

**A MULTILATERAL AND STRATEGIC  
RESPONSE TO INTERNATIONAL  
PREDATORY ECONOMIC PRACTICES**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON MULTILATERAL  
INTERNATIONAL DEVELOPMENT,  
MULTILATERAL INSTITUTIONS, AND  
INTERNATIONAL ECONOMIC, ENERGY,  
AND ENVIRONMENTAL POLICY

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**WEDNESDAY, MAY 9, 2018**

U.S. SENATE,  
SUBCOMMITTEE ON MULTILATERAL INTERNATIONAL  
DEVELOPMENT, MULTILATERAL INSTITUTIONS, AND  
INTERNATIONAL ECONOMIC, ENERGY, AND  
ENVIRONMENTAL POLICY,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:30 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Todd Young, chairman of the subcommittee, presiding.

Present: Senators Young [presiding], Gardner, and Merkley.

**OPENING STATEMENT OF HON. TODD YOUNG,  
U.S. SENATOR FROM INDIANA**

Senator YOUNG. Good afternoon. This hearing of the Senate Foreign Relations Subcommittee on Multilateral International Development, Multilateral Institutions, and International Economic, Energy, and Environmental Policy will come to order.

I want to thank the ranking member, Senator Merkley. I am grateful, once again, for our continued bipartisanship on a range of issues.

The title for today's hearing is, "A Multilateral and Strategic Response to International Predatory Economic Practices."

This hearing falls squarely within this subcommittee's jurisdiction, which includes multilateral institutions and international economic policy. Today, we have an impressive group of experts joining us to discuss this important issue. Our witnesses today include Mr. Matthew Goodman, the Simon Chair in Political Economy at the Center for Strategic and International Studies; Mr. Michael Wessel, a commissioner with the U.S.-China Economic and Security Commission; Ms. Kimberly Glas, Executive Director of the BlueGreen Alliance; and Dr. Robert Atkinson, President of the Information Technology and Innovation Foundation. Welcome.

Given the excellent group of experts, I am eager to hear from each of you. Before we do so, however, allow me to make a few comments to frame and catalyze our discussion this afternoon.

Let me state up front my premise for this hearing. I believe America's national security rests largely on an economic foundation, and that predatory economic practices by China and others

have undermined that foundation for years. If left unaddressed, these predatory practices will further endanger not only the prosperity of Americans, but also our security. That is why I believe we need to respond in a smart, multilateral, and strategic manner.

That requires us, as you write in your prepared statement, Mr. Goodman, to start with a coolheaded analysis of the challenges and opportunities that face the United States.

It is clear that China is not the only country engaged in predatory economic practices. However, China's predatory economic practices are unique in their scope, nature, severity, and consequences.

As you wrote in your prepared statement, Dr. Atkinson, China is in its own league when it comes to fielding predatory economic and trade policies and practices. Dr. Atkinson, you summarized quite nicely the challenges that many Hoosiers and Hoosier companies have confronted in dealing with China. I have seen it firsthand. You write, "China has deployed a vast panoply of innovation mercantilist practices that seek to unfairly advantage Chinese advanced-industry producers."

These practices have included forced technology transfer and forced local production as a condition of market access, theft of intellectual property, curtailment and even outright denial of access to Chinese markets in certain sectors, manipulations of technology standards, special benefits for state-owned enterprises, capricious cases to force foreign companies to license technology at a discount, massive subsidies, and government-subsidized acquisitions of, or investments in, foreign enterprises. And that is not a comprehensive list.

These deliberate and systematic practices by Beijing have not only hurt our economy, American businesses, and American workers. They have also undermined, as I started with, our national security.

As someone who served in the U.S. Marine Corps, I know the U.S. military depends primarily on two things if we are going to maintain our superiority: number one, the quality of American service members; and number two, the maintenance of the U.S. military's technological advantages.

Through a variety of means, including outright and systematic theft, China's predatory economic practices have eroded and continue to erode our military's technological superiority. In some key defense capabilities, China now fields military equipment and weapons that are as advanced or more advanced than what American service members have.

As Chairman of the Joint Chiefs of Staff, General Joe Dunford has said our military's competitive advantage has eroded, and it is no longer as decisive as it was some years ago.

Now, that is deeply concerning and, of course, not acceptable to we Americans. That eroding American military superiority makes conflict with China more likely and decreases the likelihood that America would prevail in the event of a military conflict.

So, in short, to reiterate, both our prosperity and our security are at stake. What is also at stake is something more general, more systematic. It is the rules-based international economic order that helped the United States flourish for years, that the United States, incidentally, helped establish, that has served U.S. interests, and

that has enabled the largest expansion in prosperity in world history.

However, if we are candid, we must admit, as Thomas Duesterberg did in his Wall Street Journal article last month, that efforts to integrate China into the postwar system and to encourage political liberalization have not met expectations. China has failed to fulfill its obligations and commitments.

And as you write, Mr. Wessel, the U.S. has essentially failed to address Chinese industrial policy since its membership in the WTO.

Now is the time to change course. Based on this diagnosis, we must ask how best to respond to this fundamental and historic challenge.

Now, that is why Senators Merkley, Rubio, and Coons joined me in introducing last month the bipartisan National Economic Security Strategy Act of 2018. This legislation would create a statutory requirement for the periodic production and submission to Congress of a national economic security strategy. This would complement and support the National Security Strategy with more focus on U.S. economic interests.

This is not about undercutting our free market economy or promoting excessive government intrusion in the private sector. Far from it. The Federal Government has an appropriately limited but still important role in facilitating the ability of the United States to compete successfully in the international economy that is so vital to our prosperity and our security.

We want that Federal role to be as optimal as possible. We want it to be thoughtful, effective, not reflexive, uncoordinated, ad hoc, and counterproductive. That is something Republicans and Democrats alike can agree on, I know.

In many cases, that means catalyzing and empowering the private sector. It also means habitually and effectively standing up for Americans and American companies when they confront predatory economic and trade practices. It also means identifying allies and partners who have similarly suffered from Beijing's predatory economic practices in building an international multilateral coalition to apply maximal pressure to persuade Beijing to end its predatory practices.

As you write in your prepared statement, Mr. Wessel, the entire world economy has been impacted by China's predatory international economic and business practices, and that provides an opportunity for coalition-building to address China's policies and practices.

In short, and as I conclude, the goal of our legislation is to ensure Federal policies, statutes, regulations, and procedures are optimally designed and implemented to facilitate the competitiveness, prosperity, and security of the United States.

That is why I believe our legislation is so important, and why I look forward to advancing it. I also look forward to hearing the assessments of our witnesses regarding our legislation.

So with those thoughts in mind, I would now like to call on our ranking member, Senator Merkley, for his opening remarks.

Senator Merkley.

**STATEMENT OF HON. JEFF MERKLEY,  
U.S. SENATOR FROM OREGON**

Senator MERKLEY. Thank you, Chairman Young. It is a pleasure to be here with you, working in a bipartisan way to look out for America's interests and to protect American workers from being hurt by international predatory economic practices.

What really makes America great is our entrepreneurial spirit, looking at problems as challenges and challenges as opportunities. We are problem-solvers. We believe in innovation to improve technology and to improve standards for the social impacts of manufacturing, trade, investment, and other business activities.

As Americans are focused on product innovation, some predatory nations are instead focused on gaming trade and finance systems. Our businesses and workers can outcompete anyone on a level playing field, but all too often, the field is not level.

China is not the only country engaged in predatory economic practices, but it is a clear leader in flouting international standards and ignoring agreements and terms that get in the way of its drive to control markets.

Too often in negotiating trade agreements, we have been mesmerized, almost hypnotized, by the mirage of bountiful Chinese consumer markets, and we have ignored, failed to understand, or failed to adequately respond to aggressive and often illegal barriers that China has erected to protect its own markets, to steal American intellectual property, and to disrupt world markets with a flood of goods and services subsidized by the Chinese Government in a whole host of ways.

American companies and workers should not be penalized for adhering to fair, humane, responsible labor and environmental standards, to name just a few. It should not be our goal to race to the bottom. We need to, therefore, make sure that rules in trade, rules that relate to labor standards and environmental standards, are fairly enforced.

I look forward to hearing from our witnesses today and to continue working with my colleague, Chairman Young, on how we can proceed to ensure that the American entrepreneurial spirit does well and that our businesses thrive.

Senator YOUNG. Thank you, Senator Merkley.

Once again, I want to welcome all our expert witnesses. Your full written statements will be included in the record. I would ask each of you to summarize your statements here today within 5 minutes, so that we can engage in an extended Q&A period.

Let us go in the order that I announced you, please.

Mr. Goodman.

**STATEMENT OF MATTHEW P. GOODMAN, SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC**

Mr. GOODMAN. Thank you, Mr. Chairman. And thank you, Mr. Ranking Member.

In the few minutes I have, let me just make three main points.

First, we have a problem. The international economic order, as you said—that is, the institutions, the rules, the norms that the United States created and championed for 70 years and have con-



tributed enormously to our prosperity and security—that order is under stress. It is under stress at home because it is seen as having failed to deliver the kind of strong growth and shared benefits in recent years that it did in the decades following World War II. This has undermined support for our engagement in the world.

Abroad, the order is also under stress from new powers that are unhappy with the seating arrangement at the global governance table that was set when these new challengers were weak. They want change.

Among these powers, China poses a unique and fundamental challenge for the United States. On the one hand, our economies are deeply intertwined, and we need China to help solve a range of transnational challenges. We cannot contain or isolate China. On the other hand, China is an economic and strategic competitor, as you said. China wants to sit at the head of the table, especially in the vital Asia-Pacific region.

Moreover, this is no longer the China of Deng Xiaoping or Zhu Rongji, reformers. Under President Xi Jinping, China has slowed or reversed moves to reform and open the Chinese economy, and has reinforced some very problematic policies, from our point of view. The bill of particulars is well-known, and I am sure my colleagues are going to elaborate: subsidies to national champions, forced technology transfer, tilting the competitive playing field in favor of Chinese firms and against foreign firms.

Most worrisome, Beijing has used those policies to support “Made in China 2025,” its ambitious plan to capture dominant market shares in 10 key industries of the future, from artificial intelligence to advanced biotechnology.

We cannot cede leadership in those areas without a fair fight.

Abroad, meanwhile, China is using its newfound economic clout to coerce smaller countries. It is bending or breaking the rules in established institutions like the WTO while setting up its own parallel institutions. And it is using its ambitious Belt and Road infrastructure initiative to assert economic and geopolitical influence across Asia and beyond.

So we have a problem, one of the most difficult and consequential of our age, in my view.

My second point is that we can meet this challenge, if we are smart and confident and do not exaggerate our fears.

We should begin with a coolheaded analysis, as you said, of what the most important threats and opportunities are. Not everything China does is motivated by a desire to beat us in the geostrategic game. Not all of its plans are likely to succeed. I would much rather have our hand than the one that China has been dealt.

That said, to meet the complex challenge of a rising China, we need a comprehensive economic strategy that includes several key elements.

First, we need to play offense as well as defense. Yes, we need to protect critical assets and technology. Yes, we need to brush China back when it does not play by the rules, and, in doing so, make sure that we follow the rules ourselves. But we also need a proactive strategy that promotes growth, opens markets, and creates high standard rules of the road for the international economy that others are incentivized to follow.

With clear, neutral rules and contestable markets, American companies win every time.

This is what the Trans-Pacific Partnership was intended to achieve. Withdrawing from it was a huge mistake, in my view. If we are not going to return to TPP, we need something to replace it. We need allies and likeminded partners for all of this, both the defensive and offensive parts. We should be pulling them in, not slapping them with tariffs or tearing up prior agreements.

The strategy also needs to be whole-of-government—actually, whole-of-nation—drawing in all the tools of U.S. power, all relevant government agencies, as well as State and local players, and the private sector and labor.

And a smart economic strategy needs to rest on strong domestic foundations. We need to rediscover the winning formula that brought us such success in the postwar period: state-of-the-art infrastructure, education, and skills training to prepare workers for the new economy; investment in basic R&D critical to leadership in industries of the future.

My third and final point is that Congress has an important role to play in all of this. First, you can enact relevant legislation, starting with S. 2757 introduced by the chairman and ranking member to require the executive branch to prepare and regularly update a much-needed national economic security strategy.

S. 2736, the Asia Reassurance Initiative Act introduced by Senator Gardner and others on this committee would also create useful tools to strengthen our economic statecraft in the vital Asia-Pacific region.

I also like the BUILD Act, the CFIUS reform, export control, approval of a capital increase at the World Bank, and many other things. We also need to fund critical agencies like OPIC and EXIM.

Finally, if I may say, I think you need to assert your constitutional authority over trade. I think that you should insist that the administration not do damage to our international obligations or our alliances, and that it come up with a coherent trade strategy to open markets and strengthen international rules.

I will stop there. Thank you very much.

[The prepared statement of Mr. Goodman follows:]

#### PREPARED STATEMENT OF MATTHEW P. GOODMAN

##### INTRODUCTION

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this chance to offer my thoughts on how the United States can respond strategically to practices in the international economy that pose a threat to U.S. interests.

Let me begin by commending the Subcommittee for highlighting—through this hearing and S. 2757, the National Economic Security Strategy Act of 2018, co-sponsored by the Chairman and Ranking Member—the strategic role of economics in foreign policy and national security. Economics is often an uncomfortable topic for foreign policy experts, who prefer to leave these complex issues to finance or trade practitioners. But economic statecraft is a vital part of the diplomatic toolkit and can serve a country's broad strategic ends—from positive ones like advancing a rules-based order to more sinister ones like coercing smaller countries to follow a larger country's will. Enhancing understanding of "strategic economics"—America's and other countries'—is essentially the mission statement of my program at CSIS, and I welcome the opportunity to lay out some of my thinking on the subject today.

## STRAINS ON U.S. ECONOMIC LEADERSHIP

Since World War II, the United States has been the principal architect and champion of a rules-based international economic order. The order was founded on principles of market-based growth and development, free and open trade, and the rule of law. It was supported by international institutions created in the wake of world war and designed to prevent its recurrence, such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO). The order delivered rising prosperity across the globe unprecedented in human history.

Today, the international economic order—and U.S. leadership of it—is under stress. In the United States itself and other advanced economies, the order is viewed as having failed to deliver the kind of strong growth and shared benefits that it did in the decades following World War II. Externally, the order is under assault from new powers that are unhappy with a system of global governance established by advanced countries when the new challengers were weak.

## THE CHINA CHALLENGE

Among the new powers, China poses a unique and fundamental challenge to the United States. The relationship between the two countries is complex. On one hand, they are intertwined by trillions of dollars of two-way flows of trade and investment. Total U.S.-China bilateral trade exceeds \$600 billion and, by one estimate, inbound investment supports 2.6 million jobs in the United States across a range of industries.<sup>1</sup> The United States and China also share overlapping interests in ensuring a stable, growing global economy and addressing transnational threats, from terrorism to health pandemics to climate change.

On the other hand, the United States and China are economic competitors—and increasingly so as the Chinese economy approaches the size of America's. Despite its nominal commitment to market-driven economics, the Chinese party-state continues to exercise a dominant role in the economy and society. Externally, China is a member of the main institutions of global economic governance, such as the WTO, World Bank, and IMF, but is dissatisfied with the balance of power in those institutions and increasingly willing to bend or break their rules to advance China's interests.<sup>2</sup> Beijing has also begun to set up alternative institutions such as the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB or so-called "BRICS Bank").

Under President and Communist Party leader Xi Jinping, Beijing has slowed or reversed earlier steps toward reform and opening of its economy. It continues to restrict access to the Chinese market and to limit competition for foreign companies operating in the country through a combination of measures, from equity caps on investment to regulatory harassment. Foreign companies are often forced to surrender important intellectual property and engage in joint ventures as a condition for market access. Beijing also provides generous domestic subsidies, easy access to credit, and state-backed investment funds to support the growth of Chinese industries.<sup>3</sup> These unequal conditions have helped Beijing establish national champion firms—both state-owned and nominally private—that are increasingly competitive with U.S. firms in China and have begun to compete for market share in third countries.

Since 2015, these efforts have been guided by "Made in China 2025," the country's ambitious plan to capture dominant positions for Chinese producers in 10 advanced sectors, from aerospace to robotics to biotechnology.<sup>4</sup> As discussed below, the fact that China has ambitions to move up the value chain in key industries of the future is not surprising; in fact, it is a rational and legitimate goal for Chinese policymakers as they seek to improve economic outcomes and avoid the so-called "middle income trap." The problem is the tools China is using to achieve this objective: heavy state subsidies that distort competition, forced technology transfer and outright theft from foreign companies, and restrictions on the competitive playing field in China, leading to imbalances in China's trading and investment relationships with the rest of the world.<sup>5</sup> Made in China 2025 represents a significant challenge to U.S. economic interests; by one calculation, almost half of all U.S. manufacturing exports to China are in sectors targeted by the plan.<sup>6</sup> If China's plans to achieve sectoral dominance outlined in Made in China 2025 depend on breaking the rules and distorting global trade and investment relationships, these efforts must be opposed at both national and multilateral levels.

Beijing has also pursued assertive economic policies abroad to advance its economic and geostrategic interests. Some of these efforts have been coercive, others more complex in motivation and effect. On one hand, China has leveraged its economic size and purchasing power to intimidate smaller states into pursuing policies better aligned with Chinese strategic interests. A notable example was China's at-

tempted economic coercion of South Korea over the deployment of the U.S.-built Terminal High Altitude Area Defense (THAAD) missile-defense system in 2017.<sup>7</sup> Other countries, from the Philippines to Norway, have also been subject to Chinese coercive diplomacy in recent years.

At the same time, Beijing has launched an ambitious plan to build connectivity infrastructure across the globe under the rubric of its Belt and Road Initiative (BRI). In part this plan is designed to offload excess capacity in Chinese infrastructure-related sectors like construction, steel, and cement. Some BRI projects could produce broader economic benefits in terms of local development and expanded trade. But BRI also runs the risk of producing a dangerous rise in debt levels in vulnerable emerging economies (a warning recently echoed by IMF Managing Director Christine Lagarde)—and potentially a loss of sovereignty for the countries involved.<sup>8</sup> It was this set of risks that led former Secretary of State Rex Tillerson to coin the phrase “predatory economics” to describe Chinese practices in an October 2017 speech at CSIS.<sup>9</sup> Meanwhile, there are concerns that strategically placed ports and other infrastructure projects built under the BRI banner could become the basis for Chinese military power projection.<sup>10</sup>

#### RESPONSES TO DATE

Since the opening with China in 1972, the approach of successive U.S. administrations to bilateral relations has been to engage with Beijing to elicit cooperation where possible and manage competition where necessary. The Trump administration has chosen a more confrontational approach in some areas but in practice has, like its predecessors, pursued some mix of cooperation (e.g., on North Korea) and competition (especially on trade and investment).

