohibitive debt burden?

And I'll start with you, Mr. Pottinger.

Mr. Pottinger. Not that I'm aware of.

Mr. Torres. Mr. McMaster, can you think of one?

General McMaster. Not that I'm aware of, Congressman.

Mr. Paul. Mr. Scott Paul?

Mr. Paul. One doesn't come to mind, Congressman.

Mr. Torres. So, given the lack of an historical precedent, Mr. Pottinger, are you skeptical that China will surpass the United States?

Mr. Pottinger. Quite skeptical that they will.

Mr. Torres. Mr. --

Mr. Pottinger. The real issue is, how much damage can they do to their own people and to the rest of the world before the moment of truth arrives for their system.

Mr. Torres. Mr. McMaster?

General McMaster. Congressman, I'm optimistic, in terms of our ability to prevail, if we stop underwriting our own demise.

Mr. Torres. Mr. Paul?

Mr. Paul. I think it's an open question. China is starting to choose its friends differently, and if its friends are Russia and Iran, then we have larger issues to be concerned about.

Mr. Torres. You know, during World War II, we saw sentiment against the Japanese Government metastasize into discrimination against Japanese Americans, resulting in one of the darkest moments in American history, the mass internment of Japanese Americans.

In our bipartisan efforts to confront the real challenge of the CCP, we must never allow sentiment against the CCP to become a pretext for discrimination against Chinese Americans. Calling into question the loyalty of Chinese Americans, as a Member of Congress recently did, is as dangerous as it is deplorable.

If we allow the CCP to change who we are and turn America against Americans, we will lose the moral authority we rightly claim. The strategic competition with the CCP is not merely about interests but about values. And we must remain true to our values, and nowhere more so than here at home.

I yield back.

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

Mr. Gimenez. Thank you, Mr. Chairman. And I am truly honored to serve on this committee.

And, Ms. Yi, I can identify with you, because I, too, am a political refugee. I came here when I was 6 years old. I did not suffer what you suffered at the hands of the Communist Party of China, but I can tell you that Marxist regimes are the same everywhere. There is no difference.

And though the Chinese Communist Party was able to hide its true, you know, intentions for a long time, in the end they always expose themselves as to what they want. And Marxist ideology wants to simply dominate the world. And they want to subjugate all of us. They want to oppress us, take away our freedoms.

And the people in China and the Chinese people are suffering under the same oppression that my people in Cuba have suffered for the last 60 years, and you've suffered it for even longer in China. And so, really, I would identify with you and thank you for your courage.

General, do you think that China poses a greater threat to our freedom and the world's freedom than the Soviet Union ever did?

General McMaster. Congressman, yes, I do, because of the complexity of it, especially the interconnectedness of China with the global economy. And just, you know, the scale of what they're doing from an economic perspective and from an

espionage perspective, I think, is unprecedented.

We never gave the Soviet Union the kind of access that we gave to Chinese Communist Party operatives, members of the Party, again, based on what we've all been talking about -- this fundamentally flawed assumption that China, having been welcomed into the international order, would play by the rules and, as China prospered, it would liberalize its economy and liberalize its form of governance.

Mr. Gimenez. Yeah, I agree.

And, you know, after World War II, it was pretty clear that the Soviet Union was going to be our adversary, and so we treated them as an adversary, unlike what we did with China, where we said, well, maybe if we treat them kindly, they will change their ways. And I'll tell you one thing: You can never assume that with a Marxist regime. They will lie, cheat, do whatever it is, to gain their way or what their goals are.

And so I believe that the fundamental difference is that, unlike the Soviet Union, we are actually funding the instrument of our demise and that we must decouple. We have to decouple. But we can't do it alone. We actually have to do it with our allies.

And so, now that this veil has kind of been, you know, withdrawn and the rest of the world can actually start to see what really China is about and what their aims are, do you feel that our allies have sufficiently woken up to the reality of what China is and the threat that China, Russia, Iran, North Korea poses to the rest of the world?

General McMaster. Congressman, no, I don't. I believe the trend's in the right direction but, to use your word, is insufficient.

And I think it's important to understand that, really, the person that's driving decoupling is Xi Jinping, but on his own terms to create this dual circulation economy. Now, I'm talking about things that I learned from Matt Pottinger, but, really, what China wants to do is insulate China from any kind of consequences, financial or economic,

associated with Chinese aggression while he cultivates dependencies that he can use for coercive purposes.

And I think the lesson, again, to go back to a lesson of the reinvasion of Ukraine, is the rending of economic relationships with Russia, the degree to which some companies have stranded capital and investments there.

I think that what we really need is a private-sector response to this growing geostrategic danger. So companies, I think, international companies, need to really begin to mitigate the risk.

