

Examining the Flow of U.S. Money into China's Military Might

House Foreign Affairs Committee

January 17, 2024

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WITNESSES:

MATTHEW POTTINGER Chairman of FDD China Program, Foundation for Defense of Democracies

JASON MATHENY President and CEO, RAND Corp (Missed hearing due to sickness)

PETER HARRELL Non-Resident Fellow, Carnegie Endowment for International Peace

MICHAEL MCCAUL: The Committee on Foreign Affairs will come to order. The purpose of this hearing is to examine the flow of US capital into China's military and technological developments. I now recognize myself for an opening statement. I want to thank the witnesses for being here as well. Unfortunately, one of our top tier witnesses who was going to testify, Mr. Matheny, came down with Covid this morning.

So I hope he gets better. But we're delighted to have the two of you. The Chinese Communist Party's goals and actions are a clear and present danger to the security interests of the United States and our allies. We're in a generational competition with a determined adversary set on upending the global balance of power.

Technology is at the center of this competition, and the CCP is using it as a weapon for its military and surveillance state. These technologies can be used to advocate and safeguard democracy or they can be used for subversion and oppression. We must understand that whoever controls the best technology will likely prevail in this great power competition.

And while we can restrict China's access to US critical technology through export controls, we can't stop big investors from using their money, knowhow, and network to help build highly advanced technology companies in China. Regrettably, US money is fueling the CCP war machine and surveillance state. Look no further than the CCP's dystopian oppression of the Uyghurs and the successful hypersonic missile test which circled the globe and landed with precision.

This was built on the backbone of US technology. The ranking member and I were disturbed that we have no effective tools to stop these key investments. They harm US national security and endanger our partners and allies like Taiwan. And we also want to congratulate Taiwan on their recent elections and to the DPP. So the ranking member and I acted.

In November of this committee on a unanimous bipartisan basis passed the Preventing Adversaries from Developing Critical Capabilities Act. This bill has been one of the most important steps this committee has taken to protect US national security and counter the CCP. This bill may also be one of the most bipartisan efforts that we've worked on. This effort spans the past two

administrations.

It was then Secretary Mike Pompeo who urged me in 2020 to stop the flow of US money into national security sectors in China. The Trump national security team supports this legislation, but so too does the Biden administration. More recently, the Biden administration took the idea and developed an executive order targeting outbound rule.

While Ranking Member Meeks and I and a growing number of members as well – or with Ranking Member Meeks as well as outside groups like Heritage, Hudson, and American Compass, we plan to get this bill signed into law. We thought we had it done in the national defense authorization. It got pulled. We need to get this new version that was introduced by the ranking member myself signed into law.

We cannot wait. This hearing today plays an important role in that process. The witnesses today were selected by both of us. This hearing should help clear up a lot of misconceptions about the threat, current system – situation, and examine tangible solutions. It should come as no surprise that China's military and surveillance state are exploiting loopholes in US policy to access billions of US investment dollars and expertise.

We know that US investment has not democratized China and companies which are controlled by the CCP have no power over the applications of their technology. The CCP can direct it to be used for military or surveillance purposes and we know China's military civil fusion strategy undermines an entity by entity sanctions approach and instead requires country wide prohibitions for key technologies.

Ranking Member Meeks and I requested the Treasury Department that they decide whether to sanction Hikvision, a CCP surveillance company contributing to the Uyghur genocide, but Treasury decided not to sanction the company. That is the – that is the weakness of the sanction model, is the Treasury Department will not sanction.

Our witnesses today can provide further evidence on these points and articulate why an outbound forward looking sector based regime is necessary. And we'll see whether, Republican or Democrat, those that examined China objectively and analytically and realistically have reached the same conclusion. And while existing tools such as sanctions have an important role, they simply cannot be substitute for an outbound investment regime that is authorized by Congress.

And that is our goal, restricting key outbound investments in a whole of government approach ensures America's national security comes first. And with that, the chair now recognizes the ranking member.

GREGORY MEEKS: Thank you. Thank you, Chairman McCaul, for organizing this important and timely hearing. I also want to thank our distinguished witnesses for appearing before the committee. Our discussion today is critical for America's national security and our strategic competition with China. But let me also just say to the Chairman, I want to thank you for working.

We worked very closely together to get this bill passed in a bipartisan way. And I also want to thank our staffs who worked very closely to jointly organize this hearing, which we worked on collectively and together, which I hope advances the joint work that we have done together to pass our bipartisan bill, H.R. 6349, the Preventing Adversaries from Developing Critical Capabilities Act out of committee.

Today, what we're doing, we're demonstrating to the United States, to the country that when it comes to issues of critical importance to American interests, Republicans and Democrats can come together to solve big problems. We know that Beijing is developing advanced technologies critical for military intelligence, surveillance, and cyber enabled capabilities with dangerous implications for our security.

We also know that Beijing is busy synergizing its civilian and commercial sectors with its military and defense industrial sectors. And we also know that Beijing is intent on exploiting, stealing, and diverting the world's cutting edge technologies to fuel its military buildup. So we should not be making Beijing's job easier by having Americans fund the very PRC companies that are developing these technologies.

Despite a bipartisan, bicameral desire to address the significant national security challenge for several years now, Congress has not coalesced around a solution, but we're doing so now. And that's why I want to give credit in a bipartisan way to Mr. McCaul and what we're doing collectively together. And that's why I want to give credit to the Biden administration for tackling this challenge.

On August 9th of 2023, President Biden issued a game changing executive order on outbound investment that calls for prohibitions and notification requirements on specific types of American investments in China or in certain Chinese companies that develop or produce semiconductors, quantum computers, and artificial intelligence applications.

As we speak, the – the Biden administration is busy establishing a process and crafting regulations to implement the executive order. But that does not mean we in the United States Congress that we are off the hook. We need to create a statutory framework for the executive order, provide the administration with the resources and tools that are necessary to effectively implement outbound screening program, and provide certainty, certainty to our allies and the private sector that Congress stands firmly behind these carefully tailored restrictions.

That is our responsibility. We should not shrink from that. An outbound regime that combines transparency with prohibitions on investments in the most sensitive technology sectors is the very best way to safeguard United States national security, while also maintaining open global capital to flows and the United States' preeminent position in global financial markets.

This – the only legislation that balances these equities, the only one that I think has that true balance is H.R. 6349. It is the most effective and robust legislative solution. So I look forward to the discussion today and hearing from our witnesses about how best to address this challenge. Thanks again for working so closely, Mr. – Chairman McCaul and – and our staffs.

And I yield back.

MICHAEL MCCAUL: I thank the Ranking Member. I always think we're stronger as a nation and a Congress when we're united on these issues and speak with one voice to our adversaries like Communist China. So we have a distinguished panel here today. First, Mr. – Honorable Matt Pottinger is Chairman of the China program at the Foundation for Defense of Democracies and a distinguished visiting fellow at the Hoover Institution.

From 2019 to 2021. He served as a US Deputy National Security Advisor. Thank you, sir, for being here today. Mr. Peter Harrell is a nonresident fellow at the Carnegie Endowment for International Peace. From January 2021 through 2022, he served at the White House as Senior Director for International Economics.

We're grateful for you being here today. The Chair now recognizes Mr. Pottinger for his opening statement.

MATTHEW POTTINGER: Chairman McCaul, Ranking Member Meeks, and distinguished members of the committee, I'm grateful for the opportunity to speak to you today. We're at a juncture now where the scales of global power are beginning to tip towards America's adversaries, in part because of the leverage that we are providing them.

American knowhow and capital are seeds and fertilizer that have helped foster the growth of China's military might. US companies and investment funds have sometimes inadvertently, sometimes carelessly helped to underwrite and expedite the modernization of the People's Liberation Army and China's high tech surveillance and intelligence apparatus.

Americans don't typically invest with the intention of harming US national security, but that is often the result when they put their capital into Chinese companies that are working with dual use technologies, those technologies that have the potential for military as well as commercial applications. It is hard and increasingly meaningless to try to distinguish between a Chinese enterprise with

commercial aims and one with military objectives.

And it's – it's hard because Beijing actually designed it that way. Corporate independence in today's China is an illusion. The truth is that the single party dictatorship that rules China has powerful authorities and influence over all entities, whether private or state owned, civilian or military, domestic or even foreign.

Beijing has built a business and regulatory ecosystem to facilitate and mandate the transfer of dual use technologies to military and intelligence programs. China's military civil fusion strategy, for example, exists for that very purpose. So does China's National Intelligence Law of 2017 which compels "all organizations and citizens" to secretly support, assist, and cooperate with China's espionage activities.

Chinese Communist Party organizational cells rather than entrepreneurial founders call the shots now from inside many of China's most famous technology companies. Some American investors try to conduct due diligence to reassure themselves about where their money and technology are ultimately ending up inside China, but that too is an increasingly fraught exercise.

Beijing is running a "rectification campaign," to shut down or assert heavy influence over research consulting and due diligence firms operating in China. So no wonder that US investors who are seeking a return on their capital are often blind to the strategic costs that they are incurring for America's national security and prosperity.

I've listed some concrete examples of how that plays out in my written testimony, which I've submitted for the record. Allow me to close with just a handful of recommendations. Congress has an opportunity to build on the initial steps taken by the Trump and Biden administration to prevent US capital from fueling China's military and intelligence capabilities.

First, Washington should take a sectoral approach rather than merely an entity based approach. The Treasury Department has demonstrated since at least 2021 that it is disinterested in using even its existing narrow authorities to limit investment in Chinese military linked companies. And in fairness to the Treasury Department, tackling the problem on a company by company basis would be a resource – resource intensive and gargantuan task.

Chinese firms commonly dodge US controls with shell companies and complex subsidiary arrays and it would be better, simpler, and less resource intensive to apply new rules to entire sectors. Second, the rule should cover all strategic and military technologies. The Biden administration's draft rules are a good start.

They're designed to impact semiconductors, artificial intelligence and quantum

computing. Proposed bipartisan legislation also seeks to strengthen outbound investment screening in the field of hypersonics. Congress and the administration should consider adding other technologies listed as "critical and emerging technologies" as the White House puts it and as outlined by the National Science and Technology Council.

These include biotech directed energy, space technologies, advanced manufacturing, autonomous systems, and robotics and even some green energy technologies. Third, apply rules to all kinds of investments. The Biden administration rules as currently limited – currently written would impact venture capital, private equity, greenfield, joint ventures in certain debt financing transactions and this is very welcome.

Congress should also seek to cover investments in publicly listed companies. Fourth, include existing transactions, not just future ones with within the scope of legislation. And finally, seek to block investments and not merely review them. Mandating transparency for US. Investments into China is a welcome step to better understand the scope of the problem, but Congress should also consider broadening transparency to full prohibitions on investments in targeted sectors.

Thanks very much for inviting me to deliver this testimony.

MICHAEL MCCAUL: Thank you, Mr. Pottinger. Chair now recognizes Mr. Harrel for his opening statement.

PETER HARRELL: Chairman McCaul, Ranking Member Meeks, honorable members of the committee, it's an honor for me to testify in front of the committee today on one of the most important aspects of America's strategic competition with Beijing, managing the flow of American capital to China. I've submitted a statement for the record and will confine my in-person testimony to just several points.

In August of last year with President Biden's issuance of Executive Order 14015, the administration took an important step towards regulating US investment in China's AI semiconductors and quantum computing sectors. EO 14105 is intended to begin addressing the risk that certain US investments can help China develop an edge over the US and our partners in key technologies.

Over the last decade for example, we saw comparatively early stage US investment in a number of Chinese technology firms that later engaged in problematic – problematic activities. An example of this is Chinese surveillance technology firm SenseTime, which attracted US investment as early as 2017. But only in 2019 did the US government understand that SenseTime was engaging in China's surveillance in Xinjiang triggering export controls on the company.

Unlike an outbound investment regime that focuses on sanctions against specific

Chinese companies, which would require the US government to know upfront every Chinese firm that's problematic, a virtually impossible task given the scale of China's economy and the civil military fusion doctrine in China, a sectoral outbound investment regulation can limit risky investment in early stage Chinese companies as well as direct US investments in those sectors pose long term risks to US National security.

While Executive Order 14105 is an important authority to address the risks posed by US investments in strategic technologies in China, it is still vital for Congress to act. Legislation along the lines of H.R. 6349, the Preventing Foreign Adversaries from Developing Critical Capabilities Act, which Chairman McCaul Ranking Member Meeks, you and other members of Congress have introduced and have pushed through this committee, would put us investment restrictions on a permanent statutory foundation, signal Congress's agreement that the US needs a targeted regime to regulate US investment in a handful of high tech sectors, and strengthen and expand on the administration's initial action.