Recent administrations have used a range of bilateral, regional, and global tools to address economic differences between the two countries. These include:

##### *Bilateral*

- Since the opening of bilateral relations, all administrations have set up some kind of formal process for managing economic differences and pursuing opportunities for deeper economic ties. There has been a succession of high-level dialogues, from the Joint Economic Commission (JEC) set up in the Reagan administration to the Comprehensive Economic Dialogue (CED) briefly established but then suspended by the Trump administration. These forums have involved enormous commitments of high-level U.S. government attention, and the tangible outputs have been few and far between, but the forums have served a useful purpose in building habits of cooperation and serving as a pressure valve for tensions in bilateral relations.
- The Bush and Obama administrations also devoted considerable time and energy trying to negotiate a bilateral investment treaty (BIT) with China to liberalize and create more certainty in direct investment flows between the two countries. These negotiations bogged down over a range of difficult issues and have effectively been abandoned by the Trump administration.
- There have also been more forceful efforts to respond bilaterally to problematic Chinese economic practices, from direct pressure at the presidential level (e.g., President Obama’s personal demarche to President Xi Jinping not to allow cyber-enabled theft of U.S. trade secrets); to blocking of sensitive acquisitions (Ant Financial-MoneyGram); to sanctions against individual companies (ZTE). These have been effective in getting Beijing’s attention and arguably modifying Chinese behavior, but by their nature these interventions can only be used episodically.
- The Trump administration has revived a number of trade remedies under U.S. law, including Section 201 safeguards, Section 232 national security provisions, and Section 301 procedures to deal with discriminatory and burdensome foreign practices. These are legitimate tools but, as discussed below, must be used judiciously to avoid causing undue harm to the U.S. economy, our allies, or the international rules-based order.

##### *Global*

- Successive administrations have also worked across a range of international institutions to manage competition with China. These efforts have included the filing of trade cases at the WTO, most recently in March 2018 over China’s forced technology practices. For all the flaws and delays in WTO dispute-settlement procedures, the United States has won most of the cases it has filed against China, and this remains an important part of the economic policy toolkit.<sup>11</sup>

- Administrations have also worked through the IMF, multilateral development banks (MDBs), and less formal organizations like the G20 and G7 to shape rules and norms that, by design or effect, have worked to improve or constrain Chinese behavior in the international economy. While Beijing has chafed at the governance structure of these organizations, it has so far generally acceded to the substantive rules and procedures of existing institutions, again making these useful tools of U.S. economic statecraft.

#### *Regional*

- In the region of the world where U.S. and Chinese interests most directly collide—the Asia-Pacific (the Trump administration prefers to use the term “Indo-Pacific”)—U.S. policy over the past several administrations has been focused on promoting trade and investment liberalization and establishing rules and norms that were partly designed to shape Chinese economic behavior.
- Since 1989, the Asia-Pacific Economic Cooperation (APEC) forum has been the principal venue for advancing these objectives. APEC’s non-binding, consensus-based approach to decision-making can be tedious and deliver few tangible short-term results, but the forum has resonance in an Asian context and has proven over time to play a useful role in promoting U.S.-preferred norms.
- At the heart of Asia-Pacific—and effectively China—economic strategy in both the Bush and Obama administrations was the Trans-Pacific Partnership (TPP). This mega-regional trade agreement brought together 12 Asia-Pacific countries representing 40 percent of global GDP to slash tariffs and non-tariff barriers to trade and establish high-standard rules to govern the regional trading system in important areas such as the digital economy, state-owned enterprises, and labor and environment standards. As I have argued before, TPP had a powerful effect on Chinese thinking about its own economic strategy—mostly a positive effect from a U.S. perspective.<sup>12</sup> But TPP became the victim of a contentious U.S. presidential election in 2016 and—in one of the most consequential (and in my view ill-advised) policy decisions of his presidency—President Trump withdrew from the deal on his third day in office.

#### KEY ELEMENTS OF SUCCESSFUL ECONOMIC STATECRAFT

Individually these bilateral, global, and regional approaches by recent administrations have been more or less effective, as discussed above. Missing so far in the Trump administration’s approach is a comprehensive international economic strategy that would have a broader effect in shaping Chinese actions in a way favorable to U.S. interests. What follows are, in my view, some of the key elements of an effective strategy.

#### *Fact-based analysis*

Smart economic strategy starts with cool-headed analysis of the challenges and opportunities that face the United States. There has been a tendency among Washington analysts recently to dismiss the benefits of economic engagement with China over the past 40 years and to exaggerate the current threat.<sup>13</sup> The fact is that the United States has seen enormous benefits economically from the rise of 600 million Chinese to the middle class and from the trillions of dollars of trade and capital that now flows between the two countries. To be sure, these aggregate benefits have come with distributional costs for many American workers and communities; and, as enumerated above, many Chinese economic policies and plans today are deeply problematic for U.S. interests.<sup>14</sup> But this is no excuse for revisionist history that brushes past the undeniable benefits of U.S.-China economic engagement over the past four decades, or the continued opportunities in the relationship today.

We should also be careful not to view all aspects of Chinese economic strategy as equally threatening to U.S. interests. China has reached the limits of a 40-year-old development model based on low-value-added production. As mentioned earlier, it is no surprise that it wants to move up the value chain or has plans to succeed in new industries such as electric vehicles and advanced biotechnology. The problem is not so much what Beijing is doing as how it is doing it—via subsidies, forced technology transfer, restrictions on competition, and other discriminatory policies. Rather than signaling opposition to China’s development objectives, the United States should be focused on forcing China to abandon or modify its problematic policies and to level the playing field for American companies.

Moreover, China is not as capable or coordinated as it appears to many outsiders, and it is far from certain that Beijing will be able to pull off its ambitious plans. The country faces an array of daunting challenges, from managing escalating debt to staving off environmental catastrophe. China needs to pull off the rare feat of breaking out of the middle-income trap while dealing with a rapidly aging popu-

lation.<sup>15</sup> As CSIS documented in a report a few years ago, the Chinese government is notoriously compartmentalized and uncoordinated, both among central ministries and between Beijing and local levels of government.<sup>16</sup> Xi Jinping's attempt to assert greater party control of economic affairs may produce better coordination of policy, but it is likely to come at the expense of lost initiative and slower progress toward its development goals.

None of this is an argument for complacency; the challenges are real. But a U.S. strategy based on the premise that almost everything China does is a threat—or is bound to succeed—is itself likely to fail. Not only will we squander opportunities to serve a growing market of 1.4 billion consumers, or to win Chinese cooperation on shared concerns like terrorism and climate change, but we are also likely to target the wrong risks and fail to counter the ones that really matter. The Obama administration's handling of the AIIB launch in 2015 is a case in point: by implying that the United States was outright opposed to the initiative and working to kill it, the administration turned the spotlight back on U.S. behavior rather than on legitimate governance and operational questions about the new bank. Similarly, if the Trump administration gives the impression that its “free and open Indo-Pacific” strategy is primarily designed to counter China's Belt & Road Initiative, the United States will “lose the room,” since most developing countries in Asia and beyond want—or at least feel they need, in the absence of alternatives—Chinese-financed infrastructure. Instead, we should be focused on specific concerns like debt sustainability and procurement practices that disadvantage competitors to Chinese companies abroad, to the detriment of recipient countries as well as the United States.

#### *Playing offense and defense*

In addition to being based on clear-eyed analysis, a successful economic strategy must contain both offensive and defensive elements. Every baseball fan knows that winning consistently requires both great pitching and great hitting. As suggested earlier, there is a worrisome tendency in Washington to focus primarily on threats and the defensive policies needed to ward these off, potentially missing opportunities and imposing costs on our own interests that outweigh the benefits.

The United States certainly needs to defend our interests against harmful foreign policies and practices, including by China. This includes “protecting the crown jewels,” i.e., ensuring that critical assets and technology are not lost to strategic rivals through acquisition or cyber-enabled theft. Among other things, this means we need a Committee on Foreign Investments in the United States (CFIUS) that has the resources and analytical tools to screen out foreign investments that genuinely threaten national security. The bipartisan bill submitted last fall by Senator Cornyn (R-TX) and others—S. 2098, the Foreign Investment Risk Review Modernization Act (FIRRMA)—is appropriately motivated by this objective. But it is important to avoid broadening the scope of CFIUS review so wide that it creates two unintended consequences: first, overloading the process with thousands of cases that causes CFIUS to miss the most serious threats to national security; and second, having a chilling effect on foreign direct investment more broadly, which has been an overwhelmingly positive force for growth and employment in the United States.

Also on the defensive side of the ball, Washington needs to brush Beijing back when it pursues economic policies that harm our interests or damage the rules-based order. We should use all legitimate tools available—U.S. trade remedies; WTO dispute settlement procedures; tough, results-oriented bilateral negotiations—to protect our economic interests and defend a rules-based order that has served us well for 70 years. But again, we need to be smart about how we do this, spending our time and political capital on foreign practices that are most harmful to long-term U.S. interests. This means targeting Chinese government subsidies, forced technology transfer, and restrictions on competition that, as discussed above, bolster the Made in China 2025 plan. By contrast, trying to reduce the bilateral trade deficit through large Chinese purchases or export restraints is likely to produce at best temporary gains as long as deeper macroeconomic forces remain at play; at worst, it will create further distortions in the global system that could potentially harm the United States and our allies.

Second, we need to use the right tools—and use them judiciously. Unilateral tariffs are likely not only to impose heavy costs on our consumers and downstream businesses, but also to violate our international obligations, do harm to the rules-based order, and punish key allies like Japan and the European Union that are critical to addressing a shared challenge from China.

This leads to the other side of an effective economic strategy: smart offense. The United States needs a positive economic agenda that pulls allies and partners into collaborative work to promote growth around the world, open markets, and create high-standard rules of the road for the international economy. Working with like-

minded countries in this way helps spread U.S.-preferred rules and norms and offers an alternative to the more statist Chinese approach. This was the organizing principle behind TPP and the Transatlantic Trade and Investment Partnership (TTIP), two mega-regional trade deals pursued by the Obama administration but effectively abandoned by President Trump early in his term.

In the absence of initiatives like TPP and TTIP, the United States needs to find other tools on the offense side of the strategic economic game. The Trump administration is on the right track in calling for a “free and open Indo-Pacific” (FOIP) in that critical part of the world. While still missing many details—including a credible trade strategy to replace TPP—the FOIP initiative contains two promising strands: creating alternative financing mechanisms to China’s largesse in the region through BRI; and working in the World Bank, Asian Development Bank (ADB), and other multilateral institutions to promote high-quality infrastructure investment. The former has taken shape in the form of efforts to create a new Development Finance Corporation (DFC) with more resources and authorities (e.g., to take equity positions in large projects). The latter has been boosted by the administration’s recent decision to support a capital increase at the World Bank. Both of these strands of work should be supported and extended.

Two other areas for further work include pulling China into international arrangements that would help to constrain their problematic behavior. China is not a member of the Organisation for Economic Cooperation and Development (OECD), the club of advanced economies that agrees on codes of conduct in areas such as export credits and non-corrupt practices. These codes are not binding on members but use moral suasion to create a more level playing field in the international economy. Whether by pulling China into the OECD or extending these disciplines through other means, China’s practices in these areas could be brought in better alignment with international norms.

China is also not a member of the Paris Club, the informal gathering of creditor countries to coordinate solutions to payments problems by debtor nations. As mentioned earlier, concerns have been mounting about the sustainability of debt burdens in certain low-income and emerging countries that have been targets of Chinese largesse, including through BRI. Beijing has resisted signing on to well-established rules of the road when it comes to avoiding unsustainable lending and addressing debt problems when they arise,<sup>17</sup> including joining the Paris Club. Membership would require China to share information, including on financing terms, with other Paris Club members, as well as grant “comparability of treatment” with all bilateral creditors. It would also demonstrate China’s willingness to play by the rules rather than seek advantage at the expense of debtor nations and other official creditors.

#### *Whole of government, whole of nation*

Smart economic statecraft draws on all the resources of the U.S. government—and beyond. This begins with the President, who must put a visible priority on the strategic economic dimension of foreign policy and national security, including through a Presidential Policy Directive or equivalent statement. He should task the National Security Council and National Economic Council—working seamlessly together, including through co-reporting lines of relevant senior officials—with establishing a robust interagency process for development and implementation of an international economic strategy. They should pull in all relevant agencies—not just ones with an obvious economic focus like Treasury, Commerce, and Office of the U.S. Trade Representative, but also the State Department, which is a key player in economic diplomacy.<sup>18</sup> And of course the White House needs to have robust processes for coordinating with Congress on these issues.

It is not just the Federal government that needs to contribute to a successful economic strategy. Washington needs to do more to coordinate with states and cities, which are most directly impacted by both the opportunities and risks of economic ties with China. Washington also needs to leverage the private sector better, for example in shaping an effective response to BRI.

#### *Rebuilding domestic foundations*

Finally—and arguably more important than another element—we need to invest in ourselves. A strong, competitive economy is the essential foundation for a successful international economic strategy. We need to rediscover the winning formula that brought us such success in the postwar period: modern infrastructure, education and skills training to prepare workers for the new economy, and investment in basic research and development critical to leadership in industries of the future.

At the moment we are failing in all these areas. As other nations race ahead to build new infrastructure, ours remains vastly underfunded and continues to deteriorate.

rate. A McKinsey report from June 2016 estimated that the United States would need to invest more than \$150 billion per year between 2017 and 2030 to meet the country's infrastructure needs.<sup>19</sup> Meanwhile, we stand near the top of the OECD in terms of education spending per student, yet ranked 19th in the 2015 PISA rankings of performance in science, reading, and mathematics.<sup>20</sup> And while our private sector fuels the bulk of R&D investment in the United States, as a nation we commit the equivalent of just 0.6 percent to R&D through public spending, less than many other similarly developed nations.<sup>21</sup>

These are areas where CSIS plans to do more work in the period ahead, in an effort to help rebuild domestic support for our international economic engagement.

#### THE ROLE OF CONGRESS

Congress has an important role in crafting and executing a successful international economic strategy. S. 2757, co-sponsored by the Chairman and Ranking Member, is a good start. It accurately diagnoses the challenges faced by the United States in the international economy and outlines many of the key elements of a successful strategy. In line with my earlier points about playing both offense and defense, it is important in my view for Congress to ensure that the executive branch, in developing its plan, keep an eye on both threats and opportunities in the international economy.

There are other ways Congress can help. First, the U.S. government must be adequately resourced to support an effective economic statecraft. This means sustaining funding not only for economic agencies like the Treasury and Commerce departments and USTR, but also for the lead agency under this Committee's jurisdiction: the State Department. As I have written before, State brings something unique to the U.S. government's international economic policymaking, what I call "reach"; no other agency is present in over 190 countries around the world and able to operate across countries and societies.<sup>22</sup>

Resources also mean people, and the Senate would contribute to an effective economic statecraft by acting as expeditiously as possible to confirm senior officials to key undersecretary, assistant secretary, and ambassadorial positions in the U.S. government; key vacancies at present include the Under Secretary of State for Economic Growth, Energy, and the Environment, and the ambassadors to South Korea, Australia, Saudi Arabia, and South Africa.<sup>23</sup>

Congress can also ensure that the other unilateral and multilateral financial tools the United States has in its economic toolkit are fully supported and resourced. We will not be able to compete with China's economic statecraft unless we have fully functioning agencies like the U.S. Agency for International Development (USAID), the U.S. Trade and Development Agency (USTDA), the Overseas Private Investment Corporation (OPIC), and the U.S. Export-Import Bank (EXIM). To be clear, the combined financial firepower of these agencies will never match the trillions of dollars that China is promising to spend through initiatives like BRI. But competing in economic statecraft is not just a function of money; when added to the first-class products and services, non-corrupt practices, and capacity building that American companies bring to their international operations, relatively small amounts of financing from agencies like OPIC and EXIM can produce a winning formula.

Against this backdrop, Congress can also give a boost to U.S. economic strategy through expeditious approval of relevant legislation, including S. 2463, the Better Utilization of Investments Leading to Development (BUILD) Act, as well as sensible reforms of CFIUS and the export-control regime. Early approval of the capital increase at the World Bank would also strengthen an important multilateral source of leverage for the United States, including in supporting U.S. efforts in the infrastructure competition in Asia.

Finally, in my view it will be important for Congress to fully assert its constitutional authority over trade in the period ahead. The current administration has worrisome protectionist tendencies that risk doing harm to our economic and diplomatic interests, and it has yet to lay out a coherent trade-negotiating strategy. While supporting a tough line on China's bad behavior in the trade arena, Congress can insist that the administration not do damage to our international obligations or our alliances, and that it come up with a comprehensive and credible trade strategy to open markets and strengthen international rules.

#### CONCLUSION

Again, I commend the Subcommittee for shining a light on problematic practices in the international economy today and on the role of "strategic economics" in foreign policy and national security. With the right analysis, tools, and resources—and



confidence in our position—the United States can develop and implement an effective economic strategy in response to these challenges.

I thank you for the opportunity to offer my thoughts and look forward to answering Members' questions.

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#### Notes

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<sup>4</sup>Kennedy, Scott. "Made in China 2025." *The New Southbound Policy*. Center for Strategic and International Studies. June 1, 2015.

<sup>5</sup>U.S. Chamber of Commerce "Made in China 2025: Global Ambitions Built on Local Protections." Mar 16, 2017.

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<sup>12</sup>Goodman, Matthew P. "Chapter 2: Going on the Offensive." *Meeting the China Challenge: Responding to China's Managed Economy*. January 2018.

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<sup>15</sup>"China 2030: Building a Modern, Harmonious, and Creative Society." Development Research Center of the State Council, the People's Republic of China. The World Bank. 2013.

<sup>16</sup>Goodman, Matthew P., and David A. Parker. "Navigating Choppy Waters: China's Economic Decisionmaking at a Time of Transition." CSIS Simon Chair in Political Economy. Center for Strategic and International Studies. March 2015.

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<sup>18</sup>Goodman, Matthew P. "Downgrading State's Economic Diplomacy." *The New Southbound Policy*. Center for Strategic and International Studies. June 29, 2017.

<sup>19</sup>Woetzel, Jonathan, Nicklas Garemo, Jan Mischke, Martin Hjerpe, and Robert Palter. "Bridging Global Infrastructure Gaps." McKinsey Global Institute. McKinsey & Company. June 2016.

<sup>20</sup>"PISA 2015: Results in Focus." Organisation for Economic Co-operation and Development. 2018.

<sup>21</sup>Borouh, Mark. "U.S. R&D Increased by \$20 Billion in 2015, to \$495 Billion; Estimates for 2016 Indicate a Rise to \$510 Billion." National Center for Science and Engineering Statistics. National Science Foundation. December 14, 2017.

<sup>22</sup>Goodman, Matthew P. "Downgrading State's Economic Diplomacy." *The New Southbound Policy*. Center for Strategic and International Studies. May 07, 2018.

<sup>23</sup>"Trump Nominations Tracker: See Which Key Positions Have Been Filled so Far." *The Washington Post*.

Senator YOUNG. Thank you, Mr. Goodman.  
Mr. Wessel.

