

Updated Statement for the Record
of
Jamil N. Jaffer¹
on
Examining China's Coercive Economic Tactics
before the
House Committee on Rules

May 10, 2023

I. Introduction

Chairman Cole, Ranking Member McGovern, and Members of the Committee: thank you for inviting me to discuss the coercive economic tactics employed by the Chinese Communist Party against the United States, our allies, and our industry, and the impact these tactics have on our economic and national security.

As this Committee knows, China today continues—as it has for many years—to engage in an unambiguous type of economic warfare against the United States and our allies.² This economic warfare conducted by the Chinese Communist Party takes many forms. One key starting point for this campaign is the large-scale intellectual property theft—conducted at a national level—by Chinese state intelligence agencies, that provide an economic base upon which China has built massive state-owned and state-influenced enterprises that now seek to expand their footprint across the globe. This nation-state enabled theft—from the United States by China—is so vast and deep that it has often been described as the “greatest transfer of wealth in modern human history.”³ Another key line of effort in this campaign involves the Chinese government holding

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² See Keith B. Alexander & Jamil N. Jaffer, *China Is Waging Economic War on America. The Pandemic Is an Opportunity to Turn the Fight Around*, Barron's (Aug. 4, 2020), available online at <<https://www.barrons.com/articles/china-is-waging-cyber-enabled-economic-war-on-the-u-s-how-to-fight-back-51596587400>>.

³ See Christopher Wray, *The Threat Posed by the Chinese Government and the Chinese Communist Party to the Economic and National Security of the United States*, The Hudson Institute (July 7, 2020), available online at <<https://www.fbi.gov/news/speeches/the-threat-posed-by-the-chinese-government-and-the-chinese-communist-party-to-the-economic-and-national-security-of-the-united-states>> (“It’s the people of the United States who are the victims of what amounts to Chinese theft on a scale so massive that it represents one of the largest transfers of wealth in human history.”); Gen. (Ret.) Keith B. Alexander, *Prepared Statement on Digital Acts of War: Evolving*

American companies hostage, as they also do with our overseas allies and partners, when our companies seek to enter, remain, or expand in the domestic Chinese market, and to threaten the economic viability of these same organizations when they or their host nations (or even individuals within those organizations) have the temerity to speak out against China’s domestic and globally repressive activities,⁴ or when they adopt policies aimed at responding to widespread economic predation by the Chinese government and its national champions. What is critical to note about both of these core aspects of Chinese economic warfare is that they are aimed directly at undermining America’s national security.

I want to thank the Chairman and Ranking Member for holding today’s hearing on these important issues and for working on legislation, including bills like H.R. 1135, the Countering Economic Coercion Act of 2023, that seek to address the very real threat that China’s coercive economic tactics pose to our national security. I hope this hearing—one of only about two dozen original jurisdiction hearings in this committee in the last decade—will offer us the opportunity to have an open, robust dialogue on these critically important issues.

II. The Various Forms of Chinese Economic Coercion and Their Collective Impact on U.S. National Security

Chinese economic coercion comes in variety of forms, some of which are highlighted in this testimony. At its core, the goal of China’s coercive economic tactics is to interfere with and fundamentally shape the national and economic decision-making of the United States and our allies and partners, as well as that of our private companies, in a manner that benefits China’s strategic national interests. To be clear, what this means is that all of the various aspects of Chinese economic coercion aimed at the United States and our allies and partners around the globe have, at their heart, one key goal: undermining America’s national security.

the Cybersecurity Conversation, Subcommittees on Information Technology and National Security of the Committee on Oversight and Government Reform (July 13, 2016), *available online at* <http://nationalsecurity.gmu.edu/wp-content/uploads/2018/05/Gen-Alexander-Statement-Digital-Acts-of-War-7-13.pdf> (“[T]he rampant theft of intellectual property from American private sector companies by nation-states and their proxies[] constitut[es] what I have previously described as the greatest transfer of wealth in human history...”); *see also* Jamil N. Jaffer, *Waking up to the Threat of the Chinese Communist Party: A Call to Action from Congress*, The Hill (Feb. 28, 2023) (op-ed), *available online at* <https://thehill.com/opinion/national-security/3877095-waking-up-to-the-threat-of-the-chinese-communist-party-a-call-to-action-from-congress/> (“We’ve known for many years that China has robbed the U.S. of trillions of dollars by pilfering American know-how and technology through theft, extensive hacking, and extortion of American companies operating in China.”)