As Congress acts, I urge you to do so in a way that reinforces rather than undermines the regulatory processes that are already underway, as H.R. 6349 would do reinforcing and expanding on already existing regulatory processes. I'm cognizant – while I understand the legitimate desire by some members of this committee and many members of Congress for more expansive approach than is in H.R. 6349, I'm also cognizant that regulating US investment in specific Chinese sectors is a new endeavor and it's appropriate to focus for the focus today to be on the most important and most critical technology sectors.

There's going to be a learning curve, a need for agencies and companies to build expertise and a risk of unintended consequences. Legislation that had a very different set of goals, for example, that would cover a hugely different number of sectors, would risk actually undermining progress by forcing a restart of rulemaking, overtaxing agencies, and creating confusion for the corporate sector and American allies.

Congress should start with a tailored and scoped approach focused on appropriate sectors where we know there are problems and of course Congress can later add to the program if circumstances dictate. The final point I want to make is in response to arguments that restricting US investment in China somehow undermines our own free market principles and will weaken US influence over China's corporate sector.

The US tried going back to the 1990s to use economic engagement with China to make China more like the US and to pull Chinese companies and Chinese society towards our direction. What we have found is that under President Xi Jinping that strategy simply doesn't work. The Chinese state, not American investors, ultimately tells Chinese companies in strategic sectors what to do.

With respect to China, a geopolitical and economic competitor, we need to accept that we will have to more actively manage the economic relationship to make sure that it serves American national security interests and not simply the economic interests of American companies.

That does not mean cutting off all or even most economic ties. But it does mean that where we see a pattern and practice of US investment helping China grow critical technologies, the US government has a legitimate regulatory interest. Thank you, members of the committee, for your focus on this issue and I look forward to your questions.

MICHAEL MCCAUL: Thank you, Mr. Harrell. Let me just say first, you know, I've been studying this issue quite some time. Mr. Pottinger, you were the architect of the Trump administration's China policy. I was in full agreement. In fact, your team was the one that came to me and Secretary Pompeo and National Security Adviser O'Brien regarding the CHIPS act that we were able to pass to get off the supply chain that threatens our national security issue.

But when I looked at the way Treasury works with sanctions versus on the entity approach, as you mentioned, versus the sector based approach, it seemed to make more and more sense to me. And I had a discussion with Undersecretary Estevez or the Bureau of Industry and Security. And he said, you know, instead of just providing a sanction on a company and then China will turn around and call it something else the next day or take it off the books, the sanction has no effect and they're very smart about this.

So we started talking about this sector based approach and the key sectors are the semiconductors, AI, quantum, hypersonics, high performance computing. And to your point, Mr. Harrell, it's not a wide – we know these are the sectors that go right into the PLAs military war machine or civil military fusion.

So if we have a prohibition based on the sector, to me that – that seems to be more effective than this entity based approach that they can change overnight. I want to get your thoughts on that.

MATTHEW POTTINGER: Mr. Chairman, I – I agree with with Peter's opening remark on – on that very point when I think your point was that it's much simpler. It – it's less confusing for American businesses. It's less resource intensive. That's not to say that I don't think that the Treasury Department should have authorities to target specific entities, but a sector by sector approach is – is just much more clear cut.

It allows for the compliance teams at various American financial institutions and investment funds to – to simply adjust and not to get caught in this very complex web of – of subsidiaries and shell companies. The – the Treasury Department has had the authority to target Chinese military affiliated companies

going all the way back to late 2020. President Trump signed a couple of executive orders that gave them that authority.

President Biden reaffirmed in with with some changes his own executive order to that effect. But since then, I think only 68 companies have been added to the list of prohibited Chinese firms for American investment. And I can tell you that many orders of magnitude greater than the number 68. So –

MICHAEL MCCAUL: That's very good. So the – when you look at export controls, this committee has jurisdiction over that as well. But it seems to me that alone is not going to solve this problem, and that's dual use technologies. I remember prosecuting the Johnny Chung case and the money was coming from China. Military intelligence.

China Aerospace funneled through his Hong Kong bank account to influence a Presidential election. Why? Because they wanted the satellite technology, aerospace, they also want to become part of the WTO. And guess what? They got all of it and that was 1997? Where are they today? So I think using both the – the export control laws that we have that Mr. Meeks and I have worked on, but also the sector based approach on capital flows going into China, that combination seems to be a powerful one in my opinion.

MATTHEW POTTINGER: I agree, and I commend the bipartisan spirit of – reflected today and in – in Congressman Meeks' remarks as well.

MICHAEL MCCAUL: I don't know if you've noticed, it's a little rare these days, but Mr. Harrell, just one thing that, you know, defining technologies like advanced semiconductors, AI, or quantum, we did this with AI in terms of the business community understanding what we're talking about when we talk about a sector. Can you elaborate on that?

PETER HARRELL: Absolutely, Mr. Chairman. Obviously, any implementing legislation like this or the Biden administration's executive order, you're going to need a rulemaking process that is going to lay out in some detail exactly what parts of the semiconductor ecosystem we're talking about here, the most advanced, and what parts of the AI ecosystem we're talking about here.

You're not just kind of customer service chat bots, but the high end models that we are actually concerned about. But the thing is that we have that experience in export controls where we've had to define a lot of different kinds of semiconductor technology. The business community understands that regime and they will understand that regime when, with appropriate tailoring, you move it over to an investment, a complementary investment restriction regime.

MICHAEL MCCAUL: Thank you. The Chair recognizes Mr. Meeks.

GREGORY MEEKS: Thank you, Mr. Chairman. Thank both of you for your statements. I think that they were excellent and shows the bipartisan nature of both administrations on this particular issue, which I think is extremely important. You know, in recent years, consecutive administrations and Congresses have strengthened the United States foreign investment review and export control authorities to bolster national security protections.

But Mr. Pottinger, I'll start with you, you know, because we – I hear some things come back and forth to me about our existing CFIUS process, sanctions, and export controls. Can you tell us what are some of the critical problems that an outside regime should tackle that cannot be addressed through CFIUS sanctions or export control regimes?

MATTHEW POTTINGER: Thank you. Congressman I – you know, it's interesting that the – the money that is represented by, you know, big name private equity and venture capital firms in the United States represents more than just the dollar signs. It represents know how. It represents networks to talent and – and board members and technologies that reside in the portfolios of these venture capital firms that then work at the service of other companies in – in their investment portfolios, including companies in China.

So if we look at something like export controls, export controls are kind of a lagging indicator. It takes a long time for us to even recognize new technologies that are being developed in China, for example, using US capital and some US knowhow. By the time those technologies mature and – and are ready to be harvested by smart people scouting technology for the Chinese intelligence agencies or for the Chinese military, the cat's already out of the bag.

The horse is out of the barn. Whatever – whatever farm animal, you know, analogy you like, it's too late. And so I think the reason that we were focused, particularly in 2020 during the Trump administration and Peter and colleagues who are currently and recently in the Biden administration, have been focused on trying to close that loophole to actually capture technologies before those seeds are planted and before they can sprout into something that's going to be weaponized against us.

GREGORY MEEKS: So – and so let me just follow that up with Mr. Harrell. Can you tell us – so those gaps, can you tell us specifically how the Biden administration's outbound executive order addresses them?

PETER HARRELL: Absolutely, Congressman. And thank you for the question. Let me give a hypothetical example that I think will help illustrate the – the gap here that we're all trying to close. So since October of 2022, the Biden administration with strong support from Congress has imposed pretty tough export controls on China where, in semiconductors, where US companies cannot send tools and designs for high end semiconductors to China.

How's China responding to this? Well, they are trying to build an indigenous capability for those same tools and designs. Export controls alone don't provide a tool to prevent an American venture capitalist from saying you know what, that's an interesting opportunity. I might not be able to sip – ship a tool over to China, but I could invest \$20 million in this upstart Chinese firm that's trying to build that same tool or that same design here in China.

And then as Matt says, helping that Chinese firm recruit talent, helping that Chinese firm build contacts in the industry to help them grow because none of that expertise is technology. The export control just focuses on the technology. And what we're worried about is that the capital can still go over there to help them innovate around our export controls, which is why I think an approach like that in – in your bill, sir, would be helpful in closing that gap.

GREGORY MEEKS: Thank you. And I'll trying to get this in real quick because the Biden executive order identifies three sectors that are critical for the military intelligence and surveillance or cyber enabled capabilities of the PRC that could cause or pose a national security threat to the United States, semiconductors, microelectronics, and quantum information.

So well either Mr. Pottinger, Mr. Harrell in the short time that I have or don't have, what are the benefits of utilizing a sector based approach for countries of concern instead of having a case by case review or a company by company based approach to address outbound investment?

PETER HARRELL: Just very briefly, Congressman, I actually think there's a helpful lesson again from export controls. So when Matt was in the White House, the Trump administration took very important actions against a couple of Chinese technology firms like Huawei Technologies, limiting exports to Huawei. What we have seen since is that China course sets up lots of front companies and other companies to get that technology that Huawei then – then couldn't get.

Which is why in October of 2022 with its export controls, the Biden administration expanded beyond this company by company approach to go after semiconductors going to China as a whole. And I think that lesson of how China evaded the export controls shows why in the investment regime as well, we should have a sectoral and not just a company by company approach.

MICHAEL MCCAUL: Gentleman yields. The Chair recognizes Mr. Smith.

CHRISTOPHER SMITH: Thank you very much, Mr. Chairman. Thank you for your bill 6349, you and – and Ranking Member Meeks, an excellent piece of legislation. And I do hope it becomes law sooner rather than later and then is faithfully implemented because so often we get great bills passed. And I don't care who's in the White House, implementation falls far short.

But let me just say, you know, often we – we – we quote the fact that, you know, there was a famous quote that came out of the Soviet Union, "We'll hang the West and they'll sell us the rope." That has never applied to The Soviet Union. It applies to China, especially under Xi Jinping. I was one of those who led the effort against MFN, the linking of human rights.

I believe that when Bill Clinton de-linked MFN from human rights on May 26th, 1994, that was a catastrophic game changer for the dictatorship. And ever since, they have believed, and maybe rightfully with some exceptions, that they they can do whatever they want and no sanctions will be forthcoming that are meaningful.

I held hearings on not allowing China into the WTO, believing that they would change the WTO and not the other way around. And – and in my – it's my sense that that has been somewhat vindicated, that view. And we've had hearings over the years. Many of them. I've chaired 97 hearings on human rights abuse in China.

We just counted them up. I'm shocked that we still haven't learned, and that's why this bill is so important, we still haven't learned that they will do everything they can to take anything we sell, particularly in the area of – of electronics and really high tech, and use it – dual use, use it for the military.

They've been doing that for decades. We don't learn. We think somehow if you trade more, they'll matriculate from dictatorship to democracy. Not going to happen under Xi Jinping and the CCP. Outbound investment is – is – is a very, very good concept that needs to be further backed up through law. And I would also add outbound enabling.

You know, I got a bill passed almost a year ago, and it was totally bipartisan, two votes against it on the floor of the House, to try to end certainly expose and end the egregious practice of forced organ harvesting. Tens of thousands of young people average age 28 are killed to get 2 or 3 of their organs each and every year.

The problem is not only a gross human rights abuse, but it's absolutely being enabled by the PLA. And there's even a hospital 301 military hospital in Beijing where, you know, if Xi Jinping wants a new liver, he'll probably get it from a Falun Gong practitioner who's 28 years old. I mean, how – how perverse is that?

So I'd like to, you know, from our – from our panel, and I thank you both for your expertise, are you aware of the PLA's role in this terrible practice? And again, what they are doing is – they do it with all kinds of pharmaceuticals. They try to get a monopoly on just about everything. But in this case, it's a huge moneymaker for the PLA. It's also a way of of regenerative medicine for their elite and for their military.

Your thoughts?

MATTHEW POTTINGER: Congressman, thanks for your leadership over the years on – on China human rights. I wish we had all listened when – when you had the foresight 30 years ago on – on most favored nation status. That really was the, you know, the – the snowball that led to an avalanche. On – China’s human rights abuses are so grotesque and the scope is so big now with what’s happening in the northwest of the country and Xinjiang, whole ethnic groups, which are being – well, in the words of both former Secretary – then Secretary of State Pompeo and current Secretary of State Tony Blinken, it’s a genocide.

So I think that the – I’ve heard over the years about, and – and partly thanks to what you’ve uncovered with witnesses that you’ve spoken to over the years, the forced organ transplant business. I would not be shocked to learn the – the full scale of that industry, but I don’t have particular insight right now into – into the scale of it.

CHRISTOPHER SMITH: Peter?

MATTHEW POTTINGER: Thank you, sir.

PETER HARRELL: Yeah. I just want to echo Matt in thanking you, Congressman, for your leadership on the human rights issue over many, many years. A really important set of issues. With respect to China. Unfortunately, like Matt, I don’t have specific insight on what the PLA is doing on – on organ harvesting.