**STATEMENT OF MICHAEL WESSEL, COMMISSIONER, UNITED STATES-CHINA ECONOMIC AND SECURITY COMMISSION, FALLS CHURCH, VA**

Mr. WESSEL. Chairman Young, Ranking Member Merkley, I want to thank you for the invitation to appear before you today. My name is Michael Wessel, and I am appearing before you today wearing two hats, first as a commissioner on the U.S.-China Economic and Security Review Commission and second as a representative of the AFL-CIO and its 12 million members. But as a dis-

claimer, the normal Washington disclaimer, I am speaking for myself, although my comments are informed by my service on the commission and my work with organized labor over my entire career in Washington.

This hearing comes at a critical time. This subcommittee's broad jurisdiction over international trade, our country's participation in international trade organizations, protection of intellectual property and technology transfers make it a key player in the issues confronting our country.

My prepared testimony focused on these issues in the context of China, although, of course, our problems are much broader. The USTR's most recent national trade estimates report is a more than 500-page catalog of the market barriers and trade constraints that our companies face around the globe. It identifies policies that limit our exports, destroy jobs, and undermine our economic and national security.

We have seen the loss of millions of manufacturing jobs, the shuttering of tens of thousands of facilities, the rise of income inequality, and the stagnation of wages. Trade policy plays a significant role in each of those issues. We have seen workers' rights and environmental sustainability used as competitive tools by other countries to attract investment, helping to fuel outsourcing and offshoring.

China's predatory and protectionist policies right now are the greatest threat to our interests. We ran a more than \$375 billion trade deficit with them last year. It is not just the size of the trade deficit but its composition that should concern us. Last year, the U.S. ran an advanced technology products trade deficit with China of roughly \$135 billion.

China's practices run the gamut, as you said, Mr. Chairman, from dumping in subsidies to forced technology transfers, to licensing and joint venture requirements, bans on activities in certain sectors, and a broad range of other activities, many of which I outline in my testimony. On their own, these are of enormous concern, but other countries are emulating China's acts as they see the opportunity to receive some "success" in terms of advancing their own economic interests. Countries are continuing to support and build their state-owned entities. They are advancing their economic goals through state-led development policies and engaging in other actions.

Our first priority is addressing the negative impact of China's actions on our economic and national security interests. Those issues cannot be treated as separate in-boxes on the President's desk. The two issues, as you noted, are inextricably intertwined.

When China joined the World Trade Organization in 2001, many believed that they would reform their policies and become a more rules-oriented society. Unfortunately, those goals were not achieved, and our workers, our companies, and our economy have paid the price.

The original protocol of accession had significant flaws and has contributed to our problems, and the WTO has not been up to the task of addressing China's mercantilism. I believe that we should have strong rules that are effectively enforced.

China has made clear what its priorities are, and we should believe them. Through the “13th Five-Year Plan,” the “Made in China 2025” program, and many other policy pronouncements, they are seeking to advance their capabilities and dominate sector after sector. Some of the key sectors of the future—artificial intelligence, telecom, robotics, autonomous vehicles, and others—are targeted for massive subsidies and state support. China is seeking to advance its capabilities indigenously through joint ventures, through acquisitions, and through other legal and illegal means.

One of China’s bilateral priorities is for the U.S. to relax its investment restrictions, but China’s outward-bound investments are generally subject to government approval, and, as such, they should be viewed as what they are: policies to advance the interests of the Chinese Communist Party in a country without market economics as the key concern.

In my brief remaining time, let me highlight two action items that were authored by members of this subcommittee.

First, as was noted, is the National Economic Security Strategy Act of 2018, which is an important bipartisan bill requiring an assessment of our Nation’s competitiveness and our security challenges, and provides for the publication of an action plan to address those issues. A comprehensive approach to these challenges is sorely needed.

Second is S. 2566, the Level Playing Field in Global Trade Act of 2018 introduced by Senator Merkley. This legislation would ensure that trade agreements include enforceable standards to promote living wages and ensure sustainable production methods. We must not allow attacks on our workers and the environment to continue to undermine our own living standard and environmental regime. New trade agreements can be a force for progress if they are correctly constructed and properly enforced.

Mr. Chairman, again, thank you. Mr. Merkley, thank you for your leadership. And I look forward to your questions.

[The prepared statement of Mr. Wessel follows:]

PREPARED STATEMENT OF MICHAEL WESSEL

Chairman Young. Ranking Member Merkley. Members of the Committee. I want to thank you for your invitation to appear before you today to discuss a multilateral and strategic response to international predatory economic practices. It is an honor to appear before you.

My name is Michael Wessel and I am appearing before you today wearing two hats: First, as a Commissioner on the U.S.-China Economic and Security Review Commission (China Commission), where I have served since its creation in 2001. Second, as a representative of the AFL-CIO and its 12 million members. But, as a disclaimer, I am speaking for myself, although my comments are informed by my service on the Commission and my work with organized labor over my entire career in Washington.

The Commission was created by Congress in 2001 in conjunction with the debate about the grant of Permanent Normal Trade Relations (PNTR) to China, paving the way for its accession to the World Trade Organization. The Commission was tasked with monitoring, investigating and submitting to Congress an annual report on the national security implications of the bilateral trade and economic relationship between the United States and the People’s Republic of China, and to provide recommendations, where appropriate, to Congress for legislative and administrative action.

The grant of PNTR ended the annual debate about whether to extend most favored nation status to China. But even as it passed PNTR, Congress created the Commission because it did not want to forego the annual review of our relationship

with China. Since the creation of the Commission, our mandate has been extended and altered as the U.S.-China relationship has evolved.

The Commission is a somewhat unique body: We report to and support Congress. Each of the four Congressional leaders appoint 3 members to the Commission for 2-year terms. In 7 of the last 10 years, we have issued unanimous reports. In the 3 years where it was not unanimous, there was only one dissenting vote. In many ways, the evolving challenges and opportunities posed by the relationship with China have united us in our analysis.

I also serve as the staff chair of the Labor Advisory Committee (LAC) to the USTR and Department of Labor. The LAC is a statutory committee made up of more than 20 unions that provides advice on U.S. trade policy and negotiations. Each of the LAC principals, and their liaisons, are cleared advisors and are able to access the text of negotiations, to the extent they are made available, as well as interact with our negotiators and their teams.

These hats offer a 360-view of what is happening in the economy and the intersection of our international and domestic economic policies. While the American people and our producers have unique advantages and capabilities, as well as latent strength, we face enormous pressures in the world. Those pressures are well known to the Members of this Committee.

The title of this hearing is broad and testimony that does justice to its sweep could encompass several volumes. I hope that my thoughts will address some of the key concerns of the Subcommittee and I welcome the opportunity to work with you as you assess these issues.

This hearing comes at a particularly important time. Last week, senior Administration officials were in Beijing to engage their counterparts in seeking to address the predatory and protectionist policies of the Chinese. China stands out in terms of the extensive public pronouncements it has made and actions it has taken to advance its interests and expand its economic and military power and capabilities.

But, while I will focus most of my comments on China, as I have spent considerable time as a Commissioner evaluating their policies, China is not necessarily unique. Its state-led development policies, coupled with a non-market approach, is being emulated by other nations as the benefits of such an approach have become clear, as have the failure of the U.S., and multilateral institutions, to update and reform their approaches. India, Brazil and other countries are taking cues from China.

The Administration is seeking to confront these policies. Needless to say, we can all find fault with how they have approached some of these challenges. But, what we cannot question is the fact that the predatory policies of our trading partners—led by China—must be addressed. Time is growing short in terms of being able to tip the balance back in our favor or at least level-the-playing field, and ensure that market-led policies that will keep America as the world's technological and economic leader and ensure broadly-shared prosperity here at home.

China's leaders have solidified their power and, in turn, the ability to fulfill their plans to become a global technology leader, if not the global technology leader in the not-too-distant future. China has well-developed and aggressive plans in this area. Their plans are public and provide a clear roadmap for them to follow, and for us to assess.

Unfortunately, until only the last 2 years, public policy leaders either largely ignored China's public pronouncements or simply didn't properly assess their competence in, and commitment to, reaching those goals. That has been a huge mistake and has led to rapid advancements by China in ways that have been fueled by U.S. omissions and commissions.

This hearing is also particularly timely in light of the President's actions to confront Chinese policies in the intellectual property arena. The press is writing about the threatened imposition of tariffs by both the U.S. and China, but has not focused sufficiently on the underlying issues that have plagued U.S. businesses, innovators and workers for years. China's actions have had a clear and substantial impact on our productive capacity and the employment of our people. This hearing, in part, will help to shed light on some of those issues.

China is committed to achieving its goals and will engage in legal means if possible, and illegal means if necessary, to achieve those goals. In the Administration's December 2017 National Security Strategy of the United States of America document, examples of illegal practices by China were identified as "cyber enabled economic warfare." There are many areas that fall under the jurisdiction of this Subcommittee that bear on China's future success, and ours.

In your invitation letter, you posed a number of questions. I do my best to respond to concisely below:

1. What sort of Chinese international predatory economic and business tactics do the U.S. and American companies confront (e.g. tactics related to market access, regulatory environments, protectionism, distortive subsidies, foreign ownership, coercive technology transfer, and intellectual property theft)?

The Chinese government employs a labyrinth of policies, with associated strategies and tactics to advance its economic and national security interests. Indeed, the government views economic and national security policies as inextricably intertwined. The government must support significant levels of economic growth to ensure that their grip on power can be maintained. If growth diminishes, unemployment and dissatisfaction may rise, causing substantial pressures on the government to reform. President Xi has solidified his grip on power with the recent change allowing him to serve more than two terms in addition to steps he has taken to magnify his control and leadership of the People's Liberation Army and the Chinese Communist Party. Cracking down on dissent must be coupled with steps to alleviate economic and social stress and China's economic policies often fulfill those objectives.

China has a coordinated strategy to advance its interests and dominate sector after sector. This is clearly identified in public documents, the most notable being Five Year Plan and the Made in China 2025 plan. That latter plan identifies the goal of becoming close to, if not, self-sufficient in ten key sectors. In several sectors, the government identifies that a majority of the products and services utilized must be developed and produced indigenously. In robotics, for example, the goal is 70% of 2025.

That goal will be achieved in a variety of ways. China's approach is far from perfect. But, as it is a non-market, state-led economy that has amassed trillions of dollars in foreign currency reserves via protectionist and predatory policies—including currency manipulation and misalignment strategies—China can afford to make mistakes.

Many of China's top firms are state-owned. They aren't judged primarily on their ability to turn a profit or on efficient spending but on their ability to fulfill state directives and needs. They have access to low-cost or, indeed, no-cost capital as non-performing loans might be rescheduled or forgiven. They benefit from state procurement preferences, the design of standards either at the government level, or within standards-setting bodies. There are a variety of other supporting policies and programs as well, including direct subsidies, tax abatements, free land and other preferences.

But even firms that want to be considered as "private" aren't free of government's hand—in positive and negative ways. Thilo Hanneman of the Rhodium Group, said at a hearing of the China Commission last year, that "It is difficult to properly classify state-owned entities and the distinction between private and state-owned companies for policy analysis based on nominal equity ownership is problematic. China's state-dominated financial system and the lack of rule of law means that state involvement can be pervasive, even if a firm is nominally privately owned."

And, while the rules change on a regular basis, large outward investments by these firms must be reviewed and approved by the Chinese government. Major investments advance only if they further the interests of the government and the Party. So, for example, in the robotics sector, one of the leading international firms, Kuka, was taken over by China's Midea Group in 2017 to accelerate China's industrial robotics capabilities.

Last year, the China Commission heard testimony as to the possible activities of Chinese actors to diminish the value of acquisition targets prior to purchase. This possibility, if true, raises significant issues that need further attention. As China seeks foreign acquisition targets to enhance its capabilities, if they are engaged in cyber and human espionage activities to reduce the cost and attractiveness of assets it wishes to acquire, it poses a significant threat to our economic and national security interests.

In addition to the network of policies supporting Chinese indigenous production, where needed, China's government supports development and acquisition strategies. This may occur through legal, coercive and illegal means, including cyber and human espionage. In the intellectual property area, this was well-documented by the USTR in its Section 301 report that was the basis for the Administration's recent action against China for IP violations.

But, China also targets U.S. universities, colleges and research institutes to help support its technology programs. China's 111 Program, and its 1,000 Talents Program, is designed to cultivate foreign experts to come to China and help advance Chinese technological and scientific capabilities. The 1,000 Talents Program has an array of benefits including a signing bonus that is roughly equivalent to \$158,000.

In addition to the above, China is engaged in a broad array of other predatory practices including dumping and subsidization, forced and coerced technology transfers, the use of unlicensed software, the production of counterfeit copyrighted, patented, and trademarked goods, continuing additions in productive capacity in sectors such as steel and aluminum where there is already substantial domestic and global overcapacity, the violation of internationally recognized worker rights, and other practices. China simply does not play by the rules.

2. Does China provide U.S. companies reciprocal access and treatment? If not, what are the most prominent or significant cases where American companies do not have reciprocal access in China?

Across a broad range of sectors, China does not provide reciprocal access. Even in those sectors that are supposedly “open” the government often maintains a role in limiting access. From services to technology to aerospace to agriculture, China has a managed economy and engages in managed trade.

China did abide by many of its commitments to lower tariffs in compliance with its protocol of accession to the World Trade Organization. But behind those reduced tariffs are often layer upon layer of protectionist policies. In major sectors, China’s leading firms are state-owned entities where foreign competition is severely limited, if not outright prohibited.

In an increasingly informationalized and globalized economy, China’s technology restrictions are significant barriers. China’s requirements for restrictions on data flows, limits on foreign cloud providers access to the market, requirements that source code be provided by certain players all confound the ability of foreign firms to access and operate on a global basis.

Additionally, access to China’s market is often subject to joint venture requirements. Many of these requirements were accepted as part of China’s accession agreement—a fundamental flaw of that agreement. But, in other areas, access to the Chinese market does not legally require joint ventures, but it’s tough, if not impossible, to access the market without a partner. Often, as was noted in the USTR’s Section 301 report, the joint venture partner requires that technology be transferred as a condition of engaging in the partnership.

Last June, the National Development and Reform Commission and the Ministry of Commerce jointly issued the Catalogue of Industries for Guiding Foreign Investment. This catalog replaces the earlier catalog and is designed to identify those sectors where investment is welcomed. The investments are designed to help fill gaps in Chinese capabilities and advance the goals of the 13th Five Year Plan and other government programs. It represents some liberalization from past catalogs but still maintains significant limitations.

In my own view, we have to be careful about the concept of reciprocity as there are many sectors I would argue should not be opened to Chinese state-owned, state-controlled or state-invested enterprises at this point. Even if we were to have China commit to access in their market, it might not be in our own interests to provide such access on a reciprocal basis. And, as is well-documented, Chinese promises are often broken, while the U.S. keeps its promises. The quality of market access, even in an area where we might wish to access the Chinese market, might be substantially undermined by their government policies and practices. This should be done on a case-by-case basis.

As a result, I believe it would be unwise to restart Bilateral Investment Treaty negotiations with China. There is no indication that the Administration is preparing to restart the BIT negotiations but Congress should be aware of the serious peril that exists if BIT negotiations resume.

3. What are the national security and foreign policy implications of these international predatory economic practices for the U.S.? How have the U.S. government and American companies responded to predatory practices? How should the U.S. respond?

China has targeted a broad range of industries for development and preferential status in their Five-Year Plan and other policy pronouncements. These range from agriculture to metals to autos to high technology and other sectors. As today’s hearing is focused primarily on technology issues, my comments will center around those sectors.<sup>1</sup>

China’s Made in China 2025 Initiative identified 10 key sectors the government would further support with the goal of fostering Chinese leadership in areas of technology with significant economic and national security implications. They include:

1. New Energy Vehicles
2. Next-Generation Information Technology

3. Biotechnology
4. New Materials
5. Aerospace
6. Ocean Engineering, High-Tech Ships
7. Railway
8. Robotics
9. Power Equipment
10. Agricultural Machinery

Each of these sectors in China has benefited from a whole-of-government approach to ensuring that Chinese companies stake out dominant positions in the global market. And, they are promoting the idea of “national champions”: companies that have significant market share and presence in China to dominate the market.

These national champion companies, many of which are state-owned enterprises, are benefiting from strong state funding (including provincial and local level support), foreign talent and technology acquisition, an insulated domestic market and even industrial espionage.<sup>2</sup> China is effectively leveraging international openness, particularly that of the U.S. market, academic community and research institutes, to augment domestic capacity and capabilities with the ultimate goal of self-sufficiency in advanced technologies.

In the case of the next generation of electric vehicles (EVs), the Chinese government has sought to secure global leadership in EVs through the use of significant state-support in production and infrastructure, overseas acquisitions and the use of state-sponsored incentives to artificially boost domestic demand. Identified in the Made in China 2025 strategy, EV production has been the recipient of hundreds of billions of dollars in subsidies at the central, provincial and local government levels.<sup>3</sup> EV charging stations have been provided additional subsidies to meet the goal of 12,000 stations being installed in China by 2020.<sup>4</sup> Yet, while investing billions of dollars in fostering the industry, the Chinese government has insulated the market from foreign competition.

Out of the gate, any foreign-made automobile entering China is subject to a 25% tariff, however; if a foreign company agrees to form a joint-venture with a Chinese counterpart, and agrees that any EVs sold will be sold under a Chinese brand, that tariff can be waived.<sup>5</sup> Yet, these joint-ventures often require that technology be transferred and raise threats of intellectual property theft.

In 2015, the U.S. and China each sold roughly 190,000 EVs. One year later, China’s sales grew to over 350,000 EVs, eclipsing U.S. leadership.<sup>6</sup> China’s use of non-market economy tactics has led to its successful rise to the position of global leader in EV production, to the detriment of foreign competitors forced to compete on a massively uneven playing field. China’s approach to EVs is only one, of many examples of the nation’s state-dominated economic system that has wreaked havoc on American producers and their workers over the last 17 years.

When China joined the World Trade Organization in 2001, many economists over-estimated or, indeed, were limited by ideological blinders in thinking China would just continue to compete against the U.S. in low-value products like toys and textiles. Last year, China ran a surplus in Advanced Technology Products trade (ATP) with the U.S. of \$135.3 billion. The quantity and composition of our trade with China has changed dramatically since 2001.

Some of China’s advances are the result of U.S. naiveté and policy mistakes.

The U.S. has essentially failed to address Chinese industrial policies since its membership in the WTO. Before that, as early as the mid-1990s, the U.S. took only limited acts against Chinese intellectual property rights violations. Over the years, several memorandums of understanding were signed between our two countries meant to throttle back some of China’s policies. But, their illegal acts continue and, indeed, increased in effectiveness. The China Commission has tracked these mistakes over the years. Numerous public and private reports have documented these violations as well as these industrial policies and their cost to the U.S. in terms of production, jobs and lost economic benefits.

The U.S. was naïve in thinking that China wanted to be just like us when it acceded to the WTO. Those who supported China’s accession viewed the commitments from a “Western”, free market, rule-of-law perspective. China simply had and retains a different view of what its commitments meant or, perhaps, simply had no intention of abiding by the promises they were making.

America’s lopsided trade relationship with China has also fueled China’s development and advances in the science and technology arena. Since China joined the WTO, the U.S. has amassed an accumulated merchandise trade deficit of roughly

\$4.3 trillion. That is a transfer of wealth. It has allowed China to make massive investments in its future—many of which are to our nation’s disadvantage.