⁴ *See id.*, Jaffer, *Waking Up to the Threat* (arguing that “[s]adly, more and more American institutions are subject to Chinese Communist Party pressure. One need look no further than the CCP’s use of economic leverage to get the NBA — once an iconic American institution — to cower and threaten its own players, coaches[,] and executives for having the temerity to speak out against China’s atrocious human rights record. The NBA’s corporate behavior is a national shame that deserves not just to be called out, but to be punished by its American fan base.”); *see also id.* (noting China’s domestic efforts involve “extensive repression of religious and ethnic minorities, from Christians to Buddhists...the Chinese government’s use of its “social credit system” to punish those who cross the CCP...[a]nd the million-plus Uyghur Muslims held in modern-day Gulags for “reeducation”” and also noting that “China seeks to expand its domestic repression abroad[, including through]...the building of militarized islands in the South China Sea, [] the massive air incursions over Taiwan, border skirmishes with India, and threats against American allies across the Indo-Pacific region.”)

We see this effect in a range of ways. For example, when China wants to push back against areas where we and our allies agree, it oftentimes will go after our allies first, and will do in a manner calculated to try to divide us from one another. So, for example, when Australia sought to push back against Chinese efforts to influence Australian politics in 2017, much as the United States did against Russia after the 2016 elections (and later against China and Iran as well), and as Australia also agreed to partner with the United States to redevelop a naval base in Papua New Guinea, the Chinese responded with anti-dumping trade investigations into key Australian exports.⁵ Not surprisingly, this action also came directly on the heels of Australia's decision to ban Chinese telecommunications national champion Huawei from its 5G networks, a position the U.S. had long been lobbying Australia to take.⁶ And when the Australians had the chutzpah to suggest, in 2020, that there ought to be an independent investigation into the origins of the COVID-19 pandemic—as many American leaders had also advocated publicly—the Chinese went even further, going after Australian exports across a wide range of areas.⁷

Likewise, when the United States and South Korea agreed to deploy a Terminal High Altitude Area Defense (THAAD) antimissile battery in South Korea to defend against threats from North Korea in 2016, the Chinese government not only responded by blocking South Korean goods and services across a range of sectors, including the entertainment, consumer products, and tourism industries, but also engaged in a campaign of cyberattacks against a major South Korean conglomerate and severely limited Chinese political-military interactions with the South Korean armed forces.⁸

These examples represent a long-standing pattern of Chinese behavior going back well over a decade, including in 2010, when the Chinese government temporarily barred Japan from obtaining rare earth metals during a dispute over Japan's detention of a Chinese boat captain whose ship ran into a Japanese Coast Guard vessel near the contested Senkaku Islands.⁹ Likewise, in 2012, China temporarily barred exports of certain Philippine fruits after a dispute over territory in the South China Sea.¹⁰

⁵ Michael Smith, et al., *China Launches Anti-Dumping Probe into Australian Barley Imports*, The Australian Financial Review (Nov. 19, 2018), available online at <<https://www.afr.com/world/asia/china-launches-antidumping-probe-into-australian-barley-imports-20181119-h181zp>>.

⁶ Tom Westbrook & Byron Kaye, *China's Huawei Slams Australia 5G Mobile Network Ban as "Politically Motivated"*, Reuters (Aug. 22, 2018), available online at <<https://www.reuters.com/article/us-australia-china-huawei-tech/chinas-huawei-slams-australia-5g-mobile-network-ban-as-politically-motivated-idUSKCN1L72GC>>.

⁷ Reuters, *Explainer: How Strained China-Australia Relations Hit Trade in Coal, Barley, Beef and Wine* (Jan. 8, 2023), available online at <<https://www.reuters.com/markets/commodities/how-strained-china-australia-relations-hit-trade-coal-barley-beef-wine-2023-01-06/>>.

⁸ See Ethan Meick & Nargiza Salidjanova, *China's Response to U.S.-South Korean Missile Defense System Deployment and its Implications*, U.S.-China Economic and Security Review Commission (July 26, 2017) at 4, 7, available online at <https://www.uscc.gov/sites/default/files/Research/Report_China%27s%20Response%20to%20THAAD%20Deployment%20and%20its%20Implications.pdf>.