Mr. Gimenez. Well, you know, I wish I had that confidence in international companies. A lot of them are looking for profit and short-term profit over, really, the long-term consequences of that.

And so I believe that we are going to have to take some more aggressive steps. We can't do this, you know, incrementally. You need dramatic action, and you need it now, in order to stop this threat.

Look, you know, some of the folks in here, in this committee, have talked about the supply chain and rare earth minerals. You'd be surprised that 70 percent of those rare earth minerals are in our hemisphere, controlled by the Chinese. And we need to start looking in our own backyard to combat the threat.

That's the first place we need to start. And then we need to start looking -- well, we have to take action around the world.

Thank you. And I guess my time is up.

Chairman Gallagher. Ms. Brown is recognized for 5 minutes.

Ms. Brown. Thank you.

As it's been stated, U.S. competitiveness is critical to the residents in Ohio's 11th Congressional District, the Midwest, and across the Nation.

As the relationship between the U.S. and China evolves, I am committed to supporting American manufacturing and trade, boosting American competitiveness with equity and inclusion, supporting human labor, opposing surveillance, and preventing cybersecurity threats pertaining to the spread of misinformation and disinformation in the United States.

Since 2020, the U.S. Government has restricted certain firms of Chinese origin from doing business in the United States, but has not used country or sectoral restrictions, leaving most U.S.-China commercial activity open. The U.S. Government handles State commercial actions on a case-by-case basis and holds individual actors accountable, not the State more broadly.

So, Mr. Paul, my question is for you. What broader State restrictions and accountability, if any, could address these U.S. concerns?

Mr. Paul. Representative Brown, thank you so much for the question. It's an important issue.

So I think that we have some foundations upon which to build. We have inbound investment reviews through the CFIUS law. We can certainly enhance the enforcement of that and expand its scope.

Through direct taxpayer investment, we could restrict the access to Chinese firms for that, for example. There were over 100 Chinese firms that had connections to the government that received PPP assistance. There are state-owned firms in transit that -- CRC and state-connected firms like BYD that have secured transit dollars. You can expand the scope of restrictions there.

And we can more carefully calibrate research and where that goes. In my testimony, I articulated issues with U.S. labs then licensing technology that was developed at taxpayer expense to Chinese firms. And there is a law in place to start to

stop that that was bipartisan within Homeland Security, but that should be expanded as well.

And we should also consider what the scope and the type of Chinese investment is. What we've seen a lot, unfortunately -- and I think you've experienced this in Ohio -- is you've seen industries like steel and glass and others where there have been just total decimation of these industries. Sometimes Chinese firms come in and take up some of the domestic marketplace. And that's not necessarily something that I think is healthy for our economy. For every job that creates, it probably displaces three or five other jobs that were in value chains in the United States.

So there's a lot of room to maneuver here.

Ms. Brown. Thank you for that.

And have U.S. officials prioritized short-term commercial interests over longer-term considerations related to U.S. competitiveness?

Mr. Paul. I think, up until recently, unfortunately the answer was yes. And that's why we had two decades of permanent normal trade relations for China, no real consequences for the Chinese misbehavior that I described that were measurable in any way.

Recently, we have seen that shift. I think we are playing the long game now. And, as I mentioned, I think there are a couple of aspects to that. I think a trade enforcement strategy is key, but I think a domestic competitiveness agenda is also key. And that requires public investment, that requires attention to our infrastructure, to our workplace, to make sure that we are not only the leaders in innovation but we are the leaders in production again.

Ms. Brown. All right. Well, thank you for your recommendations as this committee continues to explore opportunities to create policy and conduct oversight

regarding the U.S.-China trade relationship.

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

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

Mr. Barr. Thank you, Mr. Chairman.

And thank you to our witnesses for their outstanding testimony and their expertise.

As China expert and former Defense Department official Michael Pillsbury has written, the CCP is entering the final phase of its 100-year marathon to replace the United States as the world's global superpower. An underappreciated dimension of this strategic competition between the United States and the CCP and one of the reasons why the CCP is arguably ahead of schedule in that marathon is the CCP's economic aggression against the West.

But I believe very strongly that the United States should not mimic the Chinese industrial policy, should not copy the Chinese command and control system. We should not embrace overly broad measures that would raise questions about our commitment to a market economy, which is a key source of strength for the United States in contrast to China's Communist central planning policies.

In other words, as this committee does its work and as we consider policy responses to the threat from the CCP, I would submit to my colleagues and to policymakers in this country: We should not try to counter China by becoming more like China.

Mr. Pottinger, though, I do believe there are certain areas where we need strategic, targeted, focused, and tailored decoupling. And that strategic, targeted decoupling should be limited and focused on national security issues.

So, to that point, I want to set the stage for those watching tonight on the risks of

U.S. investment and Western capital flows into Chinese military surveillance companies that do threaten our national security.