U.S. multinational companies have responded to Chinese policies and practices in a variety of ways. During the “honeymoon” period after China’s accession to the WTO in 2001, companies flocked to China with the hope of accessing its more than 1 billion consumers. Of course, there were successes. But, over time, Chinese companies—often as joint venture partners—were able to harvest the benefits and learning from those relationships, to advance their own interests.

This led to the next phase of responses where multinational companies began to question the long-term value of their operations there. Many were still hopeful and continued to invest. Many were coerced with the perceived “threat” of lost sales if they did not invest. Others continued to flock to China with no intention of selling to the Chinese market—but solely to take advantage of cheap production methods and produce for the U.S. market. Still other companies chose, in the light of their concerns, and rising intellectual property theft, to limit the technologies they transferred to second and later-generation activities.

At the same time, China was beginning to “squeeze” foreign companies through a variety of efforts including stricter rules relating to data transfers, competitive activities and other areas. During this period, China continued to promote export-led growth and foreign invested enterprises found that China could serve more as an export platform than as a market opportunity. Recent data indicated that 46% of Chinese exports emanated from foreign-invested enterprises. This was directly counter to the interests of U.S. domestic producers and their workforce.

Of course, many companies chose to double-down on their operations and relationships with China. General Electric, for example, engaged in a joint venture with AVIC, one of China’s state-owned aerospace firms, transferring avionics technology. China is now poised to become a world leader aerospace leader with the ARJ-21 and Comac’s C-919 which have taken advantage of U.S. technology. In addition, China’s use of offsets has pressured other aerospace firms to transfer production to China to ensure that they are able to sell their products there.

These and many other Chinese practices have largely gone unchallenged by the U.S. Private sector petitions on dumping and subsidies have led the way in addressing those practices. Despite our government having the authority to self-initiate action under these authorities, only one case—against aluminum products—was lodged during the past 20 years.

In several other areas, it was the petitions of private sector parties that led to challenges to Chinese practices—this occurred with regard to auto parts, green technology and surging imports of tires. Dialogue has been the principal tool of past administrations to get China to change its actions, and those efforts have met with limited success.

The Administration has chosen to broadly challenge Chinese policies—with Section 232, Section 301, Section 201 and otherwise. It’s clear that the business-as-usual approach of the past of dialogue and denial wasn’t working—one can measure that by rising trade deficits, shuttered facilities and lost jobs. Now that serious engagement has started, it is not the time to let up: We need to see this through, although there certainly could be some pain along the way, if we are to address the competitive threats our nation faces.

4. To what degree have the U.S. government and American companies sought remedies in international/multilateral fora? What have been the results? How can we more effectively take advantage of these venues to protect American economic competitiveness? From a U.S. perspective, are key international/multilateral organizations fulfilling their mandates? Do they need to be reformed to address current predatory economic practices and to reflect the characteristics of the modern, global economy? If so, how?

As noted, the U.S. government has had a limited agenda in terms of seeking to address our trade challenges in international fora. Clearly, if bilateral or multilateral dialogue and engagement can address our problems, that would be the preferred course. But, over time, with China and other countries, that engagement has often proved fruitless.

Indeed, with regard to the WTO, challenges often take 2–5 years to resolve. Many challenges are lost as the WTO, through the appellate body, has imposed obligations that were never negotiated. This “overreach” has become a fundamental problem for the U.S. and is being challenged by the USTR. This has occurred in cases ranging from the ruling against the so-called “Byrd Amendment” to certain dumping methodologies.

And, relief under our trade laws and at the WTO is prospective in nature. By the time relief may be available, much of the injury has already occurred. Of course,



the relief is important but a firm may never recover lost sales and workers may never recover their jobs or wages. Other countries know that they can often get away with their predatory practices for significant periods of time.

In addition, while our trade laws have been updated somewhat by Congress in the past several years, with important changes, more must be done. For example, the potential for foreign state-owned and invested enterprises to increase their operations here—through acquisitions or greenfield investments—poses a serious threat to the operation of our trade laws and for market-based firms to compete. Take, for example, the case of Tainjin Pipe, a Chinese state-owned firm setting up operations in Texas. The U.S. pipe market is already in trouble with operations shutdown, idled or operating at reduce capacity. Tainjin will have access to low-, or no-cost capital that directly challenges the operating margins of our firms. Tainjin may import so-called “green pipe” to avoid existing antidumping and countervailing duty orders and undergo minor finishing operations resulting in further cost advantages which can’t be met by our firms. And, to top it off, under our trade laws, Tainjin will have standing to try and undermine potential trade cases opposing them from even proceeding as they would qualify as a domestic producer.

Our trade laws need to be more actively used by our administration to pursue relief. Self-initiation authority exists, but has only been used once by this Administration. The burden should not be on private companies and workers to fight for trade enforcement—it should be an automatic right. We also need to examine, as the USTR has been doing, how to reform the WTO and need to look at whether other avenues for relief exist. We need to engage our trading partners to develop coalition efforts. And, we must not be reluctant to directly challenge our trading partners—China and others—when they break the rules and threaten our future.

5. Besides the U.S., what other countries are most negatively impacted by China’s predatory international economic and business practices? Do these countries represent natural allies for the U.S. in an effort to put an optimal multilateral pressure on China to reform its practices?

It’s not hyperbole to say that the entire world economy has been impacted by China’s predatory international economic and business practices. From the U.S. to Latin America to Africa to Europe and other portions of the globe, China’s policies have had an impact. China’s thirst for resources has changed world markets as it has taken steps to secure resources to support its economy and its interests. It has invested billions of dollars in nations across the globe to ensure that it has the energy and mineral resources it needs. Many of these investments have skewed markets, empowered regimes and changed economies.

Often this investment is welcomed as the U.S. has substituted trade for aid, and that trade often comes with “strings” including anti-development requirements, financial deregulations and requirements that increase the price of medicines for needy people.

China’s continued development of its industrial capacity has resulted in massive productive capacity, often significant overcapacity that threatens market-oriented producers here in the U.S. and around the globe. While much attention has been given to China’s steel and aluminum overcapacity, it extends to many more sectors including shipbuilding, rubber, glass, chemicals and others.

Suffice it to say that China’s activities effect virtually every country’s economy.

That provides an opportunity for coalition-building to address China’s policies and practices. For some cases, such as the current challenge to China’s intellectual property violations, the EU, Japan and other countries have either indicated support, or are likely to support us. On overcapacity, there are ongoing talks at the OECD and at the Global Forum on Steel spurred by action by the G–20.

At the same time, China has influence operations—direct and indirect—targeted at key trade allies who should be on our side. From contracts to investments to political support, to other activities, China seeks to ensure that it can continue its practices without interference from the world community.

Much more can be done, but we also have to recognize that, with regard to some multilateral fora, such as the World Trade Organization, they have not been up to the task. While formal complaints can be adjudicated, although it may be 2–5 years before final relief is available, the organizations can be disabled by consensus-oriented rules. And, China is very good at utilizing its vast power to delay, deter and deny action to address its activities.

China also often refuses to acknowledge its illegal actions when confronted directly. The decision by the UN Convention on the Law of the Sea (UNCLOS) in the case filed by the Philippines against China’s activities in the South China Sea was ignored by China. And, to date, there have been no real repercussions to China’s actions as it has continued to reclaim rocks and reefs and militarize them. Many

believe that the U.S. has limited ability to engage on the specifics of the case as it is not a signatory to the Convention.

The current tension in the global economy may provide an opportunity to address China's activities. The U.S. has led the effort. But, it's time for other countries to stop holding our coat while we bloody our nose. International engagement and support for our efforts to address China's predatory and protectionist policies can help resolve these matters and ensure that market-oriented approaches guide the results. That is the preferred course, but we cannot wait for others to join in. Negotiations have been launched and pushing our chairs away from the negotiating table while we wait for multilateral engagement will only embolden China to continue on its present path.

6. What are the current U.S. legal, regulatory, and other tools to protect U.S. interests in cases where there is an identified threat? How can the U.S. better use those tools? What additional tools are needed?

The U.S. has a broad array of existing tools to address U.S. economic interests. As has been noted, one of the problems is that Administration has largely left enforcement and action on these issues to the private sector. Indeed, while President George W. Bush initiated action under Section 201 on steel early in his Administration, that was only after it was clear that the Senate Finance Committee was poised to act, under its authority to seek action.

The current Administration has shown a willingness to use a variety of tools to act, including Section 301 (to address violations of trade agreements and unjustified, unreasonable or discriminatory acts), Title VII authority (antidumping and countervailing duty authority), Section 232 (to address imports that threaten national security), International Emergency Economic Powers Act (IEEPA), the Committee on Foreign Investment in the United States (CFIUS), and other authorities.

My view is that we have many of the tools, we just have not either been willing to use them, or need to be more creative in assessing their utility. For example, Section 482 of the Internal Revenue Code allows for action against transfer pricing schemes. This authority was used as a tool when Japan was alleged to have engaged in transfer pricing abuses in the past to diminish the stated profits of their subsidiaries here in the U.S. As foreign firms expand their operations and investments in the U.S., we need to make sure that they are not using transfer pricing as a means to essentially subsidize their operations.

The Securities and Exchange Commission has broad authority to assess the operations of entities listed on U.S. exchanges to determine whether there are "material" events that investors should be aware of. A number of Chinese state-owned firms are listed on the New York Stock Exchange and many other Chinese firms are listed elsewhere. China's desire to access U.S. capital markets is clear, especially noted by their recent failed attempt to acquire the Chicago Stock Exchange. The SEC can evaluate these companies to ensure that U.S. investor interests are not being put at risk.

The SEC, in cooperation with law enforcement and intelligence authorities, should also assist in evaluating potential acquisitions of U.S. companies to determine whether there have been efforts to undermine the market value of the acquisition targets. This is an area of extreme importance.

Similarly, as the China Commission recommended last year, "Congress should consider legislation to ban and delist companies seeking to list on U.S. stock exchanges that are based in countries that have not signed a reciprocity agreement with the Public Company Accounting Oversight Board (PCAOB)." The inability of our auditors to have full and unfettered access to the work papers associated with the financial operations of companies listed on our exchanges puts at risk the integrity of the information provided to investors.

The Department of Commerce has extensive authority to collect information on the activities and operations of firms operating in the U.S. market. For the China Commission, we have been trying to learn about how Chinese firms operating here operate similarly, or differently, from their U.S. counterparts. We have been unable to identify comprehensive business school type case studies that would help shed light on these operations. The DOC's existing authority to issue questionnaires and collect data could help advance our understanding of the operations of foreign firms in our market and determine whether any actions might be appropriate to address problems, if they exist.

I believe that there should first be an assessment of existing authorities, their utility and the willingness of authorities to utilize them before we have an expansive examination of what additional tools are needed. In my view, the failure of government to act has created a climate that essentially tells our trading partners they can engage in predatory acts with virtual impunity. That must change.

But, there are three quick suggestions I will make that will be further discussed as a response to the last question posed by the Subcommittee.

First, Congress should consider S. 2757, the National Economic Security Strategy Act of 2018.

Second, the underlying authority for the Committee on Foreign Investment in the United States must be updated to address new challenges and threats.

Third, we should act on S. 2566, the Level Playing Field in Global Trade Act of 2018 to ensure that trade agreements include enforceable standards to promote living wages and sustainable production methods.

7. What is your assessment of S. 2757, the National Economic Security Strategy Act of 2018? Do you support this legislation? Why do you believe it is necessary?

I want to commend the Chair and Ranking Member, along with Senators Rubio and Coons for coauthoring and introducing this legislation. I believe it should be a priority for this Congress to consider how to address the important issues raised by this bill, in particular, the development of a national economic security strategy.

Last year, the China Commission assessed China's activities in the high technology sector. In assessing China's activities, and U.S. policies, the Commission recommended that

Congress direct the National Science and Technology Council, in coordination with the National Economic Council and relevant agencies, to identify gaps in U.S. technological development vis-à-vis China, including funding, science, technology, engineering, and mathematics workforce development, interagency coordination, and utilization of existing innovation and manufacturing institutes, and, following this assessment, develop and update biennially a comprehensive strategic plan to enhance U.S. competitiveness in advanced science and technology.

S. 2757 takes a more expansive, and appropriate view, of the need for a broader national economic security strategy that looks beyond the high technology sector to U.S. interests at large. It requires the periodic preparation, and publication of a national economic security strategy for the U.S. That approach will fill a critical gap in public policy and enable an all-of-government and public understanding of the challenges facing our nation, and the action plan to address those challenges.

In the 1980s, America faced similar questions about its competitiveness. While the impact of Japan's economic policies pale in comparison to those posed by China and other countries today, the concerns nevertheless generated enormous debate. Policy, labor, corporate and academic leaders opined about what the state of America's economy was, what our future had in store for us and what actions might be appropriate to take.

A pivotal event during that period was the convening of the President's Commission on Industrial Competitiveness, chaired by John Young, who was then the President and CEO of Hewlett-Packard. The report of the Young Commission, and subsequent public debate, triggered action by government and the private sector. It also helped foster the development of the Omnibus Trade Act of 1988 which was a comprehensive approach to address many of the challenges that existed at the time and expanded trade law provisions to respond to predatory acts, increased support for the research and development and expanded the role of the National Institutes for Standards and Technology, enhanced the authorization for the Committee on Foreign Investment in the United States (CFIUS), and authorized a number of other important programs and initiatives.

I spend an enormous amount of time with labor leaders, workers and domestic corporations to try and identify ways to promote production and employment in the U.S. Unfortunately, there is no well-defined strategy that gives confidence that the challenges facing our nation are understood, and that there is an action plan to address those challenges. Your legislation, much like the National Security Strategy that focuses on our military security challenges, will help ensure that there is a coordinated, comprehensive and clear plan to enhance our nation's competitiveness and, in turn, our economic and national security. That is a vital step forward.

As part of the assessment, the critical question of income inequality and measures to address it should be included. The International Monetary Fund and others have recognized the impact of inequality on the economy.

It is also critical that an action plan puts the nation's and not a political party's interests first. The balanced, bipartisan authorship of the legislation is a strong indicator that a national economic strategy can be developed that can address today's challenges and prepare our country for the future.

8. Please provide specific policy/legislative recommendations to improve American economic competitiveness and security.

In my testimony, I have identified several areas that demand attention and action. Let me reiterate some of those here, and elaborate, where appropriate.

As noted, the authorship by several members of this Subcommittee of S.2757, the National Economic Security Strategy Act of 2018 signifies an important bipartisan opportunity to provide an assessment of our nation's competitiveness and our security challenges and provide for the publication of an action plan to address those issues. A comprehensive approach to these challenges is solely needed.

Congress should also act to update the authority for the Committee on Foreign Investment in the United States. The AFL-CIO recently endorsed the bipartisan Foreign Investment Risk Review Modernization Act (FIIRMA) that is before the House and Senate. It is a reasoned approach that balances the desire to continue our open investment climate and our security interests. The AFL noted that the scope of the legislation should not be diminished but, rather, Congress should consider the inclusion of a net-economic benefit test as countries such as Canada and Australia have in their investment screening regimes.

Congress should act on S. 2566, the Level Playing Field in Global Trade Act of 2018, introduced by Senator Merkley. This legislation would ensure that trade agreements include enforceable standards to promote living wages and ensure sustainable production methods. Many other countries use low wages and lax environmental standards as an incentive to outsource production and offshore jobs to those areas. We must not allow attacks on workers or the environment to continue to undermine our own living standard and environmental regime. New trade agreements can be a force for progress if they are correctly constructed and properly enforced.

As the China Commission recommended in its 2016 Annual Report, Congress should "enact legislation requiring its approval before China—either the country as a whole or individual sectors or entities—is granted status as a market economy by the United States. This is a critical issue and has been a high priority for the Chinese leadership, having been raised, once again, in the bilateral talks with the U.S. last week. China is far from being a market economy, but the Department of Commerce has the unilateral authority to change its current designation. There is no sign that Commerce has any intent of changing the designation, but Congress should affirm that it is the view of Congress that no action can occur on this substantive matter in the future without its consent.

In an additional recommendation made by the China Commission in 2016, Congress should "require that under antidumping and countervailing duty laws, Chinese state-owned and state-controlled enterprises are presumed to be operating on behalf of the state and, as a result, do not have standing under U.S. trade laws against unfair trade to block a case before proceeding.

A critical issue that is vital to ensuring a competitive economy is expanding investments in infrastructure. In addition to expanding the capacity for economic growth, infrastructure investments can expand our ability to bring products to market, equip our citizens with access to high-speed internet, enhance educational opportunities and meet other critical needs.

The above are just some of the many actions that Congress should consider as it evaluates this important subject area. I would welcome the opportunity to work with you and your staffs as your work continues.

Again, thank you for the invitation to appear before you today and I look forward to your questions.

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#### Notes

<sup>1</sup>See China's Technonationalism Toolbox: A Primer, Katherine Koleski & Nargiza Salidjanova, U.S. China Economic and Security Review Commission, March 28, 2018.

<sup>2</sup>2017 Annual Report to Congress, U.S.-China Economic and Security Review Commission.

<sup>3</sup>November, 2017, Economics and Trade Bulletin, U.S.-China Economic and Security Review Commission.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid.

<sup>6</sup>Ibid.

Senator YOUNG. Thank you, Mr. Wessel.  
Ms. Glas.

#### **STATEMENT OF KIMBERLY GLAS, EXECUTIVE DIRECTOR, THE BLUEGREEN ALLIANCE, WASHINGTON, DC**

Ms. GLAS. Thank you so much. Thank you, Chairman Young, Ranking Member Merkley, for inviting me here today. On behalf of my organization, our national labor unions and environmental

partners, and the millions of members and supporters they represent, I want to thank you for holding this important discussion.

I want to start out by acknowledging and agreeing that we need to take a holistic approach to ensuring American industries are competitive in the global marketplace. A national strategy is needed to address illegal, unfair, and predatory trade practices that deprive the American people of their economic and national security, many of which I list in my testimony, and many have been discussed by witnesses today.

These and other practices drive down labor costs, increase offshoring and job loss, and, at the same time, contribute to the erosion of our environment and increase pollution.

This subcommittee's attention and discussion about a more comprehensive, thoughtful, and coordinated strategy comes at an important time. Other nations are making long-term economic plans to dominate the global economy. If we fail to plan, we will lose the race for jobs and clean energy technology, clean vehicles, and the materials that go into them, like steel and aluminum, among other industries. We cannot allow that to happen.

We believe that the issues of fair trade, workers' rights, and the health of our environment are inextricably linked to America's success. Trade agreements should have strong enforcement mechanisms and include strong and binding labor and environmental protections, including wage and environmental standards, in their core text. These standards must be enforced. We cannot allow other nations to ignore environmental and labor standards in an attempt to undermine our markets and gain competitive advantage.