⁹ Yuko Inoue, *China Lifts Rare Earth Export Ban to Japan: Trader*, Reuters (Sept. 28, 2010), available online at <<https://www.reuters.com/article/us-japan-china-export/china-lifts-rare-earth-export-ban-to-japan-trader-idUSTRE68S0BT20100929>>.

¹⁰ See n. 8, *supra*, Meick & Salidjanova, *China's Response* at 8.

Given that China is Australia’s largest two-way trading partner in goods and services,¹¹ South Korea’s largest export market,¹² and Japan’s largest trading partner as well,¹³ it becomes readily clear that each of these actions were calculated to have significant and measurable economic effect in the first instance and were also aimed directly at changing overall national behavior in each of these countries. Indeed, given that China is one of the world’s largest economies and the largest trading partner to a range of nations, it is perhaps unsurprising that China regularly seeks to leverage its market power to punish nations, their institutions, and their companies when they engage in behavior that China does not like, in an effort to get those policies changed.¹⁴

More recently, we can see similar Chinese economic coercion actions directed head-on at the United States and our companies as well. For example, just last month we saw China lash out at Micron, a U.S.-based chip maker, subjecting it to a searching “cybersecurity review” in retaliation for major export control actions taken by the Biden Administration to prevent Chinese semiconductor companies from accessing U.S. technology and allied tooling for advanced semiconductor manufacturing.¹⁵ It is no surprise that the retaliatory action taken by China came scant weeks after the Netherlands, and just days after Japan—both the home to key semiconductor equipment manufacturers—agreed to implement their versions of the U.S. semiconductor technology and tooling restrictions.¹⁶

And these direct actions against American and allied goods, services, and companies are just one small example of the vast web of economic coercion that China deploys against the United States. Other examples include the forced transfer of technology and intellectual property that

¹¹ See Australian Department of Foreign Affairs and Trade, *China Country Brief* (July 2022), available online at <<https://www.dfat.gov.au/geo/china/china-country-brief>>.

¹² See n. 8, *supra*, Meick & Salidjanova, *China’s Response* at 8.

¹³ See, e.g., Tetsushi Kajimoto, *Slumping China-Bound Japanese Exports Raises Fears of Global Downturn*, Reuters (Jan. 19, 2023), available online at <<https://www.reuters.com/markets/asia/japans-trade-deficit-persists-recession-risks-loom-2023-01-19/>>.

¹⁴ See Senator Jeff Merkeley, *Opening Statement, How China Uses Economic Coercion to Silence Critics and Achieve Its Political Aims Globally*, Congressional-Executive Commission on China (Dec. 7, 2021), available online at <<https://www.cecc.gov/sites/chinacommission.house.gov/files/documents/Chairman%20Merkeley%20Opening%20Statement%20-%20CECC%20Economic%20Coercion%20Hearing.pdf>> (“As the second largest economy in the world and the largest trading partner to many countries around the world, China leverages the attraction of its market and the global economy’s deep ties to supply chains in China to punish critics and reward self-censorship.... This Commission has also been on the receiving end of formal sanctions, just like other parliamentarians, government officials, nongovernmental organizations, researchers, and others who speak out against human rights abuses in China.”)

¹⁵ See Laura He, *Micron Technology: China Probes US Chip Maker for Cybersecurity Risks as Tech Tension Escalates*, CNN (Apr. 3, 2023), available online at <<https://www.cnn.com/2023/04/03/tech/china-micron-probe-us-chip-war-intl-hnk/index.html>>; see also Chang Che and John Liu, *China Strikes Back at U.S. Chip Maker Even as It Signals Openness*, New York Times (Apr. 4, 2023), available online at <<https://www.nytimes.com/2023/04/04/business/micron-china-investigation.html>>.