CHRISTOPHER SMITH: I appreciate that. Well, our bill, it’s been languishing in the Senate for months, would in addition to sanctioning those who are with knowledge procuring these organs, it would do a serious work within the US Department of State to investigate and to expose. That’s the beginning of trying to bring an end to this horrible abuse.

But again, the PLA is benefiting usually from it. Yield back.

MICHAEL MCCAUL: Gentleman yields. The Chair recognizes Mr. Sherman.

BRAD SHERMAN: Mr. Chairman, thank you for holding these hearings. I’d like to put in the record a list of nine hearings of the Financial Services Committee that are relevant to the – to this hearing.

MICHAEL MCCAUL: Without objection, so ordered.

BRAD SHERMAN: And in particular, we have dealt in the Financial Services Committee on making sure that American investors don’t get phony financial statements and that – and that Chinese companies are not able to raise money from American investors with phony financial statements. And Senator Kennedy

and I have passed the Holding Foreign Companies Accountable Act and the Accelerating Holding Foreign Companies Accountable Act to at least deal with that issue.

We also had a hearing earlier last year on combating the economic threat from China. There are two aspects to this. There's the macroeconomics, does China have enough capital to build its economy, and the micro, can a particular company get its hands on an idea, a technology, an introduction? The – what it's not polite to mention is the enormous trade deficit.

We're running a trade deficit of a third of \$1 trillion with China. So every ten years, they have \$3 trillion of capital, decade after decade, that they can deploy where – pretty much wherever they want. Why this trade deficit? Well, both our countries are mercantilist to some degree. We want to export more, import less.

We want more investment in the United States, less investment elsewhere. But China has two ways to achieve this. First, they can have tariffs. Second, they can orally tell their companies just don't buy the American stuff. I can't imagine any member of Congress calling a company in our district and telling them don't buy the Chinese stuff.

Don't buy the – the German cars. But China has higher – has higher tariffs on our goods than we have on theirs. So we have only one device. And even as to that device, they're using it better. We therefore have a situation where China has \$1.2 trillion of our bonds. We need that capital because we have to finance our trade deficit.

Now, that's as to debt equity. As to equity – as to stocks and – and other equity investments, the flows are roughly equal. Now, one of our witnesses mentioned that venture capital situation. Company needs \$20 million. I don't think we're going to be able to stop that because, if it's a good investment, the Chinese have \$20 million.

They have, as I say, a third of a trillion every year just from their trade surplus. But we can deal with the technology. We saw an example a decade and a half ago where American satellites were being put into space on Chinese rockets. What happened? Our satellite companies and their insurers found it in their interest to make sure the rockets didn't blow up. So they provided good technical advice to China and now China has better rockets.

When we have a situation where Americans have it in their interest to transfer technology to China, it will be transferred. And it may not be a patent, we can outlaw that. But unless we outlaw the kind of investment where you have a controlling interest, when you're a consulting company, when you're a venture capitalist and prevent the flow of technology there, we will continue to provide advice and contacts and know how to Chinese companies.

I commend the chairman and the ranking member for their bill. There is more to be done. I will be – I'm working on legislation to make sure that we don't see – that every American company disclosed to its shareholders, its China risk and what it's doing to prevent its China risk for two reasons. First, so that the investors will know.

Second, so the company will start working as they haven't sufficiently on de-risking themselves from China. Second, we've got to prevent index funds – funds from investing in China because this is not paint by the numbers. It is too complex to figure out how and which companies in China to invest in. Third, on the human rights side, we have to prohibit American investment in sanctioned and companies, particularly those sanctioned for the activities that Chris Smith recounted for us. It may not deprive those companies of capital, but at least prevent us from being involved.

And fourth and most importantly, we need to prevent a capital gains allowance from investing in Chinese companies. This costs our Treasury many tens of billions of dollars. And I'll ask our witnesses, does it make any sense for us to be providing an investor with a low tax rate on profits they make by investing in Chinese companies?

Do either of you think that's a good idea?

MATTHEW POTTINGER: I don't like that idea. That is to say that that we're giving tax incentives to invest in – in our chief adversary.

BRAD SHERMAN: And I'll point out, China has incentives for investment that are only applied to investing in China. So it's both unfair and stupid for us to be providing a capital gains allowance. And I look forward to working with members on this committee to make sure that the capital gains allowance, which is designed to get people to invest in building an economy, is not an incentive to build a Chinese economy.

And I yield back.

MICHAEL MCCAUL: Excellent point. Chair recognizes Mr. Wilson.

JOE WILSON: Thank you, Chairman Mike McCaul. And also I want to thank Ranking Member Greg Meeks for the bipartisan dedication to exposing the single party dictatorship of the Chinese Communist Party. And it's also very revealing that, amazingly enough, I agree with everything that Congressman Brad Sherman just said.

And so – and I don't want to ruin his reputation back home, but – but, hey, I even agree frequently with Kathy Manning, too. So I'm going to – I'll brand several of you. Hey, we are working together in a bipartisan manner on this. It's

sad to me that the people of China are oppressed by the Chinese Communist Party.

I appreciate first hand the people of China. My father, First Lieutenant Hugh Wilson, served in the Flying Tigers, the 14th Air Force in Kunming [sp], Chung tu [sp], and Qian [sp]. Our family has great affection for the people of China. We are inspired by the people of Taiwan in this week's elections. Courageously, the Taiwanese have voted for democracy and freedom.

Taiwan is a beacon of success for a free market democracy. With that in mind, Mr. Pottinger, since the murderous October 7th terrorist attacks by Iran puppets of Hamas into Israel, the Chinese Communist Party has stepped up their outreach to the Gulf allies of America and partners hoping to capitalize on destabilization caused by the Iranian regime's terrorist networks and is working together with war criminal Putin to gain a foothold in the region.

There is significant increase in media by the Chinese Communist Party and by war criminal Putin across the region in Arabic. How – the question, how do you see the CCP working to increase its influence in the Middle East and what can be done to counter the increased role of the region – in the region? And how is the threat to US interests as we sadly are in a conflict we did not choose of dictators with rule of gun invading democracies with rule of law?

MATTHEW POTTINGER: Congressman, thank you for those comments. And – and I would love to see photos of your father in Kunming with a P-40 Flying Tiger. Fantastic legacy.

JOE WILSON: Mr. –

MATTHEW POTTINGER: Great. Brilliant.

UNKNOWN: Is that in the record?

MATTHEW POTTINGER: Yeah, submit for the record. That – I – look, I think you're exactly right that – that these conflicts that are beginning to spread us thin are in fact related. I believe that the incoming Chinese foreign minister was here recently and made – made a remark to a US audience when he was in the US, specifically that they are not related.

Of course, he would say that. They are very much related. China is the number one backer economically for Russia, certainly diplomatically for Russia. According to a State Department report that came out last year from the Global Engagement Center, China is spending more money on pro-Russian propaganda worldwide than Russia is spending on pro-Russian propaganda worldwide.

China is – is a key backer for Iran. It is no coincidence, I like the way that you

put it, that they're trying to capitalize on – on this situation. I've noticed that Chinese shipping is not affected in the Red Sea the same way that everyone else is shipping is. That is not by accident. That's being engineered by virtue of the fact that China is one of the main buyers of Iranian oil.

These things are related. And – and I – I'll paraphrase Xi Jinping who has said something frequently going back at least to 2021. He's given internal speeches where he has said the lead word to describe the global situation today is chaos. Chaos. And he's gone on in those speeches to make clear that he views that as a favorable condition for China achieving its ambitions worldwide.

So here we are. Chaos is something that is part of the design of China's global ambitions and of its foreign policy and we at our peril fail to connect those dots. Those dots are very much connected, sir.

JOE WILSON: Indeed, they are. And I – I really appreciate one of the great achievements of President Donald Trump were the Abraham Accords to – to provide for stability and success for our Middle Eastern allies. And then, sadly, I really believe one of the reasons that Iran through their puppets of Hamas attacked murderously and conducted the mass murder in Israel was to disrupt the ability of Saudi Arabia to join in, which would have been so beneficial to Saudi Arabia and to the Middle East region.

And so with that, hey, thank both of you for being here. But I really want to thank, again, the chairman and ranking member. All of this needs to be exposed. I yield back.

MICHAEL MCCAUL: Gentleman yields. And I appreciate that you mentioned the Abraham Accords. The security agreement with the Saudis, it's going to be so important between Israel, the United States, and Saudi Arabia. It could truly bring peace to that region. So thanks for bringing that up. Chair recognizes Mr. Bera.

AMI BERA: Thank you, Mr. Chairman. And for the millions of viewers on C-Span that are watching this, the media doesn't cover the bipartisan nature of how Democrats and Republicans work on policy. I commend the chairman ranking member and the members of this committee to work on a challenge that addresses our vulnerabilities as a nation, but also strengthens America's security.

You know, if we were to go back a decade, two decades, three decades ago, you know, there was a hope that, you know, China built a middle class and entrepreneurial class that they would become responsible partners in a global economy. Obviously, that isn't where we are today. We clearly understand what Xi Jinping's policy objectives are, what Beijing's policy objectives are, and we have to address the reality that we face today.

I think, Mr. Pottinger, I'd use the term, the panda has left the zoo. The panda has left the zoo. So I think we've got to – to address that. Mr. Harrell, you used a statement. I think it's important for us to – to understand. I think the term you used was a civil military fusion doctrine. And if you could just take a minute to expand on – on that doctrine.

PETER HARRELL: Absolutely, so this has been one of the defining kind of societal doctrines in China, particularly under Xi Jinping, where under Xi Jinping thought, if you will, certainly he calls it Xi Jinping thought, there is an idea of mobilizing all of China's society behind China's ultimately military aims. And so what we have seen over the last – well, going back many years, but particularly over the last decade, is increased efforts not only through sort of official spending and subsidies, but through a variety of of regulatory mechanisms as well as informal mechanisms to galvanize China's technology sector, universities, major SOEs behind building China's military might such that, sort of to come back to the – the – the – the – today's hearing, I think really only a sectoral approach that says we are going to limit investment in these key sectors is going to work to Prevent American – Americans from supporting the development of those key technologies in China.

Because if you just go after one or two firms, China's response is we're just galvanizing all the other firms in this sector to do what that firm can no longer do.

AMI BERA: So it's super important for American and Western industry and investors to really understand the root of that doctrine and the – the foundation. You know, these may be patriotic companies that are profit driven, that are just looking for good investment opportunities. But if they don't truly have an understanding of how those investments potentially could be used to undermine our own national security.

Mr. Pottinger, let me ask you a question that touches on that. International coalitions are going to be important. And again, I commend the chairman for his work on the CHIPS act. Incredibly important piece of legislation. You know, micron has a presence in my community and we saw some economic retaliation from China on – on micron.

I do think we were successful in keeping you know international companies from seeing a market opportunity and saying, Ok, well, we'll go in and undermine that. But I think it'll be really important for us to – to have these international Western coalitions of like valued countries that understand this.

And you know, if you want to – it won't be easy, but I think it's important.

MATTHEW POTTINGER: Congressman, I – you – I agree with you. And – and I – I found that over the years, when the US leads, our allies tend to

eventually follow. Sometimes very quickly. In the case of sanctions on Russia, I mean, it would have been even better if we had credibly threatened them in advance of – of an invasion by Putin, war criminal Putin as Congressman Wilson put it. I – which is a great title for Vladimir Putin.

It would have been better to have had that in advance. But once – once that invasion began, the G-7 and and and other allies began to coalesce very quickly. So I think it's incumbent upon the United States to lead and others will follow. You made a comment a moment ago just about how private equity firms and others, you know, often need to be told or actually in some cases want to be given those guardrails.

I've – I've had conversations with investment funds that have said, look, we have a compliance shop. If Congress will tell us where those guardrails are, we will – we will abide. And in some cases, they want those guardrails to come in more tightly because that means that they're not missing out on opportunities that – that, you know, less scrupulous competitors could take advantage of. And then over time, it's not just American competitors, but others, in Europe and Japan and elsewhere that – that will follow with similar types of of rules and regulations.

AMI BERA: Great. Again, I commend the chairman and the ranking member for their work in leadership on this topic.

MICHAEL MCCAUL: Thank you, Mr. Bera. Chair recognizes Mr. Mast.

BRIAN MAST: Thank you, Mr. Chairman. I appreciate the expertise you both bring today, the work that you all have done. I'm over here, Mr. Pottinger, I know you were looking for where we're at. I've read work from both of you over the years. I want to start with you, Mr. Pottinger. How many times can you recall in speeches Xi Jinping talking about preparing for war?

MATTHEW POTTINGER: Well, Congressman, last March, so less than a year ago, China held its annual two meetings, what they call them, the Liang Hui, two meetings, it means the National People's Congress and another gathering called the Chinese People's Political Consultative Authority –

BRIAN MAST: – Simultaneously.