Let me give you a couple quick examples. As you will note in my written testimony, the relocation and offshoring of a lead battery processing facility from the United States to Mexico is well-documented. This offshoring was the result of weak labor and environmental standards in Mexico, and had tremendous consequences for the economy here in the U.S., and resulted in very real, public health impacts in Mexico. Just one battery processing plant in northern Mexico emitted 33 times the amount of lead that a plant owned by the same company was expected to emit in South Carolina.

As we all know, many energy-intensive, trade-exposed industries in the United States like steel, aluminum, cement, paper, and many others have been under siege as a result of predatory trade practices. The offshoring of these industries to countries with weak or unenforced labor and environmental laws has exacerbated carbon pollution and environmental degradation, and is crippling both our economy and our environment, as well as the environment of our trade competitors.

This is why we must defend and advance policies that reward companies that play by the rules. The BlueGreen Alliance has long supported Buy America and other procurement policies that support workers and industries.

One such procurement policy that is complementary to Buy America policies has been passed into law in California, actually, just last year. The policy is called Buy Clean, and it promotes spending taxpayer dollars on infrastructure, supplies, and mate-

rials that are made in a cleaner, more efficient, and environmentally friendly manner.

As many of you may be aware, the San Francisco Bay Bridge reconstruction project procured steel from a Chinese manufacturer instead of an American company. The BlueGreen Alliance Foundation research found that an estimated 180,000 tons of carbon emissions would have been averted, equivalent to taking 38,000 cars off the road, had the steel been procured from a U.S. supplier.

It would also have shifted the purchase of steel to an American company rather than a foreign competitor. There is a large difference in the amount of pollution generated by our industry compared to that of other nations. Steel production from China alone accounts for roughly 4 percent of global emissions.

The story about the Bay Bridge project led the State of California to establish the first-of-its-kind Buy Clean procurement criteria to incentivize the use of more cleanly produced materials like steel. We strongly support replicating this model in other places across the country and federally.

Procurement policy is just one tool but not the only tool to help level the playing field for both workers and the environment. There are many other enforcement mechanisms that would be deployed in conjunction with these policies.

We are glad that both the chair and the ranking member are taking action on this issue and amplifying the need to develop a broader, more comprehensive plan to ensure that our own industries are safeguarded, supported, and allowed to flourish in the global economy. There is a lot of work to do, and we welcome the opportunity to work with you.

In closing, Chairman Young, Ranking Member Merkley, allow me to thank you for the important work that you are doing and for granting me the opportunity to speak today.

[The prepared statement of Ms. Glas follows:]

#### PREPARED STATEMENT OF KIMBERLY GLAS

Thank you Chairman Young, Ranking Member Merkley, and members of the Subcommittee for inviting me here today. My name is Kimberly Glas, and I am the executive director of the BlueGreen Alliance. On behalf of my organization, our national labor unions and environmental partners, and the millions of members and supporters they represent, I want to thank you for holding this hearing today.

The BlueGreen Alliance brings labor union members and environmentalists together around three key areas:

- Innovating, building and installing the clean economy—clean energy, energy efficiency, safe chemicals, and clean vehicles—which protects the environment, creates quality jobs, and ensures the health of workers and the environment;
- Repairing America's infrastructure to create quality jobs, protect the health of workers and communities, reduce the emissions driving climate change, and build stronger, more resilient systems for the future; and
- Supporting fair trade practices.

I appreciate the hearing discussion today and want to start out by acknowledging and agreeing that we need to take a holistic approach to ensuring American industries are competitive in the global marketplace. A national strategy is needed to address the illegal, unfair and predatory trade practices that deprive the American people of their economic and national security. This includes but is not limited to:

- The use of prohibited subsidies, dumping, overcapacity of steel and aluminum in countries with weak environmental laws;

- Non-reciprocal market access rules that have denied U.S. firms the ability to compete on a level playing field;
- Denial of national treatment and refusal to open market access to U.S. firms;
- Forced technology transfer and intellectual property infringement; and
- The denial and enforcement of internationally recognized workers' rights and environmental standards.

These and other practices drive down labor costs, increase offshoring and job loss, and at the same time contribute to the erosion of our environment and increase pollution.

This Subcommittee's attention and discussion about a more comprehensive, thoughtful and coordinated strategy comes at an important time. It's critical that we work together to find solutions that combat predatory trade practices that have exacerbated our the U.S. trade deficit, undermined our national security, driven inequality by suppressing wages and workers' rights, and harmed our environment.

Other nations are making long-term economic plans to dominate the global economy. That is why it is vital that we develop our own comprehensive, strategic plan to ensure we level the playing field for American workers and protect our environment for generations to come. If we fail to plan, we will lose the race for jobs in clean energy technology, clean vehicles, and the materials that go into them like steel and aluminum, among other industries.

We cannot allow that to happen.

We believe that the issues of fair trade, workers' rights, and the health of our environment are inextricably linked to America's success. We must set aside the race to the bottom that weakens workers' rights and environmental standards. Instead, we must make sure that our trade partners rise up to meet our standards on a level playing field.

Trade agreements should have strong enforcement mechanisms and include strong and binding labor and environmental protections—including wage and environmental standards—in their core text. These standards must be enforced to level the playing field. We cannot have fair trade agreements if they do not adhere to the concept that working people ought to earn a fair day's wage for a fair day's work in a job that is safe and healthy, or if we allow other nations to ignore environmental standards in an attempt to undermine our markets.

As we all know, many energy-intensive, trade-exposed industries in the United States, like steel, aluminum, cement, paper, and many others, have been under siege as a result of predatory trade practices. The offshoring of these industries to countries with weak or unenforced labor and environmental laws has exacerbated carbon pollution and environmental degradation and is crippling both our economy and environment, as well as the environment of our trade competitors.

According to a well documented report:

“For years, U.S. factories recycled used car batteries, which contain lead—a neurotoxin that can cause learning problems for children and heart disease in adults. In 2009, the U.S. Environmental Protection Agency increased U.S. air quality standards to protect communities from toxic exposure to lead.

Instead of complying with the new, hard-fought protections and limiting their pollution, corporations started exporting used car batteries—and the associated pollution—to Mexico, where lead standards are one-tenth as strong and poorly enforced. Immediately after enactment of the new U.S. regulation, lead battery exports to Mexico spiked. Over the next 6 years, they quadrupled. NAFTA ensured the corporations could export their polluting batteries to Mexico free of charge.

For the U.S., this effort to evade domestic lead standards spelled a loss of jobs as U.S. battery-recycling factories shut their doors. Today no more than eight such companies remain in the U.S.

For Mexico, it meant an influx of imported lead pollution. In 2010, more than six metric tons of lead were reportedly released into the air at just one of the plants in northern Mexico that processed the flood of imported lead batteries. By comparison, that is 33 times the amount of lead that a battery-processing plant in South Carolina—owned by the same company—was expected to emit.

In the Mexican communities that now process used lead batteries from the U.S., reports of learning disabilities, kidney damage, and other symptoms of lead poisoning have become all too common. One recent academic study finds that the boom in lead battery imports is causing babies in such communities to be born underweight, with high lead levels in their blood. The authors conclude, ‘unbalanced stringency in environmental standards may spur flows of pollution intensive activities to countries with lax environmental standards.’<sup>1</sup>

American jobs were lost and lead pollution in Mexico has risen dramatically, all because certain companies chose to seek out weak or non-existent environmental protections in other countries.

Another chilling example can be found in the depths of rare earths mines, which produce minerals critical to the manufacture of high tech devices such as solar panels, batteries, smart phones and wind turbines. Utilizing significant subsidies and ignoring massive environmental degradation, Chinese production of rare earth minerals skyrocketed over the last 30 years from producing 27 percent of the world's minerals to now over 90 percent.<sup>2</sup>

The U.S. used to produce a majority of these minerals, mostly out of its Mountain Pass mine in California, which was subject to our environmental laws and safeguards as rare earth mining can be a highly toxic effort. It should be noted that the mine was not always perfect, but it still had to abide by our laws. It should be noted that the mine was not always perfect, but it still had to abide by our laws.<sup>3</sup> China eschewed even the most basic safeguards and its people and land have suffered, while the Mountain Pass mine closed because it could not compete.<sup>4</sup>

We have lost so much to other nations already; it is time to stand up for our workers, industries, and the environment.

This is why we must defend and advance policies that reward companies that play by the rules. The BlueGreen Alliance has long supported “Buy America” and other procurement policies that support our workers and industries. One such procurement policy that is complementary to Buy America policies has been passed into law in California. The policy—called “Buy Clean”—promotes spending taxpayer dollars on infrastructure supplies and materials that are made in a cleaner, more efficient and climate-friendly manner.

As many of you may be aware, the San Francisco Bay Bridge reconstruction project procured steel from a Chinese manufacturer instead of an American company. The BlueGreen Alliance Foundation research found that an estimated 180,000 tons of carbon emissions would have been averted—equivalent to taking 38,000 cars off the road for a year—had the steel been procured from a U.S. supplier.<sup>5</sup> It also would have shifted the purchase of steel to an American company, rather than the foreign competitor.

There is a large difference in the amount of pollution generated by our industries compared to that of many other nations. The amount of greenhouse gases that come from China's steelmaking alone is massive. By roughly extrapolating from the Intergovernmental Panel on Climate Change's 5th Assessment Report,<sup>6</sup> steel production from China alone accounts for roughly four percent of global emissions. According to the Stockholm Environmental Institute,<sup>7</sup> Chinese steel produces 2.4t of CO<sub>2</sub> per ton of steel. This is among the worst CO<sub>2</sub> intensity in the world, alongside Russia and the Ukraine.

The story about the Bay Bridge project led the State of California to establish first of its kind “Buy Clean” procurement criteria to incentivize the use of more cleanly produced materials in infrastructure investment. These criteria will not only result in significantly lower emissions, but fairer competition, improved safety and overall decreases in cost. We strongly support replicating this model in other places across the country.

Policies like “Buy Clean” at the state or national level would help ensure manufacturers who operate the most polluting plants would no longer be given a “free pass” for their pollution and manufacturers who have invested in reducing their pollution would see the returns. Procurement policy is just one tool, but not the only tool, to help level the playing field for both workers and the environment. There are many other enforcement mechanisms that could be deployed in conjunction with these policies to help level the playing field for American workers and the environment.

We are glad that both the chair and ranking member are taking action on this issue and amplifying the need to develop a broader, more comprehensive plan to ensure that our own industries are safeguarded, supported and allowed to flourish in the global economy. There is a lot of work to do and we welcome the opportunity to work with you.

In closing, Chairman Young, Ranking Member Merkley, and members of the Subcommittee, allow me to again thank you for your important work and for granting me the opportunity to appear at today's hearing. I know that you—like the BlueGreen Alliance—are working every day to achieve the goals of building a robust, sustainable American economy that provides opportunities for businesses to thrive, American workers to prosper, and a cleaner economy to protect the public and the environment.



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Notes

<sup>1</sup>Sierra Club, NAFTA 2.0: For People or Polluters.

<sup>2</sup>U.S. Geological Survey, China's Rare-Earth Industry.

<sup>3</sup>High Country News, Why Rare Earth Mining in the West is a Bust.

<sup>4</sup>The Guardian, "Rare Earth Mining in China: The Bleak Social and Environmental Cost."

<sup>5</sup>Greenhouse gas calculation made using the U.S. Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

<sup>6</sup>Intergovernmental Panel on Climate Change, IPCC 5th Assessment. P. 757 and 749.

<sup>7</sup>SEI International, International Trade and Global Greenhouse Gas Emissions.

Senator YOUNG. Thank you for being here, Ms. Glas.  
Dr. Atkinson.

**STATEMENT OF ROBERT ATKINSON, PH.D., PRESIDENT, INFORMATION TECHNOLOGY AND INNOVATION FOUNDATION, CHEVY CHASE, MD**

Dr. ATKINSON. Good afternoon, Chairman Young and Ranking Member Merkley. It is a pleasure to be here.

ITIF has long focused on these questions of U.S. economic competitiveness and the role that foreign, unfair, or predatory practices play in hurting our ability to be competitive.

I could not agree more, Senator Young, with your comment that national security depends upon economic security. That understanding, frankly, has not been widely shared in Washington. I still think that we stovepipe those issues. We see national security as one group of responsibilities and economic security as another.

Mr. Wessel alluded to this, but in the 1990s, this was quite a hard time for Washington. There was a Washington Consensus on trade. It helped form the World Trade Organization, which was going to lead to a new world of better trade disputes; more products, processes, and measures covered; more countries covered. We looked forward to China joining the WTO with the belief that their deeper participation would be a fundamentally liberalizing force.

It was supposedly, according to one pundit at the time, the end of history, which meant it was our model that was going to dominate the world. It was the end of all these other models. Unfortunately, we have learned very clearly and painfully that that was not the case.

The WTO has simply proven itself less than fully capable of challenging rampant innovation mercantilist practices, particularly for non-rule-of-law countries. It just simply was not set up to adjudicate practices for non-rule-of-law countries, and the Chinese know how to use that loophole to their advantage. And China, clearly, rather than moving toward our model, has gone in the other direction.

You mentioned a number of different practices. I will not go through all of those, but I will say that the China model, the Chinese menu or playbook, is really elegantly simple. People think it more complicated than it is. It is elegantly simple. It is really four key steps.

Number one, it is their understanding and commitment that they want to be global, have global competitive advantage, if not domination, in virtually all technology industries. Most countries embrace Ricardian trade theory, which is that we are good at some things, and others are good at things, and then we trade. The Chi-

nese do not believe that, fundamentally. The Chinese Government wants to be good at everything, at least in advanced industries.

Second, they lack the technology, the capability, and the knowledge to be able to be dominant right now. It is going to take them a long time to catch up in an organic way, and they know that. So their whole strategy is about stealing it, coercing it, or buying the technology and the knowledge with state-backed subsidies.

Once their national champions get this knowledge or this technology, the government then lavishes subsidies and other protections and benefits, so those companies can scale up in the Chinese market. Once they have done that, they then, again, lavish a whole set of export subsidies and other benefits, so that they can take over global markets.

There are some who assert that this has not hurt the U.S. economy. I would differ. I think when you look at careful studies, you find that about half of the U.S. manufacturing job loss in the 2000s was due to unfair foreign trade practices. I think the risk very well could be worse going forward, because, in the past, those may be industries that eventually would have been shed naturally in global trade, leaving us the advanced industries that we are good at, but today, as we have heard, the Chinese are going after those advanced industries. This will not only have an economic effect, but it will certainly, as the chairman and you have alluded to, have a national security effect.

So what should the Federal Government do?

I think, number one, and Mr. Goodman alluded to this, we have to do this with our allies. As history has shown, when our allies, particularly the Europeans and the Japanese, collaborate with us and force and pressure the Chinese, they will back down. We have to continue to do that and step that up.

There are steps we can do unilaterally and that Congress can take a lead role in. One that several people have mentioned is to update CFIUS. The Chinese have been very good at manipulating and finding loopholes in the CFIUS process. The current efforts in the Senate and the House to strengthen that are well-advised.

Secondly, we support the passage of the National Economic Security and Strategy Act, if for no other reason than to begin to get all the Federal agencies and the White House and the different bodies to really think as one body and one mind to connect all the dots and really move forward with that.

There is quite a simple step, we have argued, which is that while USTR publishes several reports, including the national trade estimates, you can read that long, long report, and you still really do not get a sense of who is the worst and who is the best. We have argued that USTR needs to produce a ranking. We have called it a global mercantilist index that ranks every country in the world on how egregious their practices are. And for the bottom worst ones, we should just simply start making them have penalties.

I do not see any reason why we provide foreign aid through AID or Generalized System of Preferences tariff relief to countries that are unrepentant mercantilists. The World Bank continues to do that. They provided billions of dollars of funding to China most recently. Again, I do not see any logic for giving money to mercantilist countries until they change their behavior.

Finally, we need to take steps here at home.

I think, and a number of people have mentioned this, expand EXIM bank financing.

We have established under congressional rules the RAMI Act, Revitalize American Manufacturing and Innovation. We have a number of centers. Continue to fund those.

STEM education.

I know Congress just passed a tax reform bill, but I would encourage at some point going back and expanding the R&D tax credit. We are ranked 27th in the world in R&D tax credit generosity.

Finally, I think we need our own Made in USA 2030, not the way the Chinese do it, but we know some of the key technologies going forward in the future, and we need to support precompetitive research in those areas.

Thank you.

[The prepared statement of Dr. Atkinson follows:]

PREPARED STATEMENT OF ROBERT D. ATKINSON, PH.D.

Dr. Atkinson's prepared statement can be accessed at the following url: [<https://itif.org/publications/2018/05/09/testimony-us-senate-committee-foreign-relations-responding-international>]

Senator YOUNG. Thank you, Dr. Atkinson.

So I started with the premise that was actually included, I believe, in the testimony of many of you, but I just want to make sure that operating under this premise is something on which we have, if not universal agreement, at least broad agreement.

In my opening statement, I asserted America's national security rests largely on an economic foundation, something just reaffirmed by Dr. Atkinson. Predatory economic practices by China and others, India and Brazil come to mind, have undermined that foundation for years. If left unaddressed, these predatory practices will further endanger not only the prosperity of Americans but also our security.

A yes or no question, Dr. Atkinson, you just answered it yes. There is a linkage between the predatory practices and security. Do you agree, sir?

Dr. ATKINSON. Yes.

Senator YOUNG. Ms. Glas?

Ms. GLAS. Yes.

Senator YOUNG. Mr. Wessel?

Mr. WESSEL. Yes.

Senator YOUNG. And, Mr. Goodman?

Mr. GOODMAN. Yes.

Senator YOUNG. Okay, very good.

Mr. Wessel, you mentioned a rules-based international economic order, I believe. You may have also done so, Mr. Goodman. I know you are familiar with the concept. I am going to ask you, Mr. Goodman, how has the rules-based economic order over the years helped the American people?

Mr. GOODMAN. Thank you, Senator. As I alluded to in my testimony, if you create a system with neutral rules and contestable markets, American companies win every time. I have no doubt that, if we have rules that work to the general advantage on a neu-

tral level, we are going to win, and that has been proven over and over again over the last 70 years.

So I think the rulemaking part of these efforts are still critically important. I know that there are some who feel that we have created a system of rules that is easily exploitable, and that is not untrue. But if we enforce the rules, I think that is the best path forward.

I think this order has been spectacularly successful for us, and I think that we should extend it.

There are new rules that need to be established. For example, in the digital economy, where, again, not to flog a dead horse, TPP had a good set of disciplines.

Just before he left office, Mike Froman, the USTR who had negotiated the TPP, produced something called the “Digital 2 Dozen,” which I am sure Rob and others are familiar with, highlighting some of the rules that were established, things like free flows of data, an open Internet, no duties on cross-border digital commerce. Those rules really would have worked in our advantage. The fact that we do not have that, we have to do something else to try to establish those rules.

So I am a big believer that the rules-based order has been good for the United States, and we should extend it and enforce it.

Senator YOUNG. Okay. I have a follow-up to that, because I read your materials and Dr. Atkinson, some of his thinking on this matter. And Dr. Atkinson has reminded me that the world does not operate the way a neoclassical economics textbook operates. That is, it is not only firms or enterprises that compete in the world. Countries actually compete with one another economically, which, in turn, impacts not just your economic competitiveness, but your security and advancing your values as a country.