¹⁶ See Michelle Toh & Junko Ogura, *Japan Joins the US and Europe in Chipmaking Curbs on China*, CNN (Mar. 31, 2023), available online at <<https://www.cnn.com/2023/03/31/tech/japan-china-chip-export-curbs-intl-hnk/index.html>>.

the Chinese government demands of U.S. and allied companies looking to access the Chinese market, as well as requirements that foreign companies enter into joint ventures with Chinese producers.¹⁷

Likewise, we regularly see China use massive government subsidies, low-interest loan programs, and support for loss-leading industrial efforts in order to gain unfair market share for its companies—many of which, like Huawei, are built on stolen American technology—not just in the Indo-Pacific, but across the globe.¹⁸ And China likewise leverages its Belt-and-Road Initiative to gain traction in key parts of the world, making or promising large-scale infrastructure investments, more often than not in the form of loans that provide significant leverage and can be used in an extortionary manner to once again China achieve its strategic policy goals, change national behavior, and undermine U.S. national security interests across a range of domains.¹⁹

What is clear from these examples is that China is not interested in simply gaining economic traction in foreign countries or preferencing its own goods and services. To the contrary, what we see here is a concerted effort by the Chinese government to gain strategic advantage and leverage for itself, to undermine the ability of the United States and our allies to obtain similar opportunities, and to obtain policy changes at the national level by using its strategic advantage and leverage. These policy changes, in turn, are often focused on core national interests for China, many of which are at odds with U.S. national security policy and therefore serve to undermine it.

The examples of South Korea and THAAD, and Micron more recently, are instructive. In the case of South Korea, as recent events have shown, the Chinese believe that they extracted iron-clad policy commitments from South Korea on core national security concerns for both the United States and our ally—specifically commitments on the future of allied relationships and

¹⁷ See, e.g., Sean O'Connor, *Staff Research Report: How Chinese Companies Facilitate Technology Transfer from the United States*, U.S.-China Economic Security and Review Commission (May 6, 2019) at 7-8, available online at <<https://www.uscc.gov/sites/default/files/Research/How%20Chinese%20Companies%20Facilitate%20Tech%20Transfer%20from%20the%20US.pdf>>; see also Office of the United States Trade Representative, *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974* (Mar. 22, 2018) at 19-45, available online at <<https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>>.

¹⁸ See, e.g., Chui-Wei Yap, *State Support Helped Fuel Huawei's Global Rise*, Wall Street Journal (Dec. 25, 2019), available online at <<https://www.wsj.com/articles/state-support-helped-fuel-huaweis-global-rise-11577280736>>.

¹⁹ See, e.g., n. 3, *supra*, Jaffer, *Waking Up to the Threat* (arguing that “the CCP’s Belt and Road Initiative, while masquerading as an economic development program, is actually a tool for massive economic theft and political coercion, designed to supply the Chinese government with resources and jobs for its population, while addicting developing nations to Chinese financing that they can’t possibly repay”); see also Reid Standish, *A Closer Look At China's Controversial Lending Practices Around The World*, Radio Free Europe/Radio Liberty (Apr. 22, 2021), available online at <<https://www.rferl.org/a/china-loans-around-the-world/31217468.html>>; Anna Gelpert, et al., *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*, AidData, et al. (Mar. 2021) at 5-9, 34-45, available online at <[https://docs.aiddata.org/ad4/pdfs/How China Lends A Rare Look into 100 Debt Contracts with Foreign Governments.pdf](https://docs.aiddata.org/ad4/pdfs/How%20China%20Lends%20A%20Rare%20Look%20into%20100%20Debt%20Contracts%20with%20Foreign%20Governments.pdf)>.

missile defense capabilities—as part of the resolution of that ostensibly economic-focused trade dispute.²⁰

As with the effort targeting our allies and their companies, the actions by the Chinese government targeting Micron, a major U.S. chipmaker, might initially be viewed as simply a policy response designed to extract economic costs similar to those being imposed. In reality, what become rapidly clear is that these efforts not simply economic retaliation but are aimed directly at coercing the U.S. government to change its policies on a key national security issue: protection of advanced chipmaking technologies that lie at the heart of the U.S. and allied technological and national security advantage.²¹

And lest one thinks that these Chinese efforts are limited to going at the United States directly or the Indo-Pacific region, as well as the occasional European trade dispute, the fact of the matter that China is also rapidly making inroads in Latin America and places where it has not traditionally played a major role, like the Middle East. One need only look at the ability China has demonstrated in recent months get countries like Honduras to cut diplomatic ties with Taiwan,²² and the inroads it made seeking to broker even the beginnings of nascent rapprochement between Saudi Arabia and Iran,²³ as major potential threats to the U.S.’s historical leadership role in these important regions. One might also consider the access that China and its companies continue to successfully gain in the core telecom and computing infrastructure of Latin America,²⁴ as well as in the ports, power grids, and other critical infrastructures of key nations in the region.²⁵ Such access could allow China to dominate the