MATTHEW POTTINGER: Simultaneously. Xi Jinping gave four addresses to those – to – to delegates to those two meetings. All four of them had the common theme of the need for China to prepare for war. And in the lead up, there were changes that were being made to laws, for example, making it easier to – to put the military in charge of Chinese society in the event of war.

New rules to – to retain reserve military personnel for longer periods of time, particularly if they have key skills. New mobilization, military mobilization offices

that have popped up in – in most of the provinces around China. Building air raid shelters right across from Taiwan, as well as starting to create authorities for building military hospitals that can do combat care.

I don't – I don't take comfort in any of those signals. It – just any one of them, much less the constellation that – that is painted by – by all of them combined. So I think that war is on Xi Jinping's mind. He's – he's told us as much.

BRIAN MAST: Anybody preparing for war, obviously, they're looking at a number of different facets of where they could weaken their enemy and whether that is through their military might, whether that's economically, whether that's in any place, domestically, there could be a host of places that they could try. What worries you most out of any of those areas that you see them working to weaken the United States of America as they prepare for war?

MATTHEW POTTINGER: Well, I think that the – all of the things that add up to deterrence are built on one factor in particular, and that is hard military might. The credible availability of decisive military force. I worry that if we do not keep pace with the crises that Beijing in some cases is adding fuel to, we will not have sufficient capacity, munitions, whether it's torpedoes or anti-ship missiles, or the ability to – to build more of those things relatively quickly.

It's not like the days of World War II with Rosie the Riveter where you can build bombs on what the day before was, you know, an auto factory quickly. These are very sophisticated munitions that, you know, take sometimes years for those supply chains to add up. So my – my biggest concern is that we don't meet this moment that Xi Jinping is – is talking about as a moment where he – he can take advantage of what he calls an opportunity of a hundred years.

BRIAN MAST: We quite often in this body talk about the Belt and Road Initiative and largely focus on these, you know, developing countries where they can, you know, put a road in, extract something that they need for their supply chain to that effect. I don't think we look enough internally about where does the US investor, the US investment into China, how is that Making us subservient to that Belt and Road initiative as Americans and where does that advance their preparation or where could it pull their preparation back, were that US investment to decrease?

MATTHEW POTTINGER: Well, the Belt and Road Initiative is – is really a vehicle for corruption. It's a means to expand China's influence around the world through co-opting elites and governing elites in – in foreign countries. There's a reason why most of the Belt and Road agreements that China signs with foreign governments are not available to the light of day.

They are secret. Some of them have been leaked over the years and they have these common patterns to them. They involve countries, pledging sovereign

assets. I mean, things that belong to the people of those countries, whether it's a port or it is telecommunications and – and – and rail infrastructure.

And so China is – is weakening the ability, really, of those countries people to – to – to maintain something like a democratic, in some cases, they are democracies and that democracies at risk or they aspire to be democracies and are undermined by the enormous debt and corruption that these agreements saddle on them.

So that – that – that hurts our interests when – when – when – when corruption and co-optation of elites is – is the – is the mode for advancing power in the world, that – that is terrible for – for our values and – and our influence.

BRIAN MAST: Thank you, Mr. Chairman.

MICHAEL MCCAUL: Chair recognizes Ms. Manning.

KATHY MANNING: Thank you, Chairman McCaul and Ranking Member Meeks, for holding this hearing. And I do appreciate the bipartisan nature of the hearing on this critically important issue. And thank you to our witnesses for being here today. I want to get into some of the details that are involved in this issue. So Mr. Harrell, in your view, which Chinese state activities or industrial policies, including the forced or coerced transfer of technology, IP theft, data localization, or others, which pose the greatest risks to our national security, and how can greater scrutiny of our outbound investments help combat these practices?

PETER HARRELL: I think there are many things, obviously, Chinese do that pose a threat to US national security, but I want to focus on two in response to your question. I think, fundamentally, we need to keep and edge in a number of critical high technology areas that are going to be hugely important to both military and economic and societal goals over the next decade.

And here I'm thinking semiconductors, A.I. quantum, certain parts of the green technology revolution that are coming where we need to both be innovating more here at home and then we need to make sure that our technology and our expertise is not helping them catch up and, indeed, overcome. And that's why I really think that on those kind of key technologies, making sure we have both an export control regime so we don't give those technologies, semiconductors, green technologies, AI, a couple of other sort of high end military dual use technologies both.

We're not giving them the technologies and also our capital and kind of business knowhow expertise isn't helping them catch up and ultimately overcoming us. Separately a little bit from the focus of today's hearing but I do think is important is making sure we are not dependent on China for key supply chain

inputs, things like critical minerals, things where if we got to that situation where there is a conflict, they would have leverage over us. Well, separate from today's hearing, but I know the committee has done important work on those supply chain vulnerabilities and would urge the committee to continue that work as well as the focus on technology and investment we're talking about.

KATHY MANNING: Great, thank you. And I want to focus in a little bit on the AI issue. While the Biden executive order on outbound investment pertains to AI, not all applications and investments in AI technology are equally risky to our national security. You mentioned in your testimony the need for greater scrutiny into high level AI research lab owned and – owned and run by a US company in China.

How should our outbound investment regime treat different types of research or applications within a sector like AI?

PETER HARRELL: So when I was in the administration working on the Biden administration's executive order, which came out after I left, this definitional issue was one of the most complicated ones because now the goal at least from the administration's perspective is not to sort of prevent a Chinese hotel from having a chat bot, you know, for basic customer service.

I think what we've seen is a need to focus on a couple of different types of AI. One is obvious, which is specific applications of AI that have clear military or other harmful impacts like, you know, facial recognition and other kinds of surveillance technology – AI enabled surveillance technologies. We clearly need to focus on that.

I also think we need to focus on, you know, the underlying development of advanced high end models like we've seen here in the US with ChatGPT-3, ChatGPT-4 because the reality is if China develops those models, they can then develop the applications of them. So I focus on both a set of applications and then also higher end large language models and other large application models generally.

KATHY MANNING: So one of the areas that I focus on where I think we continue to miss the boat in this country is the need to reform and update our immigration laws. They have not kept up with the economic needs of our country. So I think in your testimony you welcome State Department and DHS efforts to expand visas for top AI and other technical science – scientists and researchers to come to the US to help us innovate here.

Can you talk about how we can leverage visa and immigration policies in ways that best serve our interests?

PETER HARRELL: Very much appreciate that question and your – your focus

and leadership on this issue. As part of the Biden administration's AI executive order a couple of months ago, little noticed provision in there directed the State Department DHS to set up a program to speed visas for top AI researchers, including in China, so that we can actually get them to come here and innovate and help do research here.

Now, of course there's security risks, you need to think through, you know, the vetting process. But ultimately, I think we want to have a country where we continue to bring the best AI talent from around the world and have them come here and develop those innovations here. The administration is doing what it can under existing authorities, but obviously immigration requires statutory change including in this area.

And so I do urge the committee to look at that important issue.

KATHY MANNING: A – my – my – amen, I meant – I meant to say. My time is expired. Mr. Pottinger, I have some questions for you that I'll submit in writing. But thank you, and I yield back.

MICHAEL MCCAUL: Gentelady yields. The Chair recognizes Mr. Barr.

ANDY BARR: Well, let me first thank and commend Chairman McCaul and Ranking Member Meeks for their work and certainly very well intentioned – intended to protect our national security by restricting US investors for unwittingly financing certain sectors in China that threaten our national security, and I share their goal.

But I do want to unpack this discussion about an entity based approach versus a sector based approach. And first of all, and the chairman and I have had many discussions on this and working through this with other colleagues on both this committee and the Financial Services Committee, I don't think the two are necessarily incompatible.

And we're working on potentially marrying both approaches. But I also would disagree with the suggestion, respectfully, that a sector based approach is "stronger" than an entity based sanctions approach when, in some cases, in some cases, the exact opposite is true. So let's unpack that for a minute here.

Mr. Pottinger, does a sector based outbound investment restriction block Beijing directed subsidies at a state owned enterprise?

MATTHEW POTTINGER: Not necessarily, right?

ANDY BARR: Yeah.

MATTHEW POTTINGER: If – if – if these are not – if these are Chinese invested companies, right?

ANDY BARR: So if we're restricting Americans from investing in a Chinese military company, but it's subsidized by Beijing, that – that regime doesn't affect that – the funding of that entity.

MATTHEW POTTINGER: Right.

ANDY BARR: And then, revenue generated by the sales of goods and services, if the Chinese military or surveillance or technology company is selling goods and services globally, restricting US investment doesn't impact that, correct?

MATTHEW POTTINGER: That's true.

ANDY BARR: Also, investment from non-US investors. Does a – does a – does a restriction on US investment outbound investment, does that impede investment from non-US investors into that Chinese entity?

MATTHEW POTTINGER: No, not not unless we build a coalition to – to support that goal.

ANDY BARR: And Mr. – Mr. Harrell, would – would the – the Biden executive order, does that in any way, that lists the CMIC companies, the Chinese Military Industrial Complex companies, are investors in other countries in any way affected by that executive order?

PETER HARRELL: They're not directly affected by it, though they can't use a US bank to facilitate that investment. So it probably makes it a little harder for them.

ANDY BARR: So – so here's the point I'm trying to make. Would full blocking SDN sanctions, if – if Treasury actually did it, would full blocking SDN sanctions have a multilateral extraterritorial effect that these – these restrictions that only apply to US investors have? Would a full blocking SDN sanction have a multilateral extra jurisdictional effect?

PETER HARRELL: Yes.

ANDY BARR: So this is why I think we ought to not just dismiss this entity based approach. And certainly, the chairman is right that China, and you all are right, that China changes names and whatnot. But OFAC is particularly equipped in conjunction with the intelligence community to continue to adjust those – those sanctions.

I want to also mention the fact that the Financial Services Committee bill that we've marked up, the Chinese Military Surveillance Company Sanctions Act, would require Treasury, you know, and I think this letter that Treasury sent back to the chairman and ranking member on Hikvision is troubling. But that's exactly why the Financial Services Committee bill would require Treasury to not

just send a perfunctory letter back to the chairman, but require Treasury to do much more than that and inform the chairman this committee, the Financial Services Committee, the Senate counterparts on an annual basis why the Treasury Department is not imposing full blocking sanctions on Hikvision and continually update the sanctions list, the Entity List at Commerce, the CMIC list, the – the DOD military list on an annual basis to keep up with the changes with – with – with China.

Last point, and it's a question about the bill before us today. What I'm worried about, and it's a good bill, but on Page 20 and 21, it specifically talks about exceptions. Covered activity. Covered activity does not include an investment in publicly traded security or an index fund or a mutual fund or a venture capital fund.

In other words, we might be restricting the funding, US funding, but Americans under this bill, because there's not full SDN blocking sanctions, would still be able to trade in those securities. Whereas if we sanctioned for blocking sanctions on these entities, there could be no trading of these securities at all.

There could be no contracts. And – and it would not just apply to us, but also non-US citizens. My time is expired, but if – if you can comment on the strength of sanctions versus non sanctions approach.

MATTHEW POTTINGER: Congressman, I agree that sanctions, when – when applied, really come – come at a company from more angles than just an export control or even just a – a – an investment restriction, for – for sure. I think the – the challenge are ones that we've talked about. Simply, how do you – how do you incentivize the Department of Treasury to – to really apply those?

You mentioned just a moment ago, I think, the idea of of an annual requirement and so forth. I mean, I think that would be welcome.

ANDY BARR: Thank you. I yield.

MICHAEL MCCAUL: Gentleman yields. And we'll have further discussion. I know we're meeting with the majority leader. And it seems to me, you could take the provisions of this bill – I'm not opposed to sanctions, it's just that we have to have a compromise, and I think that's the bottom line. So the chair now recognizes Ms. Dean.

MADELEINE DEAN: Thank you, Mr. Chairman. I thank you and Ranking Member Meeks for this legislation, for working together so well and guiding this committee in a bipartisan way. I want to go back to something that Mr. Barr was talking about. And I wanted to ask you, Mr. Pottinger, you too spoke of and wrote in your testimony about the military civil fusion.

And could you, you know, for those who are foreign to that, you know, in a democratic society, we do not fully appreciate that strategy, the depth and breadth of it. Would you want to add anything to what Mr. Harrell spoke of also?

MATTHEW POTTINGER: Congresswoman, thank you. I – I think that under Xi Jinping in particular, the – he has really reoriented the state around his personal goals and which have now become the goals of the – the ruling party that he leads. And those tools are sometimes laid out explicitly, for example, in things like this military civil fusion strategy and some of the laws, one that I mentioned was this national intelligence law that mandates that anybody must serve the Chinese intelligence apparatus and do so in secret when asked.

There are also A lot of intangible ways that the party forces business, irrespective of whether it's nominally private or state owned, to align itself with the interests of the party. And one of the ways that Xi Jinping has done that has been to establish committees, Communist Party committees and cells at multiple levels within existing companies.