Is there a tension between this rules-based international economic order on one hand, which is not supposed to advantage any particular country, but also a recognition that it does advantage the United States of America? How would we reconcile that fact?

Mr. GOODMAN. Thanks, Senator. I believe that, at the end of the day, you are right, that states do compete, and I think others are putting their thumb on the scale. There is no question. China is in that top group.

Senator YOUNG. Incidentally, I have to interject. I unapologetically want America to win.

Mr. GOODMAN. Right. Understood. We all do.

I think the point is, at the end of the day, we compete best when there is an open rules-based system. If we try to shut things down, if we try to play this game the way others are playing it, I think we lose. I think we are better off when we have, basically, a commitment to openness, to markets, to rules. That has been proven over and over again.

I think we do have a challenge with China. I am not diminishing that challenge. But I think we can win.

Senator YOUNG. Dr. Atkinson, do you think the Chinese can also win in the long term, that their people can benefit from a rules-based international economic order?

Dr. ATKINSON. I think the Chinese people would be much better off if the Chinese had a different economic strategy. For example,

when you look at a program they had called SEI, the Strategic Emerging Industries program, this was a massive funneling of hundreds of billions of dollars into a few industries. We calculated that, if they were successful in that, they would have achieved essentially an equivalent of what about 14 months of productivity growth would have been.

China, fundamentally, is going to follow the path of Korea and Japan, which is very high productivity and innovation in a few sectors that export, but the rest of their economy is incredibly inefficient, their retail sector, their banking sector. They fundamentally do not focus on that, and we do in the U.S. Our view is that markets should allow innovation and productivity in all sectors.

So I do not even think the Chinese strategy is a good strategy for the Chinese people. It is maybe a good strategy for the Chinese Government.

Senator YOUNG. When China joined the WTO, Dr. Atkinson, in order to get access to global markets and be protected from unilateral actions against its unfair trading practices, it made a binding set of commitments to all the other signatories that it was going to live by.

Dr. Atkinson, Mr. Wessel, for Americans who may not be following this issue as closely as you do, which is just about every single American, what general types of commitments did Beijing make in order to get WTO membership? And generally speaking, has Beijing fulfilled these commitments?

Dr. ATKINSON. So my colleague Stephen Ezell wrote a report for ITIF called "False Promises." What it did is it looked at what the WTO president at the time was hearing from China and expected China to do in 2000 and 2001. There was an entire book that he wrote with a colleague, and they listed everything the Chinese were going to do: a less dominant role for state-owned enterprise, more protection of intellectual property, fewer subsidies, et cetera, et cetera.

We went through and looked at every commitment the Chinese made, and it turns out they committed to none of them. So they made, essentially, a wide array of false promises, and they did not live up to any of them.

Senator YOUNG. Mr. Goodman, your assessment?

Mr. GOODMAN. I agree. I have not actually read Stephen's report, but that sounds right. There were a lot of promises that have not been fulfilled.

On the other hand, China did do some things early on to formally implement WTO, and that produced some huge benefits for our companies who are investing there and trading there. So I think it is a little more complex than that, but I do not disagree that there are a large number of areas where they did not follow through.

Mr. WESSEL. Mr. Chairman, if I could just add, part of the problem is one of perception, in the sense of what we believe we mean when we negotiate and what they hear may be two very different things.

A good example was the MOU on cybersecurity 3 years ago. China committed that it would not engage in cybersecurity for economic gain. I think they left the negotiating table laughing be-

cause, as your original proposition was, they view economic security and national security as the same thing. So committing to not engaging in cybersecurity for economic gain was easy. It meant nothing.

When you look at many of their early commitments, they are a non-market-based economy, state-led capitalism. They view the commitments in a different way from the ones that were being made.

Senator YOUNG. I am looking forward to asking some more detailed questions about particular ways the Chinese are violating this rules-based order we benefited from, but I am going to turn it over to Senator Merkley.

Senator MERKLEY. Thank you.

Dr. Atkinson, you mentioned that China often engages in stealing technology. One of the things they often do is require joint partnerships, joint ventures, for American companies doing business in China. When I looked into it, it appears that this is something that we agreed that they could do in the agreement when they entered the WTO. Is that correct?

Dr. ATKINSON. My understanding is, the WTO protocol says that you cannot condition market access on technology transfer. What the Chinese do is, they do not have a written rule. They do not have a law or regulation that says that. And they know specifically why they do not want to have that written down on a piece of paper, because it would bring a WTO case against them.

All of those conditions of market access—I should not say all, but a lion's share of those are all informal discussions. They are informal messages. They are subtle things that are very clearly, though, told to a company that, if you want to be in our market, you have to do a joint venture or you have to give technology access.

Senator MERKLEY. Okay, that is very interesting, because what I saw was saying that had been stipulated, that they had permission to do that.

Anyone disagree with that?

Mr. WESSEL. They do have the permission, and there are many areas where foreign participants are required to engage in joint ventures. I think what Rob was saying is that the government cannot condition the technology transfer by the government, but by requiring you to engage in a joint venture, and when you engage in that, your joint venture partner says, if you want to join with us, you have to transfer your technology. It is, again, going back to the way I described it earlier. It is form over substance.

Senator MERKLEY. So when the time comes when we need to renegotiate the terms for the accession to WTO, or their continuation, does it still make sense to have an agreement in which they can require our companies to be part of a joint venture but we do not require their companies to do the same?

Mr. Wessel.

Mr. WESSEL. Certainly, I think we should be eliminating most of those requirements, but I also believe that we have to be careful about using a bilateral investment treaty as the vehicle to do it. We have seen that the Chinese do not necessarily adhere to the rule of law. We do. So if we give them enhanced access to our invest-

ment market, our FDI, here, I am not so sure they are going to do it there.

Forty-six percent of Chinese exports emanate from foreign-invested enterprises. So the problem we may also have is, by easing the way for U.S. companies to move there without JVs, they may still use China as an export platform undermining job growth and production here in the U.S.

Senator MERKLEY. Thank you.

I want to show you all a few charts. I am going to start with a map of the United States. This essentially shows, state-by-state, the net U.S. jobs displaced due to the goods trade deficit with China as a share of total state employment.

Now, if you could see a list like the one I have in my hand, but would be too small to read, you would see that Oregon is at the top of the list for the most displaced jobs due to the trade deficit with China. Indiana is number 11.

I do find this interesting because, often, a coastal state such as mine says that this must be doing us a lot of good because we have all these links overseas. But here is the thing, when you have all those links, it is much easier for a company to take its business overseas, so you have a disproportionate impact. We see that with Oregon on this list and on this map.

I want to go to a second chart, which just shows the total U.S. jobs displaced by the growing trade deficit with China since 2001, obviously a steady upward climb.

Now I am going to go to a third chart. On this third chart, the line that is in blue has one slope up through 2001 and then an accelerated slope after 2001. Did our loss of manufacturing jobs as a result of the trade deficit with China increase significantly after their admission to the WTO?

Ms. Glas, is that something you would like to comment on?

Ms. GLAS. I think the chart speaks for itself, Senator. I think it illustrates the point that I think you are trying to make, that as part of China's accession to WTO, those are standards that we not only need to relook at, but we need to ensure that, if there is a renegotiation of China's accession to the WTO, that they are enforceable standards.

You are seeing this play out in key areas across the country. It is not just the industrial Midwest. It is coastal states. I think these are very illustrative of the really deep problem that we are seeing across America.

Senator MERKLEY. All we essentially see in this chart, in summary, is, as product penetration went up and increased substantially after 2001, American jobs lost to that trade deficit continued.

And it makes fundamental sense. If we have a company here that is abiding by American rules, and that means in wages, in environmental standards, certainly in labor standards, and we are competing against a company playing by Chinese rules, which may mean no enforcement of even minimum environmental standards, and you noted some of the examples in the case of NAFTA and what is going on in Mexico—this is different; this is China—then the foreign company is going to be able to make things for less. And our American company has two choices: one, go out of business; or two, move their factory overseas. So we would lose jobs.

I just want to keep accentuating this basic story, because it is something that seems straightforward, and yet people have a hard time getting their hands around it. If you let the competitor have full access to a market but play by a different set of rules, you give a huge advantage to your competitor, and that means the loss of American jobs.

So one of the things that I put forward—and, Mr. Wessel, you mentioned it—was the Level the Playing Field in Global Trade Act, which is essentially that very low labor and environmental standards in foreign countries, below the norm for their country, would, in fact, be a form of social dumping, and we could use American antidumping laws.

Does that strategy of building on an existing mechanism for a form of unfair subsidy that would address the race to the bottom make sense?

Mr. WESSEL. I think it not only makes sense, it is vital that we include a provision like that in future trade agreements. When we look at trade agreements and evaluate the opportunities that may exist by engaging those agreements with other countries, we have certain expectations about how they are going to develop their market, whether we are going to have consumers we can sell to, whether they have consumers who can buy their own products, whether our companies are going to outsource offshore, or whether we are going to have a fair and level playing field.

We have found, over time, that provisions on environment and labor have been difficult to enforce, if they are enforced at all. With Guatemala, it took 8 years to get a trade case to the arbitral panel, and then it failed because of a legal argument about a certain standard.

The result is that producers, workers, farmers, ranchers here in the U.S. have suffered because of the social dumping that is inherent in those agreements.

Senator MERKLEY. Thank you.

Ms. Glas, any comment on that?

Ms. GLAS. Absolutely. I think your legislation is innovative in terms of its approach. I think it is part of a more comprehensive strategy of addressing these predatory trade practices. It essentially penalizes countries and industries that do not play by the rules.

We have a huge overcapacity of steel issue in places like China, and there have been well-known documentaries done. There is one title that comes to mind called “Under the Dome,” which talks about the really significant public health impacts, the overcapacity of steel, and the fact that they have weak environmental laws. This documentary played for a couple days in China and was quickly taken down, because it started some social unrest there.

So what your bill is doing is essentially giving the United States companies a chance to compete. It is leveling the playing field. And we want to work with you on pushing forward this and your joint effort across the committee.

Senator MERKLEY. Thank you.

Senator YOUNG. We will now turn to the chairman of this committee’s Subcommittee on East Asia and the Pacific, Senator Gardner.



Senator GARDNER. Thank you, Chairman Young. Thank you for holding this hearing today. Thank you to all of you for being here and a part of this. This is a very important issue, and I am grateful that this hearing is being held to discuss matters today.

Dr. Atkinson, it is great to see you in front of the Foreign Relations Committee. I normally work with you at the Commerce Committee. Dr. Atkinson was a key part of the reauthorization of the America COMPETES legislation, the American Innovation and Competitiveness Act, which went into effect last Congress.

So thank you for your great work on STEM education, engineering, science, and the research that we are able to further because of your outstanding work. Thanks.

And to all of you, thank you.

Senator YOUNG. He is a whole-of-Congress witness.

[Laughter.]

Senator GARDNER. A whole-of-Congress witness, that is right.

Thank you for your constant advocacy.

Chairman Young, also thank you for being a part of the bill that we just introduced a couple weeks ago, the Asia Reassurance Initiative Act.

Mr. Goodman, thank you for highlighting that in your testimony today. The chairman is a cosponsor of the legislation, S. 2736, the Asia Reassurance Initiative Act.

This hearing comes at a critical time. It is pretty remarkable to think that, by 2030, 66 percent of the global middle-class population will be in Asia. Fifty-nine percent of middle-class consumption will be in Asia. We know that the largest standing armies in the world are in and going to be in Asia. We know that five of our seven defense obligations are in Asia. We cannot afford to fall behind as a result.

According to the Asian Development Bank, 16 Asian countries have signed 140 bilateral or regional trade agreements, and 75 more trade agreements with Asian countries are under negotiation or concluded and awaiting entry into force.

In the meantime, the U.S. has signed trade agreements with only three nations in the Indo-Pacific region, namely Australia, Singapore, and the Republic of Korea. That is why ARIA, the legislation that we talked about, calls on the administration to engage in: one, multilateral, bilateral, or regional trade agreements that increase U.S. employment and expand the economy; two, formal economic dialogues that include concrete outcomes; three, high-standard bilateral investment treaties between the United States and nations in the Indo-Pacific region; four, negotiations with the trade and services agreements and the environmental goods agreements that include several major Asian economies; five, the proactive, strategic, and continuing high-level use of the Asia-Pacific Economic Cooperation forum, APEC, the East Asia Summit, and the Group of 20 to pursue U.S. economic objectives in the Indo-Pacific region.

ARIA also provides an authorization for a more robust U.S. commercial presence throughout the Indo-Pacific region to promote U.S. exports and additional trade facilitation efforts; authorizes the imposition of penalties on entities and governments engaged in the theft of U.S. intellectual property; and requires a new, comprehensive U.S. policy to promote energy exports to the Indo-Pacific.

I think, in addition to Chairman Young, we are joined in the legislation by Senator Markey, Senator Cardin, Senator Rubio. So it is a bipartisan effort to really create a generational strategy as we look at Asia.

I know the chairman is working on a national economic security strategy as well, and I appreciate your work on that, so thank you very much for that.

We will be holding hearings as well in the committee to talk about the bill but also to further this discussion because it is that important.

So I guess the question I would ask to all of you, and I think it is important, too—let me frame this. In recent discussions with some leaders in Southeast Asia, one of the highlights of a conversation was simply this: They worry that there are no more Ted Stevens, Dan Inouyes, or Bob Doles in the U.S. Senate as it relates to Asia. So the question is, what is this generation of Senators going to do, leaders in Congress, to be that face in Asia of the U.S., to make sure that we have that presence that is so desperately sought in Asia, especially those who wish to counter the rising power of China? I think ARIA can help do just that.

So do you agree or believe that initiatives like ARIA would help the U.S. to build a more robust, long-lasting economic commercial presence in the Indo-Pacific region?

Mr. Goodman.

Mr. GOODMAN. Absolutely. Thank you, Senator. I mean, I think this is a terrific effort. I do not worry about the makeup of the Senators interested in Asia, because you and some of the other Senators you mentioned, and others, Dan Sullivan and others, have been real leaders in this area, and I feel very optimistic that there is a great new group of people who understand the importance, as you said, of Asia.

It is about 50 percent of the world population, the world economy, and world GDP, and we have to be successful there. Being successful there means doing a lot of the things that you outlined there in the ARIA bill. And the region wants it.

I think this is where I am sort of more optimistic about our opportunities here, because I think there is a strong demand pull still for United States influence in that region. I was in Myanmar, of all places, a few weeks ago where you think that we do not have much traction there, and we have some very specific, difficult issues there. But every meeting I was in, they said that they want three things. They want electric power; they want human capacity; and they want an alternative to China, frankly.

So I think we can provide all those things. I think we are in a great position, and I think the kind of legislation that you are talking about, and the 2757, the National Economic Security Strategy Act, together, those things, I think, will put us in a very good position in the region.

Senator GARDNER. Thank you. Just to point out, too, that this committee has passed legislation, at least in an amendment to a bill that has passed out of the committee, on the electrification needs of Myanmar, so building on the successes that we have had with Power Africa, looking at that as an example of what we possibly can do in Myanmar. So I am glad that the committee has em-

braced sort of a Power Myanmar concept, because I know that it is critical to show that this new civilian government has made progress in Myanmar.

Mr. Wessel, Ms. Glas, Dr. Atkinson, quickly, we have about a minute left.

Mr. WESSEL. A quick comment, and, number one, thank you. I have to admit, I am not familiar with the legislation.

Senator GARDNER. It is just the best bill ever.

[Laughter.]

Mr. WESSEL. I will read it this evening, and I look forward to it.

But I do not think there is any question that we need to be engaging in Asia and all around the world. I was in Vietnam as a government official for the commission 2 years ago. The embrace that we get from the Vietnamese Government, the people, in terms of American values, American vision, and American leadership, is something that is exhilarating. We have relations like that and opportunities around the region.

The real question is, though, what are the terms of trade as it relates to any kind of increased engagement? I think the Trump administration is looking at all the agreements that are on the books, determining whether there can be changes that are acceptable and be passable, and also acceptable, of course, to our trading partners.

So I think the engagement is vital. We have to look at what the terms of trade are.

Senator GARDNER. With the indulgence of the chairman, can I get the last two quickly?

Ms. Glas.

Ms. GLAS. I will save you some time. I agree with Mr. Wessel's assessment. Apologies, I have not read the bill, but I look forward to doing that.

Senator GARDNER. Thank you.

Dr. ATKINSON. Senator, I have not read the bill either, but from your description, I think it is vital that we counter the Chinese efforts there. They are trying to develop their own regional trade agreement on terms that many countries that I have spoken with, the officials do not like those terms, and they are basically presented with something they have no choice over. They would much rather have a global trading agreement where we are at the hub of that. I think that is central and critical for us to be able to move forward and do that.

Senator GARDNER. Great. Thank you all.

Thanks, Mr. Chairman.

Senator YOUNG. Thank you, Senator Gardner.

One of the key concerns I hear from my constituents is about the theft of our intellectual property. It inhibits our ability to grow not just jobs but incomes. It undermines our national security.

Dr. Atkinson, you provided some specific examples. One that I found compelling was this notion of a USTR mercantilist index that might, in turn, be used to apply pressure to different countries, if they happen to fall low on that index. I would ask you if there are additional measures that you believe, specific steps, that we might take to better protect American IP?

And, Mr. Wessel, Mr. Goodman, if you have additional thoughts on this, I would appreciate it.

Dr. ATKINSON. One step, if you look at the USTR 301 report, it lists the scofflaws, the worst ones every year, and there really are no consequences for being on that list other than naming and shaming. For a lot of these countries, naming and shaming is not really a high-level motivation for them to not do that.

So we could do things like make sure that we simply do not give them economic aid, that we do not allow them to have tariff-free access to our markets. But I think, more importantly, the big kahuna here, if you will, really is China.

I think we made a big mistake with how we deal with China in the sense that they are not rules-based. We are trying to deal with them from a rules-based regime. We have to fundamentally switch to a results-oriented trading system with China, and we have to hold them, I would say, to two or three big results that we expect in the next 6 to 12 months. One, a massive reduction in their subsidies to their advanced industries—for example, \$160 billion they are giving to their semiconductor industry alone. Number two, real and demonstrable measures on no more forced technology transfer and significantly reduced cyber theft of our intellectual property. The FBI and other government agencies, they know how much cyber theft is going on. We can hold them accountable for those things.

I think, fundamentally, that is what our trading pressure has to do with China. Otherwise, they are just going to keep doing it.

Mr. WESSEL. If I could just quickly add, I think there are a number of other things. I agree with all that Rob just said.

Several years ago, 2014, as you may know, five PLA hackers went after five U.S. companies and the Steelworkers. The indictment was sealed. Because of that seal, the government was unable to give to the USTR the underlying information to potentially bring a trade case. That has ultimately been resolved, but we have a number of impediments internally in terms of how we coordinate activities.

Economic espionage does not qualify as espionage under the Espionage Act. It is national security. It is a very old statute. It is important, et cetera.

So I think there are a number of tools and cooperation that can be developed that would help us do a better job doing what we should be for U.S. companies and workers.

