AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

EXAMINING POLICIES TO COUNTER CHINA

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

FEBRUARY 25, 2025

Serial No. 119–5

Printed for the use of the Committee on Financial Services



EXAMINING POLICIES TO COUNTER CHINA

EXAMINING POLICIES TO COUNTER CHINA

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

FEBRUARY 25, 2025

Serial No. 119–5

Printed for the use of the Committee on Financial Services



www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
59–601 PDF WASHINGTON : 2025

HOUSE COMMITTEE ON FINANCIAL SERVICES

FRENCH HILL, Arkansas, *Chairman*

BILL HUIZENGA, Michigan, *Vice Chairman*
FRANK D. LUCAS, Oklahoma
PETE SESSIONS, Texas
ANN WAGNER, Missouri
ANDY BARR, Kentucky
ROGER WILLIAMS, Texas
TOM EMMER, Minnesota
BARRY LOUDERMILK, Georgia
WARREN DAVIDSON, Ohio
JOHN W. ROSE, Tennessee
BRYAN STEIL, Wisconsin
WILLIAM R. TIMMONS, IV, South Carolina
MARLIN STUTZMAN, Indiana
RALPH NORMAN, South Carolina
DANIEL MEUSER, Pennsylvania
YOUNG KIM, California
BYRON DONALDS, Florida
ANDREW R. GARBARINO, New York
SCOTT FITZGERALD, Wisconsin
MIKE FLOOD, Nebraska
MICHAEL LAWLER, New York
MONICA DE LA CRUZ, Texas
ANDREW OGLES, Tennessee
ZACHARY NUNN, Iowa
LISA McCLAIN, Michigan
MARIA SALAZAR, Florida
TROY DOWNING, Montana
MIKE HARIDOPOLOS, Florida
TIM MOORE, North Carolina

MAXINE WATERS, California, *Ranking Member*
SYLVIA R. GARCIA, Texas, *Vice Ranking Member*
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DAVID SCOTT, Georgia
STEPHEN F. LYNCH, Massachusetts
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
JAMES A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
SEAN CASTEN, Illinois
AYANNA, Massachusetts
RASHIDA TLAIB, Michigan
RITCHIE TORRES, New York
NIKEMA WILLIAMS, Georgia
BRITTANY PETTERSEN, Colorado
CLEO FIELDS, Louisiana
JANELLE BYNUM, Oregon
SAM LICCARDO, California

Ben Johnson, *Staff Director*

C O N T E N T S

TUESDAY, FEBRUARY 25, 2025

Page

OPENING STATEMENTS

Hon. French Hill, Chairman of the Committee on Financial Services, a U.S. Representative from Arkansas 1
Hon. Maxine Waters, Ranking Member of the Committee on Financial Services, a U.S. Representative from California 3

STATEMENTS

Hon. Joyce Beatty, Ranking Member of the Subcommittee on National Security, Illicit Finance, and International Financial Institutions, a U.S. Representative from Ohio 78

WITNESSES

Mr. John Miller, Senior Vice President of Policy, Trust, Data, and Technology, and General Counsel, Information Technology Industry Council 4
Prepared Statement 7
Mr. Nicholas McMurray, Managing Director, International and Nuclear Policy, ClearPath 13
Prepared Statement 15
Mr. John Cassara, Special Agent, United States Department of Treasury (Retired) 25
Prepared Statement 27
Mr. Martin Mühleisen, Nonresident Senior Fellow, GeoEconomics Center, Atlantic Council 62
Prepared Statement 64
Dr. Rush Doshi, C.V. Starr Senior Fellow for Asia Studies, and Director of the China Strategy Initiative at the Council on Foreign Relations, and Assistant Professor, Edmund A. Walsh School of Foreign Service, Georgetown University 70
Prepared Statement 73