So a company, a very good example would be if you look at something like Alibaba where Jack Ma, who by the way is a party member according to Chinese public accounts, but was really an entrepreneur at heart who founded this – this incredible company. And – and it was an incredible success within China and beyond.

He was eased out of – of, you know, away from the steering wheel of that company shortly after he made remarks, criticizing China's regulatory environment under Xi Jinping. That was back in 2020. And so there are communists – there's a Communist Party Secretary of ByteDance, which is the controlling shareholder of TikTok. He also, the Communist Party Secretary of ByteDance, is also the Editor in Chief of all the applications under ByteDance, presumably including TikTok. So those – those are a couple examples of things that are hard to see but are going on.

MADELEINE DEAN: Thank you for those explanations. Mr. Harrell, I was thinking you were both coming from such important background and two administrations on this issue. Can you speak to this, bill and in what important ways does H.R. 6349 go farther than the executive order issued by the President in August, either by sector or by investor?

PETER HARRELL: Thank you very much for the question, Congresswoman. And as I said in my opening remarks, I do think it's very important for Congress to act here. I think what the administration has done, while an important start, is not sufficient to meet the challenge. And I think the bill does a couple of important things.

First, it does expand the technology – the covered technology sectors to focus on some high performance hypersonics and a couple of areas that are important to China’s defense industrial base that I think are valuable additions. It also adds a permanent statutory footing to the – to the – the – the Biden administration approach, which I think is important both for signaling purposes that there is bipartisan support on this issue.

We as a country are united on this. I also just think over time, you know, administrations come and go and I think having a permanent feature in American law just as we do under CFIUS, which – which also got started in the 1980s by executive branch action, but which Congress later came in and codified and expanded on, really important to have that statutory basis here.

MADELEINE DEAN: And we, as members of Congress, agree with you on that. It’s better to have a statutory basis than something that is quite clear. Mr. Harrell, do we have any calculation, does anybody have any calculation of outbound investments that have really ultimately done harm, either to our national security or global security?

PETER HARRELL: So I am not aware of public sort of top line figures of – of here are the investments that have caused national security harm. When I was in the administration, and obviously I’m still under confidentiality provisions, the administration did do a very lengthy detailed analysis cataloging many different investments that we determined the administration did think later caused harm, one of which I talked about in my opening statement on SenseTime.

That’s one that’s now public and sort of easy to talk about. But I think what we have seen is a wide range of investments over many years, have later caused harm, but I’m not aware of any public kind of top line number of the dollar value of those.

MADELEINE DEAN: Again, I thank you both and I thank the. Chairman. I yield back.

MICHAEL MCCAUL: Gentelady yields. Chair recognizes Ms. Kim.

YOUNG KIM: Thank you, Chairman McCaul and Ranking Member Meeks, for holding today’s hearing on outbound investment regulations. So I’m hearing that there are generally two approaches to addressing outbound investment concerns. One is, you know, the broad investment restriction in technology sectors where there are national security concerns.

And the second one is the entity list based sanctions approach focused on specific foreign companies that are linked to CCP military or intelligence agencies. As you know, this is a debate we’re having right now and trying to decide which of these approaches is best. So in your view, is there a way to

reconcile these two different policy approaches and, if so, can you describe how Congress can go about doing that?

PETER HARRELL: Maybe if I could just offer a minute of remarks and then see if Matt has anything to add. I do think a sanctions approach with respect to China has value. Clearly where there are Chinese companies that are engaged in human rights abuses in truly nefarious kinds of activities, we should sanction them. I also think the Biden administration should be more aggressive, as Matt said in his opening – opening remarks, on using the existing executive order first signed under President Trump that limits US investment in the publicly traded securities of – of big Chinese companies that are linked to the Chinese military.

I think the administration should be more aggressive in prohibiting American investment in these publicly traded securities. I think there are a couple of notes of caution on SDN sanctions, though, when it comes to big Chinese companies. I think there are times when it's appropriate. But if I look at, for example, the Defense Department list of Chinese companies linked to the Chinese military, all of China's major mobile telecommunications providers are on that list.

Understandably, they're all, I'm sure providing mobile telecommunications to the Chinese military. On the other hand, if we sanctioned all of China's mobile telecommunications providers, you would effectively prohibit all American companies from doing business in China because none of their employees in China could use the telephone.

So I do think there is a place for SDN sanctions, but I think we also have to be careful in our application to not, you know, kind of inadvertently do something like preventing American companies in China from using the telephone.

YOUNG KIM: Sure. Mr. Pottinger, do you want to add to that and hopefully quickly?

MATTHEW POTTINGER: Sure. Congresswoman, I agree with – with what Peter just laid out. SDN, to Congressman Barr's point, is a – is a more powerful tool, but sometimes it can be overkill or inappropriate in – in – if – if it's applied in ways that the example that Peter just laid out sort of illustrated. This – this sector approach, I think the importance of that is – is the simplicity.

It is less resource intensive for the Treasury Department. It's easier for companies to understand what's off limits and – and not to cross those – those barriers. So I – I wouldn't know how to describe the way to meld those together, but – but it would have to have enough flexibility built in so that it didn't mandate, for example, that you have to use both simultaneously necessarily.

YOUNG KIM: I appreciate both of your perspectives on that. Hopefully, we can come together and hopefully reconcile, but find a way that we can really

make this work because both options do present its pros and some concerns as well. But resourcing will be important as Congress moves to establish an outbound investment regime.

But I'm interested in hearing from you about where these new resources would be best suited. Yeah.

PETER HARRELL: I do think to manage effectively and outbound investment regime, it is important for the executive branch to have adequate resourcing. These are complicated issues. I think fundamentally probably in – in three places you need resources. One is it at the Treasury Department. Just, it manages investment. It needs some resources.

One is probably in that Commerce Department where they need some additional technical expertise, which they're already staffing up because the export controls, but they need that there. And then the third of course is in the intelligence community to kind of better understand what's going on within China and the dynamics there.

YOUNG KIM: Ok. Do you think that establishing an outbound investment region requires the creation of a new office or agency, for that matter?

MATTHEW POTTINGER: I – I think that – that – I've asked myself that at times when I was in office and and thought it might be easier if it was put into some other entity. But I think it really ultimately boils down to leadership, that Congress has the ability to hold accountable leaders of – of the departments and agencies that currently have those authorities.

I think that's the fastest way to – to – to exert the authorities and intention that you were legislating.

YOUNG KIM: Ok, I think my time is up. Thank you. I yield back.

MICHAEL MCCAUL: Gentlelady yields. I just want to make a point that the two witnesses have made. You know, the executive order just applies to China. This bill, it's not only China, but it's Iran, Russia, and North Korea as well as China. And I think as we see the current unholy alliance forming between these four countries against the West and the United States and our interest in our NATO allies, I think that's a very important point.

The Chair recognizes Mr. Schneider.

BRAD SCHNEIDER: Thank you, Mr. Chairman. And I want to associate my – my – associate myself with your remarks. As you said, it is more than just China and it is immediate, mid-term, and long term. And that's one of the things I want to touch on. I also would like to associate myself with the

comments earlier of my colleague, Ms. Manning on on immigration.

But in particular, I want to, as everyone has said, thank the witnesses here today, but also the chair and the ranking member for bringing this legislation forward. I joined with colleagues on both sides in commending the Biden administration executive order on outbound investment and I want to thank the committee for having this hearing today on this legislation.

I'm proud to join in co-sponsoring it. A thoughtful outbound investment regime is necessary to building on the work of CFIUS and making sure that US investment is used to uplift communities around the world rather than strengthening our strategic adversaries and empowering totalitarians. We've already had an impressive conversation about the technical aspects of this legislation, specific concerns regarding the People's Republic of China, semiconductors, microelectronics, quantum information technologies, artificial intelligence, and other technologies of the future.

And it's our job here in Congress to make sure that we keep the United States, US interests, US population, US citizens safe and prosperous. I want to start and I'll go back to something we were talking about earlier with Mr. Barr, the idea of sector versus company specific. The sanctions approach led by Treasury, Mr. Pottinger, I'll ask you, would it catch a startup, for example, AI company that is in its early stages just beginning to develop its technology, may not even be on the radar other than with venture capital?

Would it catch and prevent them from developing civilian military technology?

MATTHEW POTTINGER: Congressman, it could easily miss that. It's very difficult to map China's AI ecosystem. Oftentimes, it takes sometimes years before the importance of a particular entity really makes itself apparent.

BRAD SCHNEIDER: Mr. Harrell?

PETER HARRELL: Completely agree with what Matt said. No, it very likely would not capture that simply because Treasury doesn't know all of the, you know, millions of companies in China that are out there.

BRAD SCHNEIDER: Conversely, would the sectoral approach likely catch such a startup?

MATTHEW POTTINGER: Not only would it likely catch such a startup, but it might actually require the investor, if the investment wasn't prohibited if it was sort of outside of prohibited, to come in and tell the US government about that startup so the US government could begin better understanding it.

BRAD SCHNEIDER: Mr. Pottinger, do you agree?

MATTHEW POTTINGER: I agree with – with Peter’s remarks.

BRAD SCHNEIDER: Thank you. Let me shift gears. HR 6349 adds hypersonic technology to the list of covered technologies. We have seen hypersonic missiles as a priority for Tehran, Moscow, Pyongyang. In fact, in the Ukraine war, Putin’s war against Ukraine, we have seen for the first time the Kh-47M2 Kinzhal, or Dagger, in action.

My question for whichever one of you wants to ask this, you know, looking that immediate term where they’re currently being used but long term threat to the United States, how will this prospective outbound investment regime, in effect, the short term application of hypersonic technology like what Russia is using against Ukraine or Iran or North Korea, and what do you think the long term impact would be?

MATTHEW POTTINGER: Hypersonics is one of those that – that, I think, the United States was hemorrhaging our technology early on before there was a consensus like what we’ve heard in this room today about the nature of – of that – of the threat that China poses to our interests. And I know of stories of conferences that China held where American scientists showed up to talk about their latest findings, with respect to Hypersonics.

And in – in some cases, China ended up putting that theory to practice before the United States did. If – if we had had outbound export controls earlier on that, that would have – would have helped. Outbound investment restrictions might have helped with that as well.

BRAD SCHNEIDER: Thank you. And just to wrap up, with my colleague, Mr. Wilson, he and I have been pushing to curb the export of high end machine tools, especially CNC machines to Russia. Treasury did sanction 130 entities related to this effort, and we’re grateful to see that. But with respect to China and this policy, can you talk about how it might address – might affect machine tools, if at all?

Either one.

MATTHEW POTTINGER: I don’t have a specific answer on – on – on that, but I will say, I recently met someone after I’d given a talk out in Arizona who told me about how much damage our transfer of our machine tooling capabilities to – particularly to China have been to some of the problems that we’re trying to solve for now, for example, building up our – our own defensive capabilities, munitions, things that are wholly civilian commercial capabilities as well.

Machine tooling was – was really one of the things that allowed us to win World War II.

BRAD SCHNEIDER: Thank you and it's critically important today and I know we'll continue to focus that on this committee. But again, I thank the chair and the ranking member for this legislation and I yield back.

MICHAEL MCCAUL: The gentleman yields. The chair recognizes Mr. Davidson.

WARREN DAVIDSON: I thank the chairman for holding this hearing. And I thank the body for paying attention to an important issue. Back in 2018, we passed a bill called the Foreign Investment Risk Reduction Modernization Act. Part of the reason we're here today is presumably that bill is not working adequately. Why not?

PETER HARRELL: Thank you very much, Congressman, for that question. I think the steps that – that Congress took back in 2018 with with FIRRMA were really important in expanding the limits on Chinese investment in the US. There was a pattern we were seeing at the time Congress certainly saw at the time where Chinese companies were investing in a whole range of technology companies in the US –

WARREN DAVIDSON: – Yeah, specific to outbound investment. I mean, we of course dealt with Chinese investment in CFIUS, but there's still the export control portion. And frankly, we had lots of companies that were concerned even as we had done the – the research and development tax credit. We've done things to incentivize investing and doing your research and development in America.

But they were concerned that if I'm going to do research and development in America, do I own the intellectual property or does America own it? And if at the end of the day they can't export the technology, they just simply invest elsewhere. So is that a flawed approach or is there some other thing that we're looking to capture here that isn't captured by FIRRMA?

MATTHEW POTTINGER: Well, I – Congressman, I would just say that – that the – because FIRRMA, to my knowledge, is only for inbound investment into the United States, that this, in some ways, is almost a mirror image of – of FIRRMA. So it's trying to achieve some of the things that FIRRMA was trying to solve for, but whereas FIRRMA is trying to prevent –

WARREN DAVIDSON: – So we stopped too short on FIRRMA. We didn't get an adequate way to address the outbound controls. Obviously Mr. Barr, Mr. McCaul have different approaches. I will tell you as a private sector business guy, I go back to the days of conflict minerals. You know, so there was this idea that, you know, certain minerals and countries, primarily in Africa that are involved in conflicts, we don't want those things to show up in American products.