To what extent are American investors, through these emerging growth index funds, public equity exchanges, and even private equity and credit investments, either knowingly or unknowingly investing in Chinese companies that directly threaten U.S. national security?

Mr. Pottinger. Congressman, it's a huge amount of money. I'd point you to the work that Roger Robinson has done in this area. He's a former Reagan administration official who's been actually trying to tally the amount of money. We are talking about hundreds of billions of dollars that have been flowing to opaque firms, many of them involved in grotesque human-rights abuses, including genocide and slavery of the Uyghur people and others.

And I think that most Americans don't know. If Americans knew that that's where their money was going, they would say, "I'm out. What are you talking about?"

But I do think that there has been poor stewardship of the money on the part of these index providers and, frankly, on the part of a lot of big money managers who have not paid close enough attention to where that money is truly flowing.

Mr. Barr. Well, let's talk about the appropriate and tailored and focused response. What is the policy solution here that is consistent with our values and our general commitment to cross-border capital flows? What is the right policy response?

So, as you consider that response, talk to us about the disparate lists: within the Department of Commerce, the Entity List; the lists within the Department of Defense, the so-called 1260H List; and, also, within Treasury, the OFAC list and the Chinese Military-Industrial Complex List that is subject to these executive orders.

Is the right policy response a very surgical, direct OFAC sanctions regime that

would not only tell American investors green light, red light, these are red light companies, but it would coordinate that sanctions regime with our Entity List at Commerce, so that a company that we should not be transferring technology to through BIS should also be on the sanctions list so that outbound capital screening, outbound capital flows, are not subsidizing or investing in companies that are a technology transfer risk?

And one final point. Does OFAC have a multilateral effect so that non-U.S. investors are also not funding the rise of Chinese military surveillance and technology companies?

Mr. Pottinger. Congressman, to start with the last point, I think that when the United States leads, our allies, sooner or later, tend to follow. That was the case when the Trump administration put the first-ever sanctions on China for their genocide. Europeans and others slowly began to follow suit.

There is no substitute for America's deep and liquid capital markets. No one else can substitute for the massive liquidity that we provide through our capital markets here.

So the answer is, when we are talking about an adversary, a totalitarian adversary that does not wish us well and is involved in the worst human-rights abuses so far this century, yes, we need to actually begin coordinating and at least trying to study why it is, for example, that the U.S. Commerce Department has 1,000 Chinese companies on its export control list because those companies provide dual-use military technologies but at the Treasury Department down the street there are only 68 companies that Americans are prohibited from investing in -- 68 companies that are either affiliated with the Chinese military or involved in gross human-rights abuses.

The number should probably be several tens of thousands of companies, not merely 68. So the Treasury Department has a lot of explaining to do.

Mr. Barr. Well, my time has expired, but, obviously, coordination of these lists is critical.

And I yield back.

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

Mr. Luetkemeyer. Thank you, Mr. Chairman.

And thank our witnesses again today.

I want to follow up on Mr. Barr's line of questioning here.

Ms. Tong, in your testimony, you say that the CCP -- "We have helped to feed the baby dragon of the CCP until it has grown into what it is now." You know, I always use a little bit different phrase on it. I often say that we are investing in China, which is a lion that's going to eat us if we are not careful.

You know, Mr. Paul, in your testimony, you stated that "the CCP has sought to accomplish its objectives by drawing in American investment in technology. They are sucking us in. They are finding a way to attract our investment."

And, General McMaster, you in a statement before the Senate Armed Services Committee in a hearing in March 2021 discussed the many Chinese companies that are listed on the American Stock Exchange. And my information was that in 2020 there were about 1,000 companies listed on our stock exchange, whereas by January the 9th of this year it was down to 252.

I think one of the reasons probably is that we said that they had to be audited every 2 years. I'd like to see that go down to 1 year. That's something I think we are going to be looking at.

But one of the problems I had with it -- and I think Mr. Pottinger mentioned a minute ago -- is that our asset managers -- when you have BlackRock, the largest asset manager in the world, who probably a bunch of us in this room may have our retirement

funds with them, makes a statement that says the best place to invest in the next 20 years is China, this is very concerning. Because all of you this evening have made the statement that we've got to stop investing in China, we have to decouple our investments so that we can slow down their rate of growth so they can compete with us. And yet here we have one of our largest -- the largest asset manager in the world that says, that's where we need to put our money.

How do you suggest that we deter him -- this is where my colleague was going a minute ago. How do you suggest we deter him from saying that and investing in China?

Mr. Pottinger or Mr. McMaster, do one of you two want to take that question?

Mr. Pottinger. Sure.