²⁰ See Kim Tong-Hyung China, *South Korea Clash over THAAD Anti-Missile System*, Associated Press (Aug. 10, 2022), available online at <<https://www.defensenews.com/global/asia-pacific/2022/08/10/china-south-korea-clash-over-thaad-anti-missile-system/>>.

²¹ Cf. Laura He, *U.S. Curbs on Microchips Could Throttle China’s Ambitions and Escalate the Tech War*, CNN Business (Oct. 31, 2022), available online at <<https://www.cnn.com/2022/10/31/tech/us-sanctions-chips-china-xi-tech-ambitions-intl-hnk/index.html>>.

²² See Megan Janetsky & Marlon Gonzalez, *Honduras Ditching Taiwan Raises Larger Geopolitical Concerns*, Associated Press (Mar. 15, 2023), available online at <<https://apnews.com/article/china-biden-united-states-geopolitics-honduras-investment-taiwan-1bf1173f167b779e209a43f9cb4bfd7a>>.

²³ Bernard Orr and Aziz El Yaakoubi, *Top Iranian, Saudi Envoys Meet in China in Restoration of Diplomatic Ties*, Reuters (Apr. 6, 2023), available online at <<https://www.reuters.com/world/foreign-ministers-iran-saudi-meet-china-2023-04-06/>>.

²⁴ See, e.g., Luiza Duarte, *Latin America: China’s Huawei Maintains its Foothold*, AULABlog (Nov. 19, 2021) (blog post), American University Center for Latin American and Latino Studies, available online at <<https://aulablog.net/2021/11/19/latin-america-chinas-huawei-maintains-its-foothold/>>; João Marques Lima, *Huawei Cloud Investing to Expand Across 11 Latin America Nations*, The Tech Capital (Aug. 27, 2021), available online at <<https://thetechcapital.com/huawei-cloud-investing-to-expand-across-11-latin-america-nations/>>.

²⁵ See, e.g., Diana Roy, *Backgrounder: China’s Growing Influence in Latin America*, Council on Foreign Relations (Apr. 12, 2022), available online at <<<https://www.cfr.org/backgrounder/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri>>>; see also Margaret Meyers, “It’s Electric!”: *China’s Power Play in Latin America*, Weekly Asado (Mar. 31, 2023) (blog post), The Wilson Center, available online at <<https://www.wilsoncenter.org/blog-post/its-electric-chinas-power-play-latin-america>>; Gordon G. Chang, *Latin America Is Now China’s “Backyard,”* Newsweek (Jan. 24, 2023) (op-ed), available online at <<https://www.newsweek.com/latin-america-now-chinas-backyard-opinion-1775772>>; Milton Ezrati, *China’s Latin*

future of those nations in ways that significantly undermine U.S. national security in critical parts of the world.

III. Key Policy Elements to Consider in Addressing Chinese Economic Coercion

As members of this Committee look to legislate in this arena, including through relevant committees of jurisdiction, like the House Foreign Affairs Committee under Chairman Michael McCaul (R-TX), and working with other key leaders in the House like Chairman Mike Gallagher (R-WI) and Ranking Member Raja Krishnamoorthi (D-IL) of the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, some key policy elements may be worth considering:

- The United States is facing a threat to its national security that is being directed not only at us, but at our allies as well, and that this economic coercion is directed not only at governments, but at and through our private sector companies as well.
 - The European Union has already made significant progress on its effort to respond to Chinese coercion through the Anti-Coercion Instrument, which obtained provisional agreement between the European Commission and European Council earlier this year;²⁶ the United States needs to undertake a serious effort, whether through H.R. 1135 or another legislative vehicle, to provide the authorities needed to respond effectively to Chinese economic coercion.
- To that end, we must also ensure that our allies do not implement policies that, while ostensibly designed to protect their own industries, instead have the effect of undermining the ability of the allied coalition to effectively succeed in the long-term competition against China.
 - Key legislative initiatives currently in the process of consideration or implementation in Europe, including the Digital Markets Act and the Digital Services Act, as well as efforts around data localization and related matters like the EU Cloud Services Scheme, raise significant policy questions for the U.S.-E.U. relationship, and could make it significantly more challenging for the United States and Europe to maintain technology leadership at scale around the globe.²⁷
 - As such, Congress should ensure both through funding direction and hearings, that the executive branch prioritizes addressing these issues with