And so the solution was that you have every company that uses metal report on

it. I had at the time a small business in western Ohio and I'm signing off on a statement that the metal I'm using contains no conflict minerals. Now, that's essentially Mr. McCaul's approach, you go with all the way down to the small business level and you hold every business in America accountable for something that, frankly, they're like, why am I signing this?

I have no idea. I certainly don't have a way to trace all the origin of the tin that's in the steel here to where in Africa the tin was cut. Why don't you ask US Steel on that? And frankly, that's Mr. Barr's approach. Mr. Barr's approach says let's use OFAC. And you know, we use OFAC just short of conflict, right?

We go with a sanctions regime as a tool short of going to war. Is that a more serious toolkit than just regular laws that apply to small businesses?

PETER HARRELL: Sir, I – I very much understand and sympathize with the challenges of – of supply chain sourcing that your business faced in – in Ohio. I guess I see things a little differently where you have an American company, whether it is a big company or whether it is a small company investing in China. Presumably, that company knows it is investing in China and it is making a decision to invest and knows what sector in China it is investing.

And so I think that if you're a company that wants to make – an American who wants to make an investment in AI sector in China, you probably do know what you're doing and could make a decision on the sector about whether or not to invest there.

WARREN DAVIDSON: Well, I guess speaking of conflicts, you know, maybe we could just go like who else do you guys represent? Do you represent big tech? You know, because it seems to me as a small business guy, just like we did this business, you know, beneficial ownership disclosure. Originally, everybody – every business in America was going to have to report all this and they essentially negotiated it down to where the small – smallest of the small businesses, businesses under 20 now have some reporting requirement because apparently that's how all the bad stuff happens.

Not the big companies. It couldn't be those guys. So all the lobbying stopped because the small companies don't have enough lobbying power to do it. So either of you guys represent big tech companies?

MATTHEW POTTINGER: I'm a small business owner. I'm not representing any companies interest here today. I'm – I'm – I have no financial interest in the outcome of – of any of the bills that that you're talking about. I'm representing myself. I'm representing the – the think tank that – that I work for as well, Foundation for Defense of Democracy, sir.

WARREN DAVIDSON: All right.

PETER HARRELL: I just want to say the same. I'm here representing myself. I have no financial interest in the outcome of this or in the sanctions –

WARREN DAVIDSON: – This is the challenge. The biggest of the big companies get lobbied and represented and you pass this off and Congress will hold up the shiny object and say we did something. It doesn't solve the problem. The sanctions regime works pretty well. I'm highly biased. And frankly, it's the committee of jurisdiction.

I'm on both. I think that's the right way to solve the problem, and I yield back.

MICHAEL MCCAUL: A gentleman yields. I just want to say first that the witnesses filled out a truth and testimony form regarding any motivation to impugn your character before this committee is not well served in my judgment. And perhaps for Mr. Davidson, since he missed your testimony, Mr Pottinger, why don't you describe the difference between a sector based approach and an entity based approach.

MATTHEW POTTINGER: Congressman, the – the – the – if you're looking at an entity based approach, that requires the US government, probably Department of Treasury, to look at each specific company that it wants to prohibit Americans from investing in. So they actually have that authority from the executive orders that – that emerged from the late Trump administration in the early Biden administration.

But only 68 companies, to my knowledge were ever actually designated for prohibition on – on US, you know, investment into Chinese military affiliated companies. So a sector approach, the idea is you don't – you don't have a barn full of analysts, god bless them, over at Treasury. They're often having to divide different problem sets as well.

I mean, I've been over to – I've been over there when I was in office. You know, if North Korea is testing a nuke or a missile, that team has to really shift to start targeting North Korean entities. And by the way, you know, Iran's creating problems. Russia's now launched the biggest war in Europe since World War II. That Treasury team is getting spread very, very thin.

I know how hard they work. If you have a sectoral approach that just says, look, Americans, US persons are not allowed to invest in these particular sectors that are relevant to China's military and surveillance state as well as Russia's, North Korea's, and Iran's, it makes it simpler and it's less resource intensive for the US government.

MICHAEL MCCAUL: So it in fact provides more clarity to the private sector and businesses, correct?

MATTHEW POTTINGER: I would argue it provides more clarity, yes.

MICHAEL MCCAUL: And entity can be changed overnight in China, correct?

MATTHEW POTTINGER: Sure. It's –

MICHAEL MCCAUL: – A sector based approach we get around that.

MATTHEW POTTINGER: One of the things I mentioned earlier is that China has systematically shut down the research enterprise in China so that it's harder for foreign companies to acquire real time information about ownership structures, supply chain flows and the like. Those companies are being systematically rolled up and dismantled or co-opted to serve and align themselves with the Chinese Communist parties –

WARREN DAVIDSON: – Will the gentleman yield for a question?

MICHAEL MCCAUL: And I'm not finished yet. We attempted to sanction under Treasury, Hikvision [sp], which is a state surveillance company on the Uighur Muslims, and guess what the Treasury Department said in a letter to me and the ranking member? Can't be done. So I guess it depends on who's at the Treasury Department. But yes, I will yield.

WARREN DAVIDSON: Is the gentleman's contention, then, that the – that OFAC and the current sanctions regime is inadequate to the task of preventing sanctions evasion?

MICHAEL MCCAUL: I think the question is what's most effective. And I think the sector based approach is going to be a more effective way to capture capital flow investment into these – these five sectors that we know are responsible for the buildup of the PLA and their war machine. An entity based approach can be manipulated by the CCP, as the former Deputy National Security Advisor to President Trump has just told this committee and testified to. I'm not saying that sanctions aren't an effective tool.

And in fact, Mr. Barr and I have had many discussions trying to come to some sort of rational, you know, conclusion to this. But it has to be in good faith. And I think, you know, you could take the best of both, perhaps, and that's precisely what we're working on.

WARREN DAVIDSON: Hopefully we'll wind up with good amendments. I yield back.

MICHAEL MCCAUL: All I really care about, sir, is we got to stop selling China the technology, we got to stop investing in the war machine, particularly at this dangerous time that we find ourselves in as we look at Taiwan and the Taiwan Straits and you look at TSMC and semiconductors and the whole thing.

So I appreciate your spirited debate.

Chair now recognizes Mr. Mills.

CORY MILLS: Thank you, Mr. Chairman. I think that we can all realize the significant importance of strengthening not only our supply chain and industrial capabilities, but also limiting our adversarial reliance upon China. You know, for far too long, we've listened to many people on the other side of the aisle, talk about the competition with China as opposed to what they really are as an adversarial nation.

We have seen where China continues with their Belt and Road initiatives that has expanded out the Eurasian borders, attempted to take Africa, Oceania, and an effort to essentially cut off Western Hemisphere supply chain and further impact America economically, while simultaneously utilizing propaganda and misinformation warfare campaigns in developing nations to try and create doubt and American currency value to try and prevent that from being utilized as the US global currency.

Now, this is all in an effort as we know, and the chairman had pointed out, with the Russia, China, Iran, and North Korea geopolitical alignment. This is an effort to try and attack the West. In many different facets, but we have to understand that we can't help to continue to propagate that for them. I think that's where I actually agree that the outbound investment in – to China and critical sectors actually does provide our competition and our our adversaries with the invaluable information, skills, and innovation that poses potential harm to America's national security interests.

Dating back to the 1990s and potentially even earlier, there are obvious instances in which US investments on the ground floor of Chinese tech startups have been instrumental in developing China's current surveillance, defense, and other technological capabilities that threaten the US interests at home and around the world and also advancing their alliances.

So my question is, if a US investor supports the development or acquisition of a critical technology by Chinese company, can intellectual property protections or US export controls effectively stop that Chinese company from transferring it to the Chinese military or surveillance state?

MATTHEW POTTINGER: So the question that – could – could we know in advance if we're investing in a Chinese company, whether we could prohibit it from transferring –

CORY MILLS: – I know you said right now almost every company is state controlled. And I do acknowledge that Chairman Xi's role in the CCP is to take over everything. But I'm just curious what would be an effective tool that we

could utilize that would help to prevent this and kind of get a bit of a heads up on it?

MATTHEW POTTINGER: Yeah, well, you know, China uses these what they call force technology transfer. In other words, it's sort of the price of admission for a lot of companies to have access to the Chinese market. I think, I mean, on the top of my head you could require that they would have to report to their shareholders if – which I think would be good practice anyway, if they were planning on transferring, you know, hard – hard won, hard researched and developed technologies as – as a price of admission for getting into that market.

But it's –

CORY MILLS: – And Mr. Harrell, some argue that China has sufficient resources domestically and abroad to invest in the high tech companies. In addition to money, what value do US investors bring to supporting China technology's ambitions?

PETER HARRELL: I think it's a great question, Congressman, because when a US venture capital company, whether it's like a VC company or whether it's a venture arm of a big AI or semiconductor company goes into – into China, it's not just putting that cash in that Chinese company. It is providing expertise to that Chinese company on how to go to market.

It is probably doing some door opening and introductions to potential customers. It's providing expertise and how to run that company effectively. There's really a lot that goes alongside that investment that is value in addition to the – the cold hard cash itself.

CORY MILLS: Well, I think we can all agree that one of the things that America needs to do is invest in building up our industrial base, ensuring that we have more capacity here at home, stopping our reliance upon China, looking at things like eliminating the double taxation of Taiwan, which would allow the nearly 92 percent of global semiconductor manufacturing to actually be brought to the United States and other areas.

But critical sectors of technology, research, and innovations represent the next generation of information. And I think that that opens up Pandora's box as we continue to support that. I'm not trying to be hyperbolic, but the potential applications of AI, machine learning, quantum mechanics, hypersonics, and others are difficult to understate.

The US should absolutely seek to mitigate the threats from our adversaries who are actively seeking to beat the US in these research races. And I think that's why it's so critical for us to start focusing in on the quantum data computing as well as for the quantum entanglement capabilities for AI autonomous drone sets.

So for that I yield back. Thank you so much.

MICHAEL MCCAUL: Gentleman yields. The Chair recognizes Mr. Self.

KEITH SELF: Thank you, Mr. Chairman. And thank you for – I think our ground has been well plowed, so I want to go a little bit further afield. First of all, I appreciated Mr. Barr's comments about the total integration of the Chinese private sector and military. Money is fungible. I think we need to expand our view here.

Dual use capability, even precursor chemicals, the supply chain, rare earths, I've not heard the rare earth minerals mentioned here at all, and we could go on. So this is not just technology. And I think we ought to move beyond technology. I realize we may be addressing technology here, but the broader picture to me is well beyond technology.

So I want to go to the WTO and the PNTR. The WTO, the first question for you gentlemen is, are they still meeting the policies that China had to agree to in order to get most favored nation? That's one question. And then when we go to the US PNTR, I understand the concern with repealing that. The tariffs would – would – would be larger.

And – but I want – I would like for you to come in on is this the standard CBO static scoring, if you will, as opposed to the dynamic scoring because US manufacturing would pick up the slack? So I'd like for you to address both the WTO, are they still meeting it, and is there anything we can do about it if they are not meeting those policies?

And secondly, when we talk about our PNTR, would you address my question on static versus dynamic scoring? Thank you.

MATTHEW POTTINGER: Congressman, thanks for those – those remarks and questions. Look with – with the WTO, I mean, I'm not a trade expert, but I – I remember because I'd been working as a journalist at the time in China writing for the Wall Street Journal when China came into the WTO. China made all sorts of promises about market access and – and the like in exchange for us bringing them into the WTO and giving them market access.

I think – I'm confident that if you were to ask folks over at the US Trade Reps office, they would tick off a long list of promises that were not kept by Beijing. It's – and it's very hard to enforce because in cases that we've brought in the WTO, Beijing's been able to run out the clock and sort of game the system in those ways.

The WTO has worked, I think, a lot better for trade between countries that enjoy the rule of law. So it's not to knock what – what we created with that

system, but by bringing in a single party dictatorship that was intent on not holding and keeping up its obligations. When I was working at the White House, I kept a list that my staff compiled for me of – of all of the agreements China had signed with the United States that they had abrogated.

It was a long list. It was – it was several pages and trade was only the – only the beginning of it.

PETER HARRELL: Let me just associate myself with Matt's remarks on whether China has lived up to its WTO obligations. Of course not. I mean, it's been very, very clear for many years now that they have not lived up to their obligations under the WTO. As – as Matt says, that's only one of many sort of agreements they have made that they have not lived up to. On your question about tariffs, I do think tariffs can be a valuable tool to help reduce our dependencies on China.