APPENDIX

MATERIALS SUBMITTED FOR THE RECORD

Hon. French Hill:
Build Back Nuclear, March 1, 2021 136
Our Energy Future, January 16, 2025 140
Hon. Bill Huizenga:
The IMF Reform and Integrity Act 142
Hon. David Scott:
Treasury Secretary Scott Bessent Letter 148
Hon. Ayanna Pressley:
Elon Musk's China Threat 152
China May Welcome Elon Musk's Cuts 159
How Elon Musk's deep ties-to and admiration for-China could complicate Trump's Beijing Policy 162
Elon Musk: A Chinese Puppet? 166
Elon Musk Is a National Security Risk 171

Page

Mr. Martin Mühleisen:
CFS Funding Disclosure 173
Mr. John Miller:
ITI's Policy Recommendation for U.S. Economic Security 176
Washington Institute for Near East Policy:
Washington Institute for Near East Policy Letter 186
Beijing's Passive-Aggressive Middle East Policy 187
China's Security Presence in the Middle East 190
North Africa in an Era of Great Power Competition 214
G42 and the China-UAE-US Triangle 265
How Russia's Invasion of Ukraine is Reshaping the Global Arms Market . 270
CATO Institute: Chinese Ownership of U.S. Farmland: Separating the Wheat from the Chaff 290
Alliance for Peace Building 297
CJPA Global Advisors LLC 302
Transparency International U.S. ("TI US") 304
Center for American Progress (CAP) 308
Prepare Statement from Ms. Celina B. Realuyo, Adjunct Professor, The George Washington University Elliott School of International Affairs Statement 330

RESPONSES TO QUESTIONS FOR THE RECORD

Written responses to questions for the record from Representative Maxine Waters
Mr. John Miller 346
Mr. Nicolas McMurray 348
Mr. John Cassara 350
Mr. Martin Mühleisen 353
Dr. Rush Doshi 354
Written responses to questions for the record from Representative Warren Davidson
Mr. John Miller 358
Written responses to questions for the record from Representative Troy Downing
Mr. Nicolas McMurray 362
Mr. John Miller 364
Mr. John Cassara 366

LEGISLATION

H.R. ———, the PROTECT Taiwan Act 368
H.R. ———, the Agricultural Risk Review Act of 2025 371
H.R. 910, the Taiwan Non-Discrimination Act 375
H.R. ———, the Taiwan Conflict Deterrence Act of 2025 384
H.R. ———, the International Nuclear Energy Financing Act of 2025 394
H.R. ———, the Protecting America's Medical Supply Chains Act of 2025 402
H.R. ———, the Stop Fentanyl Money Laundering Act of 2025 409
H.R. ———, the Stop Chinese Fentanyl Act of 2025 414
H.R. ———, the Combating Money Laundering in Cyber Crime Act of 2025 422
H.R. ———, the China Financial Threat Mitigation Act of 2025 425
H.R. ———, the Neutralizing Unfair Chinese Export Subsidies Act of 2025 428
H.R. ———, the Financial Privacy Act of 2025 433
H.R. ———, the Financial Technology Protection Act of 2025 439
H.R. ———, the International Financial Institutions Governance Act of 2025 . 448
H.R. ———, the Aligning SEC Regulations for the World bank's International Development Association Act 453
H.R. ———, the OFAC Licensure for Investigators Act 456
H.R. ———, the African Development Fund Replenishment Act of 2025 460

EXAMING POLICIES TO COUNTER CHINA

Tuesday, February 25, 2025

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. J. French Hill [chairman of the committee] presiding.

Present: Representatives Hill, Lucas, Sessions, Huizenga, Wagner, Barr, Williams of Texas, Davidson, Rose, Steil, Timmons, Stutzman, Norman, Meuser, Kim, Garbarino, Fitzgerald, Flood, Lawler, De La Cruz, Nunn, McClain, Downing, Haridopolos, Moore, Waters, Velázquez, Sherman, Meeks, Scott, Lynch, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez, Casten, Pressley, Tlaib, Garcia, Williams of Georgia, Fields, Bynum, and Liccardo.