America Move, Forbes (Nov. 7, 2022), available online at <https://www.forbes.com/sites/miltonezrati/2022/11/07/chinas-latin-america-move/?sh=10c82fd1d520>.

²⁶ Philip Blenkinsop, *EU Backs Retaliation Against Economic Coercion*, Reuters (Mar. 28, 2023), available online at <https://www.reuters.com/world/europe/eu-agrees-trade-defence-against-economic-coercion-2023-03-28/#>.

²⁷ See Dr. Kati Suominen, *Implications of the European Union's Digital Regulations on U.S. and EU Economic and Strategic Interests*, Center for Strategic and International Studies (Nov. 2002) at 25-30, available online at https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/221122_EU_DigitalRegulations.pdf?VersionId=iuEI9KteAl_SKhjPCEWN8LvqqORV02X.

the EU, including through the U.S.-E.U. Trade and Technology Council,²⁸ and if appropriate resolution isn't reached, considers taking appropriate action to respond to European measures specifically targeting U.S. industry or undermining our ability to effectively compete.

- Likewise, similar domestic legislative efforts in the U.S. must account for the impact that legislating specific, unique rules for technology companies based on size or scale rather than actual conduct, will have on our national security and, in particular, on our ability to compete with China at scale.
 - As with allied efforts, we must avoid adopting regulatory policies and creating legal structures that, in an effort to address perceived issues, instead have the effect of undermining our long-term ability to compete—and win—against China in critical areas, particularly in areas like emerging and innovative technologies (including artificial intelligence, quantum computing, advanced semiconductor design and tooling, cloud and edge computing, and advanced technology device design, to name a few) where we and our allies already have a significant lead, but where China is clearly seeking to overtake American industry and our partners.²⁹
 - In this context, it is also worth noting—and accounting for—the contribution that our technology community makes to American national security and the benefits that come from companies that are built, at their core, around American values like the freedom of speech and market economics, being the predominant players across the globe,³⁰ particularly as we find ourselves facing increased threats from digital authoritarian states like China.

²⁸ See Office of the United States Trade Representative, *U.S.-E.U. Trade and Technology Council*, available online at <<https://ustr.gov/useuttc>>.

²⁹ See, e.g., Bill Evanina and Jamil N. Jaffer, *Kneecapping U.S. Tech Companies Is a Recipe for Economic Disaster*, *Barron's* (June 17, 2022) (op-ed), available online at <<https://www.barrons.com/articles/kneecapping-u-s-tech-firms-is-a-recipe-for-economic-disaster-51655480902>>; see also Jamil N. Jaffer, *The Technology Dilemma: Tool of American Leadership or Threat to Conservatives: A Response from Jamil Jaffer*, The Reagan Institute Strategy Group (2022), available online at <<https://www.reaganfoundation.org/reagan-institute/publications/the-technology-dilemma-tool-of-american-leadership-or-threat-to-conservatives-jamil-jaffer/>> (“[T]he effort to modify longstanding antitrust laws to target a handful of our most successful technology companies—which employ literally millions of Americans—undermines our best chance to out-innovate the Chinese at scale. Targeting American companies not for legitimate anticompetitive behavior (which absolutely ought to be rooted out), but because they have simply grown too big or because they cause particular political concerns, sends exactly the wrong message to the robust American startup community. It borrows a page from our European allies, who often choose to punish, rather than reward, economic success and innovation. This is hardly the way to keep America ahead in our fight with China.”).

³⁰ See Jamil N. Jaffer, *NSI Backgrounder: The Role of the American Technology Sector in Safeguarding U.S. Economic and National Security* (Dec. 2022) at , available online at <<https://nationalsecurity.gmu.edu/wp-content/uploads/2022/12/NSI-Benefits-of-Tech-Innovation-Backgrounder.pdf>>.