As you note, we are dependent on China for certain things like critical minerals that are not sort of high technology kind of things, but instead go into lots of products, including high technology products. And I do think it would be valuable for the administration to really take a hard look at the important tariffs that the previous administration started, but to look at kind of what isn't working and where are we still dependent.

And maybe critical minerals is a good example. We actually don't tariff our imports of critical minerals from China. And I understand why we don't want to hike prices on critical minerals. On the other hand, if we're letting them come in tariff free, it's real hard to build a vibrant US ecosystem for critical minerals.

So I think we do need to look at tariffs through that supply chain lens on how can we wean ourselves off a Chinese supply chains.

KEITH SELF: Well, rare earths, critical minerals, as you call them, we don't mind because of our own environmental laws. Not because of tariffs on China. With that, I yield back. Thank you.

MICHAEL MCCAUL: Gentleman yields. The Chair recognizes Mr. Stanton.

GREG STANTON: Thank you very much. Mr. Chairman, I want to thank you and rep – Ranking Member Meeks for holding this important hearing today and for your leadership on H.R. 6349. It is much appreciated and much needed. The United States and US companies are strong in large part because of our commitment to open capital markets and a belief that free flowing capital and knowledge will lead to innovation.

But spending that capital on critical technology innovation in China can lead to serious problems, specifically as it relates to national security. For example, prior

to President Biden's – President Biden's August 9th, executive order, US entities were able to invest in China's Semiconductor Manufacturing International Corporation, also known as SMIC. The first question is for Mr. Harrell.

Could you tell us why SMIC's technology might worry the United States of America?

PETER HARRELL: So SMIC is one of China's major semiconductor development firms. And one thing we have seen over the last year and a half, particularly as we have – US has put pressure on China to deny them access to tooling, as we've seen SMIC and other Chinese companies double down on trying to develop things indigenously in China to overcome the restrictions we've put on their semiconductor sector.

And I think the – the fact we are seeing China double down makes it all the more important to make sure the – the wall that we have in those key high end semiconductors is even higher, which is why I think it's so important to focus on investment in that sector as well as export controls.

GREG STANTON: Same question or another question for you, Mr. Harrell. When American companies or venture capital firms invest in a business, including in China, they also provide knowhow, technical transfers, and legitimacy to those businesses. Can you tell me why sharing this with China's critical technology sector will hurt US interests?

PETER HARRELL: We clearly want to keep our edge here in the US in these critical technologies, AI, semiconductors, quantum, things like that. And as you say, Congressman, when an American venture capitalist goes over to China to invest over there, it's not just the money that he or she takes with them. It is opening doors to customers.

It is putting board members who help manage the company on the board. It is providing them kind of expertise on – on how to grow and how to expand. And those are all really important aspects to that company and whether that company is going to be able to actually succeed in developing that technology over in China, which we don't want them to do.

GREG STANTON: This is a question for both Mr. Pottinger and Mr. Harrell. What if we don't do it? What if – what are the ramifications of not using an outbound investment regime to address concerns about the PRC's critical technology sector? And please touch upon both human rights concerns and the impact on US global leadership.

MATTHEW POTTINGER: Peter mentioned earlier the example of SenseTime, which I – had – had come on my radar when I was in office. These – on the human rights front, these are cutting edge technologies that are applied

specifically for the purpose of monitoring the thoughts the – the actions, the communications. I mean, this is – this is George Orwell's thought police in action.

Building systems for identifying people based on their ethnic or racial background from a distance so that they can then be put under surveillance or segregated or even sent to a reeducation camp. So on the military side, we're seeing, you know, you take a company like DJI for example, right, this is the Chinese heavyweight drone manufacturer that's got something like 70 percent of the consumer drone market.

Well, they're supplying drones that are being used for military use on both sides of the conflict in Europe. And that was a company that was – it got its lead early investment from Americans.

GREG STANTON: That's great. Mr. Harrell, anything to add to that?

PETER HARRELL: No, I think Matt put it very well.

GREG STANTON: I'll be very brief in my last question. We are investing historic amounts in US critical technologies through the Chips and Science Act. It's so important for the United States to be a leader in semiconductor production and not to undercut our investment by also giving a leg up to China in this crucial sector.

US Chamber of Commerce supports the Biden administration's efforts to develop a thoughtful regime that safeguards American national security and economic leadership without unnecessarily restricting beneficial US business activity. Mr. Harrell, can you describe how the Biden administration's tiered approach in the August 9th executive order tries to balance national security and be beneficial to business activity?

PETER HARRELL: I think the Biden administration and I think legislation this committee is looking at really provides an important, highly tailored approach, right? We're not talking about all sectors. We're not talking about all or even most investment. We're talking about a set of investment in sectors that we know are critical to our technological and national security edge.

The Biden administration, I think the legislation would accomplish same goal would also plans to provide clear guidance on what are the investments that are prohibited to make it reasonably straightforward for companies to know what they can and can't do. So that they aren't just going to have to hire, you know, armies of lawyers to advise them on it. So I think we do want and I think we are expecting very clear guidance on definitions and what kinds of investments are off limits.

GREG STANTON: Thank you so much. I yield back.

MICHAEL MCCAUL: The gentleman yields. The Chair recognizes Mr. Hill.

FRENCH HILL: I thank the Chairman. Thank you, gentlemen, for sharing your views with us today. And I think it's important to note that all members on both sides of the aisle and all the committees and certainly our China task force want to get to the sweet spot on this topic for an effective regime that has a reasonable cost benefit metrics in order to screen and block, where appropriate, outbound investments to China.

I just think that's where we are. We're going a bit around and around on how this would sit in the menu of what we have today from all the lists that we have, export controls, tariffs in some instances. And so I want to thank you for trying to add clarity to it. Mr. Harrell you, in your testimony, you praised President Biden's investment prohibitions on publicly traded securities by – issued by Chinese military industrial complex companies, the CMIC designation.

However, since being put on that list, Hikvision's revenues are up by 30 percent. Sino Kim's revenues are up 60 percent, China Mobile stock prices up 67 percent. Huawei and SMIC went on to develop an advanced 5G chip. So that doesn't seem like this system is working. How do you expect, you know, an additional layer on that to be more successful?

PETER HARRELL: So I think – Congressman, thank you for the question. I think it's important to – to think through different kinds of goals we have with respect to limiting investment in China. So I think that the goal of the Biden administration's executive order from – from last year is really to go after investment in these kind of early stage companies that are developing technologies.

I think that the CMIC list, which President Trump stood up in late 2020 and which President Biden has continued, is really to take an approach of where we know there is a Chinese company that is linked to the military. We're going to say Americans can't invest in that. Now, maybe those companies can raise money domestically or that sort of thing, but we think it's important that Americans aren't raising money in those big Chinese companies that are linked to the military.

It's not to say limiting investment is the only tool we should take. I think where you have a Chinese company is linked to the military that's engaged in some activity like SMIC and semiconductors, you also have to have an export controls approach, right? Make sure they're – they can't get the capital, they also can't get the technology.

And if we find that – that that isn't working, maybe at that point, we need to look at additional measures. But – but I think that the – I'll leave it at that.

FRENCH HILL: Yeah, let me follow up on that and say so that's US only. But if we want to maximize the impact to remove the fungibility aspect of this and everybody trying to make a – make a living, wouldn't having whatever decision we take here being put on the OFAC list and governed by the – the Treasury gives us some G-7 clout on enforcing like a sanctions regime?

So if you wanted to have maximum pressure campaign here, to use a phrase, you might have – they'd be on the list, they would have export controls over the certain technologies, they'd be – have a prohibition on investment, and they'd be sanctioned so that our G-7 colleagues would actually put them on the list and not actually go – or any – pick a country.

Is that – wouldn't that be the strongest possible menu?

PETER HARRELL: So I certainly agree we want a multilateral approach to investment restrictions.

FRENCH HILL: So if we just do something here, do we get a multilateral approach?

PETER HARRELL: I think it is important for America to lead on this. And I think having an approach that limits investment and then making sure the rest of the G-7 comes along building that diplomatic coalition is important.

FRENCH HILL: Thank you. Let me slip in one question for my good friend, Mr. Pottinger. And thank you for your fantastic work in the National Security Council. The sector approach. I got it. I think every bill we're talking about has identified the sectors now, but some of them have really broad listings. You're proposing or I heard maybe Mr. Harrell say might leave that to regulatory definitions.

But AI, for example, I can't think of anything more broad. It's integrated in every single thing every single person does. Won't that require an army of lawyers to figure out? What's your thought there, Matt?

MATTHEW POTTINGER: Yeah, Congressman, good to see you. I – look, no question. I mean, AI is – is tricky. What – what Peter was laying out earlier was sort of a nexus for looking at where there's a reasonable use case for military and intelligence uses. So the application, on the one hand. And the other is the power of the – the actual model that's – that's making possible all those applications and looking at that.

I think that it's not clear cut. I would agree. AI is – you know, it's – it's a big deal. But I would say this though, AI is already being weaponized against us by a company that – that Americans invested in, ByteDance. It's – it's – it's a TikTok platform.

FRENCH HILL: But that – I'll yield back, Mr. Chairman. That's an example of where naming that company is better than saying we're – we're – we want to cut off investment to AI. I yield back to the chair.

MICHAEL MCCAUL: Well, I appreciate the gentleman's diplomacy. I think there's a sweet spot here, as you said. Hopefully, we'll get some of this resolved tomorrow. The Chair now recognizes Mr. McCormick.

RICH MCCORMICK: Thank you, Mr. Chairman. US investors partook in 58 investment deals related to China's semiconductor industry over the last three years and represented 17 percent, roughly, of all investments into the Chinese artificial intelligence industry. I'm a big free market guy and I know we have some bills on the table to talk about investing into kind of what the conversations going on today.

But Mr. Pottinger specifically, given your experience in the Trump administration, how would you compare the Biden administration versus the Trump administration's limitations and – and direction as far as what can we do to – to keep us from investing? I know we talked about this kind of ad nauseum today, but specifically, how would you compare the administration's and the way they're facing down this specific problem?

And obviously, we in Congress have some ability to affect this and we want to, but what – if you could compare side by side the most recent administrations, what's the difference?

MATTHEW POTTINGER: Yeah, I think it might actually be a good test case for how you eventually find that sweet spot because there were some – there were some things that the Biden administration did that I wish that we had done in the Trump administration. And then there were a couple areas where – where the Trump administration was stronger on this specific area.

For example, when President Trump signed those two executive orders limiting, you know, prohibiting US investment into Chinese companies, he included subsidiaries of those companies. So even though there was 40 some odd companies that – that the Department of Defense put on the list, that immediately according and out to about 1100 companies.

The Biden administration, I was disappointed that they got rid of the subsidiary requirement. But on the other hand, they expanded the authority to cover not only Chinese military affiliated companies, but also Chinese companies that are involved in egregious human rights violations, the surveillance state stuff that we've been talking about.

That was a good move. So I think if you – if you – if you put these things together, you end up with – with a stronger whole.

RICH MCCORMICK: Ok, great. And so that doesn't really necessarily increase – our proposed bills don't necessarily increase executive permission. It's basically an overall blanket to – to help us direct money away from these Chinese –

MATTHEW POTTINGER: – I think one of the things it does, I mean, if you've got a law to – to support, in essence, the Trump and Biden executive orders, you give them – you give it much more credibility. You give spine to – to executive branch officials who might be afraid that they're going to get sued by the companies that – that end up in the crosshairs?

But if you've got a law behind that, a court in the United States is going to give that a lot more weight than a mere pen stroke from a President.

RICH MCCORMICK: Excellent. Mr. Matheny, do you believe that had the United States banned outbound investments to Chinese about 15 years ago or so, would have made a difference in the ultimate outcome of the advancement of AI and other technologies that are possibly harmful in the competition and strategic outcome with what we've done?

PETER HARRELL: It's obviously hard to know the counterfactual history. But I think there are many cases over the last 15 years where we have seen a US investor come in to a Chinese high tech company. We talked earlier about SenseTime. Matt talked about ByteDance, the owner of – of – of TikTok where that early US investment was absolutely essential to that Chinese company being able to thrive and grow both domestically in China and then ultimately around the world.

And so I do think just looking at the history of these kinds of cases that, had we had a tailored investment restriction regime 10, 15 years ago, we probably would see a less well developed Chinese high tech industry and some of these key technologies. And that would be very much in our interest.

RICH MCCORMICK: I think in some ways is kind of a rhetorical question. It takes investment to make R&D and takes investment to make a company grow. That's exactly what happened. We were a big part of that, almost 20 percent. Mr. Pottinger, do you think any of our partner nations and allies have adopted restrictions to their citizens investing in Chinese defense sectors?

MATTHEW POTTINGER: Not that I'm aware of. I think that there's sort of window guidance in some countries where, you know, we've seen – we've seen investment drop off from Japan, for example into certain Chinese sectors. But – but – but again, I think this is one of these areas where we lead and eventually others follow.