I would just say that American companies, by and large, are quite law-abiding. They have large compliance shops to make sure that they're compliant with the law. I think that companies will follow the guidelines if they are painted brightly.

And that is the work of this committee. It's incumbent upon the executive branch to have executive orders that make clear what the left and right lateral limits are for what we can invest in, sir.

Mr. Luetkemeyer. General McMaster?

General McMaster. Congressman, thank you.

I think the way to do this, as well, to maybe inform your work, is with case studies. And we are working at the Hoover Institution on case studies that will illuminate how U.S. investments, private equity and venture capital investments, have enabled the People's Liberation Army in some circumstances.

For example, some massive several-hundred-million-dollar investment in a company in 2014. That company now provides all the battlefield artificial intelligence for the People's Liberation Army.

And, also, how our investments have enabled, really, the Chinese, then, to double-down on state support for certain sectors that then drive our industries out of business. You mentioned battery manufacturing, you know, wind turbines, solar -- I mean, the list is vast.

So I think that, really, shedding the light on this is important. Because I think so many fund managers have been under this idea of, you know, maybe, you know, some sort of soft-headed cosmopolitanism or a belief, again, in this assumption that China is going to become just like us.

Mr. Luetkemeyer. Thank you for that.

I want to make a point here, though. It would seem to me that -- you know, I read somewhere the other day that it takes about \$300 billion a year for them -- I think, Mr. Pottinger, you mentioned something about the cost to deter and incarcerate and surveil the Chinese people. It costs about \$300 billion a year is a figure I saw somewhere.

If you look at our trade deficit, that's \$383 billion. I think that's in Mr. Paul's testimony. So, basically, we are paying, through our trade deficit, for the Chinese Government to surveil and incarcerate and build detention centers, prisons, for their own people.

Is that a fair statement?

Mr. Pottinger. I think it is, sir.

Mr. Luetkemeyer. A question for you, then. I know you gentlemen have talked about ways to perhaps legislatively do this. I think we also need to have the American people behind us when we do this. We need to have them understand that they can't necessarily go for the highest return on our investment in China. They're going to have to start looking someplace else.

So how would you recommend we sell that to the American people? Ms. Tong has got a fantastic story there to tell of what goes on in China today.

Would you guys like to answer that very quickly?

Ms. Tong. Well, in 1990, China's GDP was less than 5 percent of the U.S. GDP. In 2022, China's GDP is 62 percent of U.S. GDP.

Over the last three decades, with easy access to vast Western markets, Wall Street capital, cutting-edge technology from Silicon Valley and American universities, and also business and manufacturing's know-how transferred or stolen in joint enterprises, China has now become a pacing geopolitical threat to the U.S.

In hindsight, American policymakers should regret much of this. Sacrificing American values and principles for short-term profits will never serve Americans' long-term national security or economic well-being.

Mr. Luetkemeyer. Thank you for that statement, Ms. Tong.

And I yield back. My time is up.

Chairman Gallagher. Thank you.

And thank you to our witnesses for their incredible testimony. I'm struck by the amount of overlap and the amount of good ideas that we've generated in the course of this discussion.

We also now know that it takes approximately 3 hours to get through every member of the committee. Everyone's still here. Everyone is still here, indeed. But, mercifully, no one's asked for a second round of questions, so I'll move to close.

Three hours is roughly the length of a long movie, I think, like an "Avatar"-length movie. And like any cinematic experience, in examining this strategic competition with the CCP tonight, we've gotten a sense of heroes and villains. And though we might disagree slightly on precisely who the good guys and the bad guys are at times, there's no

question in my mind that we, America, are the good guys, we are the good guys; that, even on our worst day, the rest of the world is still looking to us for leadership.

And I was reminded of this fact today when we had a press conference with a group of Hong Kongers on the 2-year anniversary of 47 activists being jailed in Hong Kong for having the temerity to hold unofficial elections in Hong Kong. Even that was too much for the Chinese Communist Party. And I think it illustrates that a world in which people are free is a world unsafe for the CCP. And, thus, they are trying to change it.

I'm reminded of what Joshua Wong, who remains jailed, said: "Our bodies are held captive, but our pursuit of freedom cannot be contained."

Or, to paraphrase what President Reagan said standing in front of the Brandenburg Gate at the end of the old Cold War, "Freedom is the victor." "Freedom is the victor."

In that spirit, I want to thank all of our members for their thoughtful contributions tonight. I can't tell you how excited I am to work with all of you on a bipartisan basis going forward.

Again, I want to thank our witnesses.

I will remind members, questions for the record are due 1 week from today, on March 7th. Your staff will receive submission instructions shortly.

[The information follows:]

***** COMMITTEE INSERT *****

Chairman Gallagher. And, without objection, the committee hearing is adjourned.

[Whereupon, at 9:58 p.m., the committee was adjourned.]