

Under Secretary Fernandez
Testimony for Senate Foreign Relations Committee Hearing
on Addressing Coercion and Increasing U.S. Competitiveness: US
Economic Security in the Twenty-first Century
July 26, 2023

Thank you, Chairman Menendez, Ranking Member Risch, and Members of the Committee for the opportunity to appear before you this morning.

This hearing focuses on addressing economic coercion and increasing U.S. competitiveness. The People's Republic of China (PRC) is currently our biggest economic competitor and a prolific user of economic coercion. Under Xi Jinping's leadership, Beijing's ambitions are clear. As he stated in April 2020: Beijing's goal is to manipulate global supply chains, force other nations into dependence on the PRC, and then use that dependence to exert leverage over Beijing's trading partners. Countering that effort is an administration priority. My job at the State Department is to do so through economic diplomacy. We are making good progress, but much work remains to be done. I would like to share three concrete examples with you today.

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

this challenge with key foreign counterparts. We are starting with minerals needed for the energy transition: lithium, graphite, and copper. We now have fourteen partners — plus the European Union — working collaboratively to find possible critical mineral projects and bring them to market. Just last month, India joined. MSP now has a pipeline of projects, and we are working on them together.

Second, thanks to Congress, we are using the CHIPS & Science Act's International Technology Security and Innovation (ITSI) Fund to re-wire global semiconductor value chains, providing the new domestic semiconductor manufacturing fabs here in the United States with the international environment they will need to succeed. We are targeting the critical needs at each step of the semiconductor value chain, specifically: securing the critical minerals our fabs need to make chips; coordinating policy with allies and partners so we don't face a subsidy race; and expanding downstream production capacity so fabs have diverse options for final-stage processing. This is critical work. Congress passed the CHIPS and Science Act last August, and we have been racing to stand up this effort.

Those two initiatives are working to build diverse, secure, and resilient supply chains in critical minerals and chips — directly countering PRC efforts to dominate these same supply chains.

Which takes me to the third effort I'd like to highlight – our effort to combat PRC economic coercion. Across the globe, Beijing exploits economic vulnerabilities of our allies and partners to threaten and coerce them into following its dictates. Beijing's bullying undermines U.S. national security and foreign policy interests and the rules-based international order. But we are not standing idly by. When nations face coercion, the United States is willing and able to help. I led the effort to support Lithuania, which faced trade-based retaliation by China for opening a Taiwan representative office, and to use that case

to develop a toolkit of actions to directly support other partners facing PRC coercion. With Lithuania, we provided concrete support, economic and otherwise. Beijing canceled roughly \$300 million in export credit to Lithuanian companies, so we worked with the U.S. Export-Import Bank (EXIM) to provide a \$600 million U.S. alternative. We mobilized U.S. posts across the Indo-Pacific to find new markets for Lithuanian goods after Beijing blocked imports from Lithuania. The U.S. Department of Defense signed a reciprocal defense procurement agreement with Lithuania. Other agencies also provided support. Today, Lithuania has survived the PRC's pressure, and it is thriving. Less than 0.5% of its exports currently go to the PRC, and its overall trade has rebounded as the gap from PRC coercion has been filled by other partners.

Since then, we are building a unit at State to help other countries that take sovereign decisions Beijing may not like. We and our interagency colleagues are working closely with G7 countries to operationalize the new counter-coercion mechanism and ensure that, when the next case happens, we are ready to respond. This is one of my highest priorities, and I am deeply grateful for this committee's leadership and support on economic coercion.

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

But diplomacy is not enough. We have to show up with concrete economic alternatives to what the PRC is offering countries around the world, particularly in Africa, the Americas, Southeast Asia, and the Pacific Islands. When I first joined the department, our frontline diplomats in developing nations were blunt. They told me: there is a lot of talk about competing with the PRC in the developing world, but we have to walk the walk. If we aren't going to put forward real economic

alternatives, we will not be in the game. Hectoring will only get us so far. We can't and shouldn't try to compete with the PRC dollar for yuan, but we do need to deploy concrete resources to level the playing field enough to get our companies in the game. That is why the Administration asked for \$6 billion in mandatory funding to out-compete the PRC. We want the U.S. in the game. We can compete and win, but we need your support to do that effectively.

Investing in the Indo-Pacific is not only critical for the U.S. to compete and win, but also to strengthen partner economies and support their efforts in pushing back against the PRC's predatory tactics. With our budget request, we would create a new infrastructure fund that would allow us to out-compete China, providing credible, reliable alternatives while expanding markets and opportunities for U.S. businesses. We would also be able to create a new revolving fund at the U.S. International Development Finance Corporation (DFC) to boost equity investments to counter predatory lending offered by China, advance our foreign policy priorities, and create long-term sustainable development.

These funds would also allow us to commit to long-term projects where we need funding upfront and where we need to show our unwavering commitment to our partners over a much longer period-of-time than discretionary funding, including the need to amend and extend the economic assistance provisions of the Compacts of Free Association with the Freely Associated States of the Federated States of Micronesia, the Marshall Islands, and Palau.

Thank you, and I look forward to your questions.