The United States – President Trump was the first official anywhere to put

human rights sanctions on Chinese officials who were involved in the Uyghur genocide. It wasn't Europeans, it wasn't anyone anywhere else, but eventually, parliaments in Europe and – began to follow suit. Canada and others followed the lead of the United States.

RICH MCCORMICK: And – and I know I'm out of time, but just yes or no question, does the PRC limit their citizens and private industry from investing in our industries?

MATTHEW POTTINGER: They heavily regulate, depending on where they want to see strategic gains. So there's a constant give and take of – in – in terms of the instructions that industry receives in China for coming into the US.

RICH MCCORMICK: So with that comment, just that it's an unfair system, I yield. Thank you Mr. Chair.

MICHAEL MCCAUL: That's an excellent point. Thank you for bringing that up. Chair now recognizes Mr. Moran.

NATHANIEL MORAN: Thank you, Mr. Chairman. And thank you to the witnesses today. Very important topic we're talking about today. I first want to, though, thank the chair and Representative Barr for working to reconcile these two approaches that have been talked about so much, the entities based approach, the sector based approach really reflected in the differing bills that are going through this committee and the Financial Service – Services Committee.

I agree with the chairman that there's going to be a way and we must find a way to reconcile these because both – both have some – some issues that we need to deal with. Both do not actually get us completely to the end that we're all after, and that is, frankly, to quit assisting and helping China build its technology to the point where it's harmful to the United States national security interest and our economic interests.

That's certainly not the end that any of us want. So I applaud both the Chair and Representative Barr for their work on this matter. I just wanted to say I'm encouraged by the discussion today because it tells me we are going to get somewhere eventually. Now, other countries have developed and implemented formal outbound investment restrictions.

South Korea, Taiwan, and even China themselves have done that. I'd like to direct my first question to Mr. Harrell. What has been the economic outcome for countries like South Korea and Taiwan by imposing outbound investment restrictions?

PETER HARRELL: Thank you very much for the – the question. I know that when the Biden administration was looking at this issue, they looked at both

South Korea and Taiwan, which have, frankly, fairly narrow, but I think nonetheless important limits on semiconductor investment by their companies in China. Obviously, both Korea and Taiwan are very advanced semiconductor companies.

And a number of years ago, those countries restricted or imposed a regime to make sure that their companies weren't putting the most advanced technologies in China. Now, that was a really pretty narrow only going after really the very, very bleeding edge of the technology. I think we need something broader than that.

What the Biden administration would do is broader than – than that. But what the reality looking at those cases is the costs were – were – were quite limited. I mean, South Korea and – and Taiwan have the world's most successful or among the world's most successful semiconductor companies. We obviously have some here, too.

And so I think what that experience shows is that you very much can impose a tailored and scoped restriction on investment in China and have very much in global leading company here at home.

NATHANIEL MORAN: Thank you. Mr. Pottinger, do you have anything to add to that?

MATTHEW POTTINGER: Oh, I think that – that covered it pretty well.

NATHANIEL MORAN: Good. I also want to ask you guys about the fact that China openly seems to want to overthrow the US dollar as a global currency. They have partnered with countries to create BRICs. As you know, we've had the – we've seen the BRICs conference. There's an argument that something such as BRICs would offset US financial leadership and that a concept like outbound investment will expedite that shift.

On the contrary though, if the US develops an outbound regime, we would, in my opinion, be able to garner support from allies like Japan and the UK to develop their own. Mr. Pottinger, I'll start with you this time. How impactful would that be for the US national security for us to do that?

MATTHEW POTTINGER: Well, I do think that there's an argument that can be made and I've heard it made by Treasury officials that if we overuse our SDN sanctions authority, it creates an incentive for other governments, particularly adversarial governments to – to try to find workarounds to the US dollar. So that might be a consideration as well in this debate.

But the – the – if I understood correctly your broader point is what is China doing to try to undermine?

NATHANIEL MORAN: That's correct.

MATTHEW POTTINGER: Yeah, there – they are, on the one hand asking their trade partners increasingly to settle trade in Chinese currency. They've launched a central bank digital currency, which I certainly wouldn't want my savings denominated in Chinese digital currency, which could just evaporate from your account at any moment.

But that's another tool they're using. Perhaps the most important one is they're trying to build new plumbing for settling transactions worldwide. Like our Swift banking system, they're trying to come up with successor systems to that that bypass US dollar and Treasury.

NATHANIEL MORAN: Before my time is up, I want to ask you about one more thing that Mr. Barr mentioned because one of the – one of the holes that we're trying to fix here is that, if we go at this alone, we still have the problem that many of our allies around the world can still invest in China and they will not feel hardly the impact of what we need them to feel to be able to change their behavior.

So what are we doing to work with other nations to ensure that whatever we do here, they are joining us in that effort against China?

MATTHEW POTTINGER: I think, in part, it's – it's pointing to the example of what happened with Ukraine, where companies still wanted to – to get in there and – and open – open shops or – or buy oil or what have you from Russia and – and people convinced themselves that commerce would – would mitigate against something as crazy as invading your neighbor and – and getting hundreds of thousands of people killed.

But that's exactly what – what Vladimir Putin did. I think it's – it's simply leading our allies to see the long term benefits of – of – of tackling this problem. I think many of them will.

NATHANIEL MORAN: Thank you to both of you guys. Mr. Chairman, I yield back.

MICHAEL MCCAUL: Gentleman yields. We have two more members if the two witnesses have the time. Mr. Huizenga.

BILL HUIZENGA: Thank you, Mr. Chairman, and let me first start by saying I know this is a issue that is near and dear to you. It's certainly an issue that's near and dear to me and Mr. Barr and others. We've got a number of folks on the Foreign Affairs Committee who also serve on the Financial Services Committee, which has been sort of the epicenter of a lot of the sanctions regimes that have gone on. And you know, my – my own experience goes back to my

third term where I was named chair of the Monetary Policy and Trade Subcommittee and was brought in for a skiff review regarding a CFIUS review of A123 battery company that was sold to a Chinese company.

Michigan's been sort of the epicenter of a lot of the debate surrounding batteries and Goshen, for example. But really a lot of it is centered around automotive. And so we've – we've been dealing with this collectively for many, many years. And because this is a real issue, it's a problem. And Covid, I think, just underscored this in ways that nobody really expected.

Everything from paper masks to ventilators and the – and, you know, having the Defense Production Act, the DPA being invoked to bring about medical equipment, not to mention pharmaceuticals, not to mention, you know, the – the myriad of food items and all the things that – that we have become, in my opinion, overly dependent on China.

So Congress has maybe been collectively, maybe I'll – maybe I'll put it this way, I'm not – because I think the conversation has been happening within Congress, but maybe society as a whole has kind of come late to the game a bit with the dangers and the over dependence on – on China. And so we have – we have – my whole point in this is we have many common goals, which is to limit the economic and military influence that China has in – in – certainly over the United States, I would argue in the Indo-Pacific region.

So what we – what we are having the discussion about is the methods, all right. And what I personally am looking for is making sure that we have an effective and real way of curbing and bending that influence that – that – that China has had. We've done a lot of work on on that with the Financial Services Committee over the years.

The work that's been here on the – on the Foreign Affairs Committee is important. The China Select Committee. I've been working with Mr. Barr for a long time on – on these issues. And in my mind, Treasury is still sort of that – that main thrust of what – where the most effective sanctions can be. But as we know with a lot of other things here in Washington DC, whether it's the border, whether, you know, pick the issue, if you're not willing to enforce the rules and the – and the laws that are already on the books and the systems that are in place, just adding a new system isn't necessarily the solution on that.

And I just want to be very careful that we are – that we are doing that. So I do have some concerns about the – the authority being turned over to an agency that may not have the experience in that. I – I have little confidence – confidence in the Commerce Committee, for example or, you know, some – some other committees.

State Department. I mean, that's sort of, to me, doesn't make a whole lot of

sense. State Departments, that's not their – not their bailiwick. So I have a quick question for – for both of you. If you can let me know, are there – are you aware of any US companies that have invested in Chinese companies that have gone into partnership with the PLA? Go ahead.

MATTHEW POTTINGER: Sure. One that I was looking at as I was crafting the testimony was a company called 4Paradigm. 4Paradigm is a, you know, an AI firm in China that has reportedly sold software to China's military for what they called, "battalion, command, decision making, and human machine learning." That company was seeded by Goldman Sachs, Sequoia Capital, and – and probably some others as well.

Another would be BIREN technology, B-I-R-E-N. That's an advanced semiconductor designer that wants to compete with Nvidia in China. In fact, it's already on the Commerce Department's Entity List for potential ties to "weapons of mass destruction, advanced weapons systems, and high tech surveillance." And that one was invested by a couple of American venture capital firms.

BILL HUIZENGA: Ok. I know my time has expired. I don't know, Mr. Harrell, if – if the chairman will indulge. Otherwise, we can do this in, in writing. So I appreciate that. With that, Mr. Chairman, I yield back. Thank you.

MICHAEL MCCAUL: Thank you. The Chair now recognizes Mr. Lawler.

MIKE LAWLER: Thank you, Mr. Chairman. Last year, Chairman McCaul and I sent a letter to BIS Secretary Estevez with questions about how commerce is implementing US export control laws in response to China exporting goods to designated state sponsors of terrorism, Cuba, North Korea, Iran, and Syria. The indirect resourcing of state sponsors of terrorism from US entities is a serious concern and should be met with strict reform.

It took the Biden administration six months to respond to our inquiry and they seemed to share our commitment for preventing US tech from being illicitly acquired by our adversaries. But actions certainly speak louder than words. So we will see what they do on that front. Just as concerning, though, as using US tech for nefarious purposes is US investment in nefarious technology.

Not only should we not be providing resources to terror, but we should not be providing their funding. It is past time to establish outbound investment restrictions to ensure US dollars are not funding the development of tech that will be used to counter – counter to our national security interests. Is it possible to utilize or expand existing export controls to restrict US capital investment into China?

PETER HARRELL: So my understanding, and I know there's been a bit of debate on this, but my – my understanding is that – that even with the

important reforms to US export controls that Congress enacted in 2018, the Export Control Reform Act, it remains really technology focused and is just not well suited through ECRA and through the export controls to go after dollars where there is not a technology flow alongside that.

MIKE LAWLER: So are you of the mindset that we need to develop a different vehicle or regime by which to do this?

PETER HARRELL: I am. I think it's very important to develop what I would view as different but also complementary. I mean, it should be done in parallel, complementary regime to go after the dollars. So that Congress, as you say, not only are we not giving the Chinese technology, we are not investing in their ability to develop the technology.

MIKE LAWLER: Are you aware currently of – of any instances in which US government tools, such as export controls, were unable or insufficient to mitigate the risks presented by US investments into China? Any specific examples?

MATTHEW POTTINGER: Well, I – earlier, Peter was talking about the example of – of Huawei, where the President Trump took action to prevent Huawei from being able to acquire high end semiconductors that had been made with American technology. That – that approach bought time. It slowed down Huawei, but ultimately, they were able to fashion a workaround using new companies that they had established, bringing in equipment that hadn't really been geared for sale to Huawei, but ended up in service of Huawei's goals.

So I think with – with – with investment, it's sort of a similar principle at work except it's the capital flows as opposed to the – the technology. The capital – by limiting the capital flow, you're able to go after early stage things that you wouldn't see in time to apply necessarily an export control restriction.

MIKE LAWLER: This past May, leaders of the G-7 countries issued a joint statement recognizing that outbound investment could be important in complementing existing export controls and inbound investment controls as well. When President Biden issued Executive Order 14105, which focused on outbound investment in August, to your knowledge, did he consult further with our G-7 partners?

PETER HARRELL: My understanding is that the administration has been in very active discussion with G-7 partners that American diplomacy was instrumental in getting that statement that you alluded to in May. I think, ultimately, the way the US is going to get our partners to come along as the way we always have, which is a combination of us acting and us engaging in diplomacy.

I think it's going to take the European Union, some of these others a bit of time,

but I am optimistic that with us acting and strong diplomacy, by the executive branch but also by Congress, we'll pull them along with us.

MIKE LAWLER: Are you aware of any similar executive actions being taken by any of our allies and partners?

PETER HARRELL: So the European Union has begun a regulatory process to look at this. I – obviously, we're going to have to keep up the pressure on them to get it over the finish line, but they have begun a regulatory process on this.

MIKE LAWLER: Great. Thank you. I yield back.

MICHAEL MCCAUL: Gentleman yields. I want to thank the witnesses for their valuable testimony. Additional questions may be submitted by members of the committee that we'll ask you to respond to in writing. Pursuant to committee rules, all members may have five days to submit statements and questions for the record. Without objection, the committee stands adjourned.