- Moreover, any policy solution must provide for stronger domestic and allied supply chains in critical national security areas such as critical minerals, semiconductors, and the like,³¹ as well as direct support to our allies as they face Chinese economic attacks, including not just direct support from the U.S. government but from the U.S. private sector as well.
 - When it comes to strengthening American supply chains, there is often a tendency to reach immediately for government spending, and while there is no doubt that there is some place for targeted government investments, particularly for basic research in strategic areas as well as support for long-lead capital investments at home, in the current constrained budget environment, it is critically important that the U.S. government also leverage our private sector to help with this effort by providing the right incentives—like reduced-cost capital and tax credits at home and investment and political risk support for strategic projects in allied nations—as well as the reduction of overweening government regulations that restrict domestic and allied capacity building in critical areas.³²
 - Likewise, it is important to note that support for our allies can and should include incentives to U.S. industry to fill the gap that Chinese economic coercion creates; while some amount of direct spending to support allies can be helpful, so can providing the right incentives, including financing, for American industry to step in and provide the goods and services to which China seeks control or to restrict allied access.
 - One example of a program that might be broadened and expanded in this area is the Export-Import Bank’s China and Transformational Exports Program, which notionally reserves 20% of ExIm’s financing authority to support American exports in ten critical areas including artificial intelligence, biotechnology, biomedical, wireless communications, quantum computing, semiconductors, fintech, and high-performance computing, to name a few.³³
 - We and our allies alike must also be cautious of not undercutting the efforts of other allies to stand up to Chinese economic coercion; all too often, the United States or our allies end up supplying goods to China that substitute for goods where China has sought to impose a coercive ban; both within the United States and alongside our allies, we must implement policies and provide legislative

³¹ See, e.g., n. 3, *supra*, Jaffer, *Waking Up to the Threat* (noting the effort by the China Select Committee to “highlight America’s reliance on China for goods and supplies that are at the core of our continued economic success, from semiconductors to critical minerals”).

³² Cf. Bill Evanina & Jamil N. Jaffer, *The Semiconductor Bill Will Give the U.S. an Edge Against China*, Barron’s (July 28, 2022), available online at <<https://www.barrons.com/articles/semiconductor-chips-bill-china-competition-51659015986>>.

³³ See Export Import Bank of the United States, *CTEP – China and Transformational Exports Program: Strategic Context & Congressional Mandate*, available online at <<https://www.exim.gov/about/special-initiatives/ctep/strategic-context-congressional-mandate>>.

authority to government to prevent such undercutting and to support export of these domestic and allied goods to nations other than China.

- Finally, as a nation, we need to get serious about addressing two of the thorniest issues when it comes to pushing back against China:
 - (1) export controls, including putting in place a new multilateral regime that ensures that we and our allies are rowing in the same direction when it comes to export controls, including implementing effective enforcement mechanisms,³⁴ an issue that has been long discussed albeit with limited progress;³⁵ and
 - (2) addressing the very real challenge presented by American outbound investment in China.
 - While the executive branch has the lead on both of these issues at the current time, and, in particular, outbound investment is likely to be addressed in the near future by executive action,³⁶ Congress can and should play a central role in ensuring that we are putting the right guardrails in place, and that any action taken by the U.S. government does not inadvertently have the effect of limiting U.S. competitiveness while other nations undermine the net effectiveness of American export and investment restrictions.

Conclusion

Thank you again for the opportunity to present my views to the Committee. I look forward to discussing your questions and thoughts on these critically important matters that will be at the heart of America's national security in the coming weeks, months, and years.

³⁴ See, e.g., Sujai Shivakumar, et al., *Toward a New Multilateral Export Control Regime*, Center for Strategic and International Studies (Jan. 10, 2023), available online at <<https://www.csis.org/analysis/toward-new-multilateral-export-control-regime>>.

³⁵ Cf. Jamil N. Jaffer, *Strengthening the Wassenaar Export Control Regime*, Chicago Journal of International Law (Spr. 2022), available online at <<https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1451&context=cjil>>.

³⁶ See Gavin Bade, *White House Nears Unprecedented Action on U.S. Investment in China*, Politico (Apr. 10, 2023), available online at <<https://www.politico.com/news/2023/04/18/biden-china-trade-00092421>>.