Senator YOUNG. Thank you. I will look into that.

Ms. Glas. Mr. Goodman.

Mr. GOODMAN. I agree that we need results, and I think in the areas that Rob mentioned, subsidies, cyber theft, that we should be much tougher with China. But I also believe in the rules.

I still think we need rules on things that will help constrain them. As I said, in TPP, there were strong digital-related rules there. There were strong intellectual property protections. I think if we had done that and had used our allies and partners who were aligned with us on those things, I think we could hold China's feet to the fire.

Senator YOUNG. Did you have something, Ms. Glas?

Ms. GLAS. Just one thing to add, since I raised it in the last comment around the overcapacity in certain energy-intensive, trade-exposed industries, including steel and aluminum. China has made various commitments to curtail that overcapacity, has said that they will be transparent in that process of bringing the overcapacity in line, and that, in fact, reports coming out of China say that a lot of what they are sharing in terms of government documents is inaccurate. So what are the repercussions for not living up to agreements that we have made with the Chinese?

That is why a lot of our comments today, from almost all of us, about enforcement is a key priority for all of us.

Senator YOUNG. I would like to turn to the principle of reciprocity within the context of economic statecraft. What is it? Do we have it with China? If we do not have it, how do we get it? And then if you have additional views on this notion of reciprocity, I would welcome your sharing them with us.

Why do we not just go down the line? Dr. Atkinson, please?

Dr. ATKINSON. Reciprocity is the notion that they treat us the way that we treat them and vice versa. We definitely do not have that in a wide variety of areas. Again, because we are a rule-of-law country, we treat the Chinese differently, and their investments, and others differently.

I think, for example, with regard to CFIUS, we just need a regime that treats Chinese investment differently than we would, say, treat Canadian investment or German investment. The Chinese, as Mike Wessel has said, they do not allow us to invest in most of their industries without a JV. Why would we allow them to invest in our industries, if they do not give us that same reciprocity?

That is why I also agree with Mike Wessel on the whole notion of a BIT. I think us adopting a bilateral investment treaty with China would be a mistake, because it would mandate us to rules that we would have to live by, and they have shown that they are not going to live by the rules.

Senator YOUNG. Anything else, Ms. Glas, Mr. Wessel, Mr. Goodman, about reciprocity? Okay, if no, then I would like to briefly turn to this national economic security strategy, legislation that Senator Merkley has joined with me along with Senators Rubio and Coons in introducing last month, bipartisan in nature.

Dr. Atkinson, in your prepared testimony, you indicated that we should pass it. Why do you believe that Congress should pass this legislation?

Dr. ATKINSON. I think there are two main reasons to pass this legislation. One is, we simply do not have the kind of analytical capabilities and focus in the White House. And I am not saying it is this administration; all administrations, frankly, have not focused on this. Making that a mandate that they have to come up with a plan for Congress on the linkage between economic security and national security will just make them think harder about this and do the kind of legwork they need. That will lead to the kind of institutional cooperation we need with different agencies to move forward.

But I think perhaps even more importantly, we need a much stronger national consensus politically around our ability and need

and requirement to take stronger actions in these areas. That has been harder to do. When we link it to national security, it becomes a lot easier to do because everybody can get behind national security, and rightly so.

So I think tying economic security and national security together just makes it easier for us to take the kind of steps that we are going to need to take to be competitive and secure.

Senator YOUNG. Does anyone else have anything to add on the importance of this legislation?

Mr. WESSEL. I think it is a vital piece of legislation, and I believe I referred, in my testimony, it pales by comparison, but a similar challenge that occurred in the 1980s when we were looking at Japan's competitive threat, what they were doing in semiconductors and a number of other sectors.

The President convened the Young commission, which in many ways would do what you have suggested. And it is a good title, a new Young commission. That really raised the debate nationally. It looked at everything from what we were going to do in these leading-edge industries to what we were going to do about STEM education, what we were going to do about investments, et cetera. It helped give people an understanding that their government was on their side and that there was an action plan, and people were being led down that process.

It was an important action then. I think it would be very important now.

Mr. GOODMAN. Can I just have one point? This act was really, in a way, music to my ears, because I have worked in a foreign policy context at a think tank focused on foreign policy and national security in which economics is kind of an afterthought, or the tail on the dog. So my whole life is about trying to make the point that economics is a key part of national security and power. So I think it is totally in-line with what I believe we need to do.

We need to integrate this. And I think structurally in the government, we need to do a better job of integrating economics.

So, for example, the NSC and NEC, I think they need to work even more closely and seamlessly together in the White House. I think the State Department needs to have stronger economic diplomacy capabilities. The fact that there had been talk about diminishing that role or not funding it I think is a big mistake. I think at the Treasury Department, where I worked, I was on the international side with 200 people, and there were thousands of people doing domestic economics. I think we needed to have a better integration of those structures.

So I think there are a lot of things that we can do to structurally improve the way we handle economics and national security.

Senator YOUNG. I could not agree more, based on my consultation with you and others. And thank you for your encouragement.

Mr. Merkley.

Senator MERKLEY. Thank you.

Mr. Goodman, you mentioned that you had been in Myanmar, also known as Burma. Myanmar has just engaged in a massive process of ethnic cleansing. Was that a topic that you discussed with the officials while you were in that country?

Mr. GOODMAN. The purpose of my trip was to look at economic issues, and I did not focus specifically on that, but, of course, it was a major issue of concern when we met with the U.S. Embassy. It is a major focus of what they are paying attention to. We were looking at some of the activities of China in the north of Myanmar economically, and they have a special economic zone and a port up near the Rakhine area, so we were talking about their involvement economically in the context of that problem.

I am not an expert on that issue per se, so it is not something that we were particularly investigating on this trip. But it is a terrible problem, and one that the U.S. needs to be deeply engaged in.

Senator MERKLEY. It is horrific. And our Foreign Relations Committee has passed out sanctions against their military, but their military is engaged in the denigration of the Rohingya people since they took over in a military coup decades ago, to the point that the rest of the country views that ethnic minority as almost subhuman. The ethnic cleansing is tremendously popular.

If countries like the U.S. do not push back and stand up against the massacre of ethnic minorities and lead the world, who will? There is always a group that says, well, we should pursue the economic opportunities and kind of look the other way, but I certainly hope that is not the way our country proceeds.

Ms. Glas, I wanted to turn to your comment about the Buy Clean in California. Can you describe, just very briefly, very quickly, how California gives preference for clean products?

Ms. GLAS. So California passed this first-of-its-kind legislation this last legislative session, and it was signed into law by Governor Brown at the end of last year. Essentially, it provides benchmarking. Under California law, there is not a Buy America requirement for procurement of products. There were actually a lot of newspaper articles around pollution and the overcapacity of the steel industry in China and how that was impacting air pollution on the West Coast in the United States. Because that started getting media attention and people started looking at, "Well, where are we procuring our steel from? Where are we getting some of our insulation products?" For some of these heavier industries, what could we be doing here in the State of California to really reward the good players, not just U.S. companies, but the better than average in terms of environmental standards?

So there is a lot of benchmarking that exists out there for some of these heavy industries. It is an innovative piece of legislation. The State of Washington is moving forward with a sort of demonstration bill that we would love to work with you on.

Senator MERKLEY. Thank you. I wanted to note that you started by describing how that was inspired in part by the Chinese steel being used in the San Francisco Bay Bridge. That particular instance was done through something called the segmentation loophole where the contractors split the cost of that bridge into small sections in order to bypass Buy America at the national level.

That is an issue that I put on the floor of the Senate as an amendment, and we did get bipartisan support to close that loophole, so they could not, today, build that bridge in that fashion,

thankfully. But I had never thought about the pollution effects of that, so thank you for bringing those up.

I wanted to turn to a piece of the strategic puzzle, which is, when China runs up a massive trade surplus, what do they do with the funds that they have piling up in China? One of the things they do is they buy American companies. Another thing they are doing is prestige projects around the world, like stadiums and highways infrastructure to gain goodwill. A third thing they are doing is buying up mineral assets around the world that will be very important in the future economy.

As we look at that part of the strategy, which often gets forgotten, does it add anything to understanding how important it is to take on this imbalance?

And by the way, Dr. Atkinson is very involved in Oregon, so I wanted to mention how delighted we are that you are bringing your expertise to our State or contributing to the world from our State.

Dr. ATKINSON. Thank you. I am a proud Duck.

I think people make a mistake when they say, well, China used to buy our T-bills and now they are investing in our companies, so is that not good? There is no difference. In fact, the latter is worse. They are recycling their money in order to keep their currency lower, but they are also buying up our companies.

They are using that surplus cash to come buy up our companies as a direct way—or invest in our companies. I think I mentioned the DUIX report in my testimony where they have estimated—I believe it is 10 percent to 20 percent of all venture funding now in Silicon Valley is Chinese-backed. So they are recycling the money, basically, to buy our technology. In many, many cases, that is what they are doing, and then taking that technology back to compete with us.

Senator MERKLEY. So we should recognize that as a competitive challenge.

Yes, Mr. Wessel.

Mr. WESSEL. We certainly should do that, and I think Rob has talked about the need for CFIUS reform. I think there are number of things that will get at the venture capital funds and accretive transactions, et cetera, that are now sort of going under the radar.

In addition to that, and I believe Rob talked about it in his testimony, in the area of 5G, which is the new telecom standard, the South China Morning Post said China is spending \$411 billion. So building up these massive reserves is also giving them the capital they need to be able to invest in these technologies to buy companies to ensure that they have the wherewithal to succeed and make mistakes, because in all of these developments, you are going to make mistakes.

In a market-based economy, as you know, you make a mistake, it is hard sometimes to get the next round of funding. China does not have that problem.

Senator MERKLEY. Yes, Mr. Goodman?

Mr. GOODMAN. Can I just add one other dimension, which you alluded to, which is China's Belt and Road-related initiatives of building infrastructure around the Asia-Pacific and the world? This is a major—in fact, I would say it is the central legacy item for Xi



Jinping in terms of external power projection. He has this ambitious plan that may be \$1 trillion of spending, ultimately. A lot of that money is going to be wasted, by the way. Talk about money that is spent poorly. But some of it is going to stick.

And I think we need to be in this game. I know it is a faraway story, and infrastructure is four syllables that puts people to sleep, but it is actually a really important competition out in that region. As I mentioned, in Myanmar and other places, one of the first things you hear is people want infrastructure. And they know that the United States is not going to bring \$1 trillion of government money, but we might liberate, if we do the right things, a lot of pension monies. We have trillions of dollars that would come into infrastructure as a long-term investment class, if, life insurance money, others, if they thought they could get a return on this investment.

That gets to the conditions under which this investment is made, and we bring a lot of the best practices that would help make for better infrastructure investment in the region, not create social and environmental damage in these countries, not create huge debt problems for the borrowing countries, which is a huge issue that the IMF and others have expressed warnings to.

So I think it is really important for us. And in that context, I mentioned breathlessly, because I was running out of time, in my opening statement that the BUILD Act, which some other Senators are sponsoring to move forward with a new, supercharged OPIC with some additional funding capability, the ability to invest in equity positions, is very important.

It is much smaller than the China Development Bank's firepower, but it is an important piece of what we bring to the table: great companies, great products and services, rule of law, and an ability to sort of release this trillions of dollars of private money.

Mr. WESSEL. If I could just add quickly with regard to OBOR, One Belt, One Road, but also, as you noted, investments in other nations, China often brings its own people over there, often their own workers. They often supply the materials, so that the benefits to those economies are limited. They often build a rail line simply from the mine to the port, so that they can get the materials for their own use rather than really investing in the country, the kind of things that we do to ensure broadly shared prosperity.

Senator MERKLEY. Yes, a significant difference there.

I did have to smile for a moment, Mr. Goodman, when you were talking about the BUILD Act, because we now have three BUILD Acts. We have my former legislation from last cycle, which was about restoring shop classes across America as part of a CTE effort, and then we have the BUILD Act you referred to, and now we have the BUILD Act, which is the new name for the TIGER grants. So we are all going to be very confused in the conversation going ahead.

Thank you.

Senator YOUNG. At least the BUILD Act has one syllable.

[Laughter.]

Senator YOUNG. Dr. Atkinson, this proposal that you have advocated for, Congress mandating USTR producing a global mercantilist index, this report would comprehensively identify all of

the innovation mercantilist policies of America's trading partners and rank the worst offenders.

My question for you is this. Should a low ranking trigger more scrutinizing treatment under CFIUS?

Dr. ATKINSON. I certainly would think it should trigger more scrutinization of many, many things that we do as a government to help other countries. I think with regard to CFIUS, yes, but it does not necessarily mean that it should trigger it. It means that it should have a review.

So some countries are mercantilist, but they do not really have a strategy to buy up our companies. Sometimes, when the acquisitions are made, they really are business-to-business. They are capitalists in their country with our capitalists. I think what is different about China is even the private sector investments are really government-led, government-backed. That, to me, is the fundamental difference.

But I agree, it should certainly trigger some deeper look.

Senator YOUNG. Okay, thank you.

I am going to turn to the topic of using existing tools more effectively.

Mr. Wessel, you write in your prepared statement that you believe we already have many tools we need to address China's predatory economic practices, but we just have not been willing to use them, have not found the wherewithal, or we have not been creative in bringing them to bear.

Can you briefly elaborate on that point and highlight maybe one or two of the most effective tools that are available to us that we are not optimally employing right now?

Mr. WESSEL. A quick piece of history, very quick, which is, right after China joined the WTO, there was a honeymoon period. People wanted them to abide by the rules, et cetera, and give them time. That honeymoon period was far too long. We gave them too much leeway.

Congress has the ability, and I think it was mentioned earlier, of reclaiming jurisdiction over Congress' section 1, chapter 8 authority over international trade to self-initiate cases or to demand that cases be filed. So when one looks at what this administration has now done on intellectual property with the 301, that case could have been filed 7, 8 years ago.

All the things that we are experiencing now could have been done then. Congress had the authority and, I believe, should have stepped in. That is true in green technology, in auto parts, and in any number of things. That is number one.

Number two, finding out about subsidies is very hard, but U.S. companies, those that are publicly traded, are under the jurisdiction of the SEC, and that information is material, and the SEC, without releasing the data to the public, can help gain information from what is happening with these companies, both in terms of the subsidies they are getting as well as the IP that they are being forced to transfer, and action can take place on that.

There are a number of other self-initiation authorities, section 201, section 337, and others, all of which together would send a message to the public that our laws are going to be properly enforced.

Senator YOUNG. You mentioned the Public Company Accounting Oversight Board, or PCAOB. What specific action do you believe Congress should take with respect to reciprocity and this board?

Mr. WESSEL. The fact is that China has refused to sign a memorandum of understanding that would allow our auditors to get access to the work papers. That is something vital under the SEC—I believe it is the 1934 act—so that investors will have adequate information. If China does not allow that, we should not be allowing them to list on U.S. exchanges.

Senator YOUNG. Very good. Do our other witnesses have anything to add on the topic of using existing tools more effectively?

Dr. ATKINSON. I would add one to what Mike said, and that is, under the WTO rules, the Chinese are supposed to report all subsidies and trade-distorting measures to the WTO, and they have not really done it. Therefore, we are somewhat in the dark on that.

We need to insist on that. And if they do not do it, we need to bring a WTO case against them for doing that.

Assuming that they do it, that will then open up a whole other set of avenues to bring cases against them for WTO-illegal subsidies. That is something we could do quite quickly.

I 100 percent agree with Mike on self-initiation. One of the reasons we have not brought more cases is the USTR looks to industry to bring cases. Industry will oftentimes not want to bring cases because they know they will be singled out for punishment by the Chinese Government. So we need to start self-initiating cases on behalf of both U.S. industry and the U.S. economy.

Senator YOUNG. Thank you.

Mr. Goodman, in your written testimony, you say that Washington needs to leverage the private sector better. Moments ago, you referenced the opportunities that we might have to open up investment from public pension funds, from insurance, and others in infrastructure overseas. As certain public pensions are seeking higher ROIs, it might make some sense to allow them to do so domestically as well as internationally. We are already looking into that as an office.

Are there other ways in which you believe the Federal Government can better work to bring to bear the private sector to respond to international predatory economic policies?

Mr. GOODMAN. Yes, Senator. I think it is critically important to have the private sector engaged in this. As you said, they have access to huge amounts of capital but also to great goods and services.

I mentioned, in Myanmar, this human capacity point. A lot of these great companies like GE and others bring Myanmarese engineers to the U.S. and train them. I think we need the private sector in a lot of ways involved in this story.

I think that we could engage them more through mechanisms that are similar or equivalent to what we have in APEC, as somebody alluded to—I think you did, or Senator Gardner—the Asia-Pacific Economic Cooperation forum, where they are integrated into the policymaking formulation process. I think if we did that in other contexts, that would be quite helpful.

I agree that we need them. I mean, I agree with Rob's point that they are afraid of filing cases, and they are afraid of really sticking

their necks out, because they have a lot at stake in China, for example. I think that we should find ways to encourage them to, if not file cases, at least provide more evidence, more willingness to step forward and say what the real problems are, because there are serious problems for our investors over there, and I think they could be very helpful in shining light on those practices.

Senator YOUNG. There might be instances in which we could anonymize the information and encourage private companies to report to our government, so that we might, in turn, where appropriate and where possible, be able to respond diplomatically in other policy realms. Does that make sense?

Mr. WESSEL. As I understand it, and I will supply you some more information afterward, but I believe it was the cotton case against Brazil where the administration, through a WTO case, was able to aggregate the market effect rather than have to show a specific injury for a company. There are ways of doing that across-the-board in steel, in paper, in any number of areas where you could show that there has been hacking, for example, and that there has been a market effect in terms of penetration by the Chinese or other players, et cetera.

So I think a lot of work could be done here that would protect companies, which we are not looking for them to be bloodied in the fight, as well as advance U.S. interests.

Senator YOUNG. With respect to the WTO, are there other things we might be doing to improve the dispute settlement procedure? It is often 2 years, 5 years, sometimes longer, as I understand it, before final relief is available. Justice delayed is justice denied, in the economic realm.

How about ways to more expeditiously adjudicate these situations and provide relief? Any recommendations on what we might advocate for?

Mr. GOODMAN. There is no question that the WTO dispute settlement mechanism is unwieldy and needs reform. I think this is a bipartisan issue. The Obama administration, I think, was trying to work on that. Obviously, the Trump administration is very concerned about that.

At the same time, we win most of the cases we file, so we want to not throw out the baby with the bathwater. I think it is important to try to use those mechanisms. The fact that we have filed a case on forced technology transfer I think is a good thing.

I have not myself studied the dispute settlement system to be able to give you detailed recommendations, but there are people who have done that. Maybe the gentlemen here have done more work on that. But I think there is definitely a need to improve it and make it faster and more likely to produce the kind of results that are going to challenge practices like China's.

Senator YOUNG. Thank you.

Senator Merkley.

Senator MERKLEY. So China charges us 15.5 percent tariff on our Ag products, and we charge 5.2 percent on theirs. Why should we not charge them the same tariff that they charge on us? Anyone who would like to jump in?

Dr. ATKINSON. We wrote a report before the administration came out with its tariff proposal, and one of the arguments we made, if

you look at what the Chinese have threatened with their retaliatory tariffs to the President's tariffs, they were largely all on consumer final goods, wine and things like that. The administration had many more of its tariffs on producer goods and capital goods, including things like computers.

So my nuanced answer, Senator, is, yes, we should have reciprocity in general, but there are certain things like, for example, when a U.S. company buys a machine tool to improve their productivity or buys a server to improve their productivity, putting tariffs on those Chinese products basically raises the cost of capital goods for our companies and makes them less competitive. So I would fully agree on many, many products, particularly consumer products like food and others, it makes perfect sense. Autos would be another example.

Senator MERKLEY. The auto tariff differential is 25 percent versus 2.5 percent. But would it not kind of catch their attention if we said we are going to invoke reciprocity?

Dr. ATKINSON. It is a little bit like hitting a mule over the head to get them to come to water. You have to use a lot of sticks there, and this would be one stick to get their attention, absolutely.

Senator MERKLEY. I think it would get their attention. I am not saying necessarily that is directly the right thing to do, but the fact that we have set up a system where we continue to give them far lower tariffs in our market than vice versa says something is wrong.

I think at one point we viewed their economy as so far behind ours that this made some sense, but, I must say, I have had different trips to China. I went there and saw back in the 1990s a lot of bicycles. I went back and saw a lot of cars. I went back again and saw a huge amount of infrastructure, bullet trains, metro systems, and came back and said, in many ways, on my most recent trip, their cities look more developed than ours.

I mean, that bullet train trip I took was the very first one from Beijing to Tianjin. Now they have a whole network of them around the country. I mean, massive changes there. So that buildup of resources from the trade surplus with the United States is not only helping in all those other things that I mentioned but also investment in their own internal infrastructure.

It seems to me like we may have come to a point where the impact on our jobs in this country, not just the factories but the supply chains to the factories, and not just the supply chains but the loss of those paychecks in our retail stores, so it hits us three different ways. Maybe we should start rethinking it.

In that regard, I wanted to turn, Mr. Wessel, you made a reference to the "Made in China 2025" strategy, which is specific, intense planning by the Chinese Government to be self-sufficient in 10 key sectors. So they have that plan, and then they have this other plan massively subsidizing their manufacturing to undercut the market in the United States, run a trade surplus, take those funds, by strategic minerals, do prestige projects around the world, buy shares in American companies or buy control of American companies.

They have a plan, and they are moving forward with massive momentum. Where is our plan?

And after Mr. Wessel completes, I think it is an important enough question to have any of you weigh in.

Where is our plan?

Mr. WESSEL. My response is that plan will probably come after the bill that you two have co-authored passes and is implemented by the administration.

I think we are just waking up to the challenges and threats of China's activities, not only China 2025, the 13th Five-Year Plan, what is known as the Thousand Talents Program, the 111 Plan, a whole slate of programs that, quite frankly, I do not think we really had our hands around or understood the impact.

China now has the two fastest high-performing computers in the world. We will probably catch up, and it will be traded back and forth. 5G, Huawei, I believe, has 10 percent of the patents.

We are seeing the Chinese succeed because of the massive amounts of capital being invested; our companies who are assisting willingly and unwillingly at times; of course, technology transfers; and outright theft of intellectual property.

We need a plan. Your bill would help do that. I think this administration is looking carefully at it. Their National Security Strategy did have more of an economic component than I think past strategies did. But we are essentially asleep at the switch still.

Senator MERKLEY. Where is our plan, Ms. Glas?

Ms. GLAS. I will reiterate everything that Mike Wessel said, but I would say to you that that is the right question to be asking.

I can speak from some of my own personal experience having worked at the Commerce Department on trade issues, and I traveled extensively to Southeast Asia. Reflecting on some of the conversations I had with chief economic officers in the region, not just China but in Vietnam and other locations, all of these countries are strategizing around their economic development plan, not just China. China has seen exponential growth that you have seen with your own eyes in your trips over the past few years and the past few decades.

It is time to change the conversation with China. We should be demanding more. We should be asking for more. And this will take leadership from both you and others in Congress, and the administration, to put feet to the fire on this issue.

We should be asking for reciprocal market access for our goods that we are making here. We should be constantly evaluating new goods that are emerging in our various tariff categories that are growth opportunities for U.S. producers to export product abroad. These are conversations that need to continue to evolve and not just be reflective of when China joined the WTO.

So that is the right question to be asking. It is time to get much more tough on China than we have been. With both of your leadership, we look forward to engaging in that effort.

Senator MERKLEY. Thank you.

Mr. GOODMAN. I think the fact that you had to draft that legislation shows that we do not have a plan and we need one, so I think it is a great start.

I do think that we have to also, and this is kind of in a way heretical because the term "industrial policy" in the United States is

a dirty word, and I think sort of rightly so. We do not do that. We do not do that in a sort of organized way and should not.

But the fact is we have invested strategically in the past in things like the Internet, in biotechnology through NIH, and so forth. We, I think, need to be more focused on those targeted, strategic—back in the 1980s, I am originally a Japan guy, and back in the 1980s, when we were threatened by the Japanese in the semiconductor space, we got together with 15 or 16 companies and set up SEMATECH, and that actually worked.

So I think if it is done in a smart way, I think a targeted plan of trying to invest in strategic technology is right. I do not think we should do across-the-board industrial policy, but targeted investments like that make sense.

Can I just circle back on your earlier question, Senator Merkley? China as a developing country, they should not be allowed to get away with that anymore. Yes, they still have 500 million, 600 million people who are in abject poverty that they need to bring out of poverty, so to be fair to them, they have a huge challenge there domestically still. But as you mentioned from your example of seeing the advanced technology and the infrastructure and so forth in China, this is an advanced country in the ways that matter in this conversation, and I think that we should be holding China to a higher standard in terms of being an advanced country. So they should not have 25 percent tariffs on automobiles, at this stage.

I personally am a little uncomfortable saying we ought to try to be as market-restrictive as they are. In other words, the goal of reciprocity should be to get them up to our level of openness. I mean, they should be lowering those things. As a means to an end, we may need to threaten to do things to get their attention, as you said, but the goal should be to bring down their tariffs and other barriers to advanced country levels.

Senator MERKLEY. Absolutely. But they are very happy with the situation as it is with low tariffs to our market and high tariffs to theirs. So at some point, we have to be determined to have the leverage to change that.

My time is up. Thank you very much.

Senator YOUNG. Dr. Atkinson, I would like to turn to our industrial base, our defense industrial base. How have China's predatory economic policies undermined our industrial base and, thus, our ability to provide the most sophisticated, most capable weapons to our warriors?

Dr. ATKINSON. Thank you. This is, I think, one of the most important components of your legislation. There is, I think, a fairly widely held view in the government that there is a thing called defense industries and non-defense industries. If you are defense industry, think of Lockheed Martin or Raytheon, as long as they are doing okay, everything is fine. I think part of it misses the fact that there are many, many industries that are not in that space but are suppliers of or have capabilities that are related to that.

So, for example, capabilities in the U.S. economy related to advanced fiber and materials that can go into jet engines and wings and the like, those are not all going to be developed by defense contractors. They are going to be developed by commercial companies in the U.S. that our defense contractors could use.

The same thing with semiconductors. If we lose semiconductors, we might still be able to have the Defense Department say we will mandate or we will subsidize a few fabs for defense-specific chips. But if we do that, the cost for those chips goes massively through the roof, and the technical capability of innovating in that space goes way, way down.

So to answer your question, we have lost, I think, in a number of different areas. Some of the folks who have done good work on that are Willy Shih at Harvard Business School. For example, things like thin films or flexible displays—flexible displays is a really important technology for the Defense Department going forward. We simply do not have the capabilities that we should have in that technology. We could have had them. Another is optoelectronics on-chip computing. We certainly have not done well there, as much as we should.

So I think there are a number of different areas where the Chinese have shown that they are advancing quite rapidly, and we have not been able to catch up as much as we should.

Mr. WESSEL. Mr. Chairman, one quick comment on this as well. We also have to understand that our military capabilities are second to none. You know that. But China is looking at asymmetric warfare. So our capabilities in terms of fighter jets that are fourth, fifth generation are unquestioned. So they are looking at cyberspace and space. Many of the technologies that Rob was talking about are in those domains.

That is where China is trying to advance its interests quickly. They think the next war is going to be fought with bits, bytes, and bots, as they say.

Senator YOUNG. A related point that I think is worthy of mentioning is that we have defense supply chains, and they cross borders now. So one area that has received particular attention is trusted microelectronics. We have to be able to trust that the microelectronics that are part of our weapons systems are not going to be compromised. They will not fail when our warriors need them most to protect us.

Does that suggest that we need a robust and reliable domestic U.S. capability to produce and certify technologies like trusted microelectronics?

Dr. ATKINSON. There was a CRS report, I believe, a number of years ago that looked at that. I do not remember the exact numbers at the time, but it was a very concerning number of processors that were in our supply chain that had flaws that appeared to be intentional. You do not know exactly how those flaws would play out if a missile is fired or a jet is in combat. Would they play out then?

We are never going to make all our equipment in the United States. The world is too complex now. We are not big enough anymore to do that. So, certainly, when we have supply partnerships with our allies, I think we can generally trust those to be in our interests.

I think it is concerning that we are increasingly relying on China for many, many, many of our technology products. I think that is a very risky path to go down. If they wanted to, they could cut



those off. There is certainly some potential for infiltration or manipulation of those products.

There is also a big problem, frankly, with fraudulent products. We need to do a better job. One of the things that we have argued is we need to step up our border controls. The massive amount of Chinese intellectual property that comes back into this country in products that are pirated or fraudulent, we should have a zero tolerance policy toward that.

Mr. WESSEL. Let me also add, probably 2 decades ago, I believe it was the Defense Science Board looked at this issue and the Trusted Foundry program was set up. I believe we have one remaining Trusted Foundry. So your idea of looking at key components and having trusted foundries here in the U.S. that hopefully are at the first generation and not two and three generations old, that would be a very worthy idea.

Senator YOUNG. We will continue for roughly 10 minutes, so I want to you to know that there is light at the end of the tunnel here. Your stamina has been impressive, and we are grateful for your thoughtful testimony.

Mr. Goodman, in your prepared testimony, you argue, "Washington needs to do more to coordinate with States and cities, which are most directly impacted by both the opportunities and risks of economic ties to China."

I have certainly heard from Hoosiers regarding the problems they encounter conducting business in China, entrepreneurs all the way up to our large, publicly traded companies. Can you provide some suggestions for us on how the Federal Government can more effectively coordinate with States and localities to counter international predatory economic policies?

Mr. GOODMAN. I admit that this is more something that we are starting to explore because of the lessons I learned in the last election. The debate on both sides about our position in the world was that it was so deeply linked to what is happening on the ground in local communities and the economies of States and localities. I think folks like me, who had been focused on making the case for our international engagement, were not having our eye on the ball on what was actually going on. So that was the spirit of what I was trying to say. We need to understand those local challenges and problems.

So we are starting a new line of work at CSAS to look into those issues and try to make connections with Governors and mayors and local community leaders.

To try to answer your question, I will be honest, I do not have a good list of recommendations today. But I think that it is critical to come up with solutions that help address both the anxieties and problems economically in those localities and to tap into the huge opportunity that those States and localities can provide, because they have huge opportunities to sell into overseas markets. And we need them to succeed at that, so we need to help them as well with that business.

But I will, as we develop this program, try to come up with some recommendations to help you with that.

Senator YOUNG. Thank you very much. Maybe one of the tens of individuals who is still tuned into this subcommittee hearing will have some suggestions as well that I would invite them to submit.

I will just close with a final line of questioning. I have concern, you might call it an international predatory economic policy sort of domino theory. It is not my theory, but I have concerns about this dynamic, that other countries are going to observe the Chinese state capitalist model and begin adopting and try to replicate it. It may be ill-advised for their countries or for their citizens, but nonetheless, I am under the impression that the Indians increasingly are moving in this direction, the Brazilians, perhaps some others.

Would any of you care to comment?

Dr. ATKINSON. So we have coined a term. Obviously, there was this famous term, the Washington Consensus on trade, which is a set of principles that I think, frankly, was a little too rigid for a lot of places. But now, I would argue, there is a Beijing consensus on trade, and the Chinese Government is exporting that.

It is basically saying, look at what the U.S. did. They had the financial collapse. They are not really going to be a great power anymore. Look at us. We have had this great growth. You really need to follow our model.

One of the things that I believe is very troubling is we basically under resource the State Department. I was just down in Brazil. The State Department asked me to come down and meet with government officials down there to explain to them how we have been successful on innovation and why our model is better for them than either the Chinese model or, frankly, the European model, in this case, because some of it dealt with data and technology issues.

This is very happenstance. We simply do not do that very well. I think we really have to step up our efforts to go around the world and explain to these countries why a more bottom-up, market-based, but still with the right government policies around investment in research and skill training and infrastructure and all that, intellectual property protection, why that is the right path to innovation success. I just do not think we do that anywhere near enough that we should.

Mr. WESSEL. Just as a quick comment, I think this administration's focus on these issues, on China's predatory practices as well as your hearing, is the right start, because India and other countries have been able to get away with it because there has been no real response from the U.S. To the extent that they see a response, to the extent that we can educate them and reach out, we can alter the path. But if we do nothing, they are going to go down the path they are on.

Mr. GOODMAN. I will just put an accent on all that by saying I agree with your concern. I agree with the point that, if we are not in the game, we are not going to win this argument, so we have to do the kinds of things that were just described and the ones I talked about earlier about enabling our companies to come in with their products and services and rule of law and the rest of it.

The good news is that there is still, as I said, a demand pull for our model. I think people are not stupid. They know in a lot of these countries—Myanmar, I think, knows that what China is selling does not feel right. But if they do not have an alternative, they

are going to take the Chinese model, because they do not know any better or we are not offering anything. So we have to be involved.

Senator YOUNG. Thank you.

Senator Merkley, I will allow you to bat cleanup.

Senator MERKLEY. So I want to bring in a topic we have not really addressed, and that is automation. I have seen some extraordinary examples of automation. The one that always sticks in my head is that of a robotic dairy where the cows live in the barn, and when they want to get milked, they go get milked. The machines milk them, and they will return. And they will get milked maybe four or five times a day instead of twice, and they are very happy.

When I took a tour of this barn, the owners said, I really do not like to do this. I said, in what aspect? He said, I really do not like to walk through the barn because cows are not used to being around people.

It is just an extraordinary thing to see the machinery reach out, clean the udders, sterilize it, put cups on, take the cups off. There is nobody involved.

In theory, having machines do all these productive roles should be a strategy to be able to increase the standard of living massively, to produce goods at low cost for everyone in the world. But it creates a big dilemma, which is a company spending its money on buying equipment rather than paying wages.

So what happens to the jobs? Without a job, you do not have structure to your life. You do not have income. So if even, in theory, the machines are contributing something, maybe it is basically not contributing in a way that creates a foundation for living-wage jobs.

So this is a fundamental dilemma, and as we think about this, we could note that Germany has really done a lot to be a machine-builder. The making of machines, the servicing of machines, and maintaining machines does not come close to replacing the man hours of actually doing the work directly.

But should the United States position itself, work massively to try to have the machine-making role be something that is done here in the United States of America and exported to the world? What other insights are there for us about the benefits and the challenges posed by automation?

Mr. ATKINSON. Senator, we have done an enormous amount of work on that question. In fact, we were recently asked by the Canadian Government to produce a report for the G7 ministerial 6 weeks ago in Montreal on this question.

I am less concerned about the number of jobs. The evidence from virtually every economic study is, as long as you have the right monetary policy and the right labor market policies, you are not going to have structurally high unemployment.

The real question is, are the workers who are affected by that able to move to something else? Frankly, we do not have very good policies in this country to enable that to happen. I think that is our big challenge.

You alluded to the fact, should we become a machine-building country? Absolutely, we should. It is easy to forget companies like Cincinnati Milacron, which was the dominant machine-builder in the world, and now we do not have that anymore.

Every time I visit a U.S. company, a manufacturer or a biotech company, and I walk around the shop floor or the labs, I always look at the machines and where they are built. Very few of them are built in the U.S. You have Japan, Korea, Taiwan, Germany, et cetera.

One thing we could do, if we were serious about that, it is we could establish a Manufacturing USA institute for machine-building. We still have machine-builders. We could establish a National Science Foundation engineering research center on machine-building and machine tools.

So I could not agree with you more that having a strong machine-building and capital goods industry is very important for us. It creates good exports. It creates good jobs. But I do think we need some help from the government to make that a reality.

Mr. WESSEL. Senator, it is a great question. Last year at the AFL-CIO's annual convention, or several-year convention, they created a committee on the future of work. So the issue that you are raising and many others is, how do workers gain a proper share of the economic benefits they are creating? It is a key one, and it is one that will be constantly evolving.

In my testimony, I talked specifically about robotics, and the Chinese hope to be 70 percent self-sufficient in robotics by 2025. It is part of their plan. They bought the major German firm Kuka 2 years ago, I believe it is.

There is certainly going to be a lot of work servicing robots.

I worry about whether we are going to have the work actually producing them, whether we are going to be doing the technology to develop those robots, whether we are going to be making the materials to fuel them—steel, aluminum, whatever else. If we do not do something about China's predatory practices, we are going to lose that sector as well.

Mr. GOODMAN. Can I just add one other thing? This is a huge issue, and the future of work is another one that we are trying to do more investigating ourselves on at CSIS. We had an event a couple weeks ago with two interesting speakers. One was your colleague, Senator Warner, who has done a lot of thinking, I think, on these issues. He has some ideas about benefit portability; about tax credits for training, because companies do not have the incentive to train somebody who is going to get up and leave; supporting the new economy in several creative ways. I am not sure all of those ideas make sense or are going to happen, but I think it is an interesting discussion. There is some interesting food for thought there.

The other thing is we had the Danish Finance Minister on this panel, and he was talking about, in Denmark, they have a disruption council, I think it is called, where they look at these issues of technology disruption and what its implications are. It brings in governments, the private sector, labor, academics, and they discuss what the implications of these are. I thought that sort of thing was creative and interesting. So this is a topic we would love to continue talking to you about.

Senator MERKLEY. Thank you all very much.

Senator YOUNG. Thank you, Senator Merkley.

I cannot resist the temptation to add, based on your comment, Mr. Goodman, that Senator Cantwell and I have introduced legislation called the Future of AI Act, pertaining specifically to artificial intelligence and some of the impacts that will have on our work force. We would like to better understand the labor implications and the potential policy responses that will be needed. We do not want to jump too quickly, with respect to artificial intelligence, as that technology evolves.

I want to thank each of our witnesses so much for being here and sharing your expertise, your perspective, your research, your advice. I know both Senator Merkley and I look forward to continuing our work with each of you in different ways moving forward.

For the information of members, the record will remain open until the close of business on Friday, including for members to submit questions for the record.

Senator YOUNG. This hearing is now adjourned.

[Whereupon, at 4:30 p.m., the hearing was adjourned.]