Chairman HILL. Without objection, the chair is authorized to declare a recess of the committee at any time.

This hearing is entitled "Examining Policies to Counter China."

Without objection, all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

I now recognize myself for 4 minutes for an opening statement.

OPENING STATEMENT OF HON. FRENCH HILL, CHAIRMAN OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM ARKANSAS

I want to welcome our members to this hearing on China, and I will look forward to our testimony.

From the very first Trump Administration, many will recall a key China policy issue as the global race to fifth generation (5G) of wireless network technology. We urged caution to our foreign partners by both the executive and the legislative branch and our friends around the world about telecom infrastructure. We said there is a right way, and there is a Huawei. Yet, other technologies before 5G showed that there is always a country that launches an innovation first is not always the one that wins. Rather, it is the economy that has got the economic system to transform those technological advances into winning new products and services resulting in economic and productivity gains.

I open with this example of 5G because, in the broader context of our economic and geopolitical rivalry with China, it is often neglected. Instead, narrow questions end up taking an existential importance. One day, it is the race to 5G; the next day, it is concern

over a trendy Chinese app like TikTok; or, today, it is DeepSeek's ability to answer a question in more or less time than a U.S. competitor.

Of course, these things merit our close attention but if these are the trees, then Congress must really still see the forest. For example, if we edge out China in artificial intelligence, but Washington prevents our companies from commercializing it, what happens? If we secure a 1-year lead in hypersonics, but a defense procurement obstacle course makes its deployment a pipe dream? What if we attract to our shores the greatest technical minds in the world, but our tangle of red tape regulations means that their startups being taken public is out of the question? In short, winning a race is no substitute for choosing a better way of life with a better political and economic system.

At our hearing today, we will examine tools to counter China. Make no mistake, those tools are embedded in an American system, and it is the health of our thriving system that ultimately decides who will prevail.

We will use sanctions, for example, but sanctions did not build a $30 trillion economy. We can use export controls, but it was not export controls that created eight American exceptional technology companies, each worth more than a trillion dollars. We can use the Committee on Foreign Investment in the United States (CFIUS), but CFIUS did not make the dollar the world's premier reserve currency.

Today's hearing is based on the idea that beating China means doubling down on American strengths. First, we must ensure that our Federal budget, our fiscal house, is in order and on a sustainable path. Next, we must lead a global financial system where like-minded economies reject nontransparent, predatory lending, and mercantilism while crafting and enforcing rules that safeguard economic growth and stability.

Second, our investors, our markets, our institutions, both large and small, must be able to nurture cutting-edge ideas and help take them from friends-and-family backed startups to an initial public offering.

Third, we must ensure that access to capital is coupled with access to energy. That means the United States must champion an all-the-above energy strategy, offering real alternatives to failed Chinese lending and white elephants.

Last but not least, our strength depends on prioritizing Americans' health and safety of our hometowns and our cities, which have been so devastated by an opioid surge that China has helped unleash.

Each of these elements is key to any real China strategy, and it is critical that they are all addressed today.

I yield back, and the chair now recognizes the ranking member of the committee, the gentlewoman from California, for a 4 minute opening statement.

OPENING STATMENT OF HON. MAXINE WATERS, RANKING MEMBER OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Thank you, Mr. Chairman, for this hearing. This is very important.

Good morning, everyone. I and committee Democrats have long recognized the national security concerns and threats to our economy from the Chinese Communist Party. We are very supportive of efforts to prevent Wall Street from investing Americans' hard-earned savings in the Chinese military. I have also pressed for the United States to use an influence at the IMF—that is the International Monetary Fund—the World Bank, and other multilateral institutions to stop the worst lending, contracting, and other industrial practices of China.

Mr. Chair, while I would love to work with you in a bipartisan way to advance efforts to stop China's aggression, I am concerned that our efforts would be meaningless as President Trump and his unelected billionaire Co-President, Elon Musk, destroy the U.S. Government and our alliances. In just the past month, Trump has imposed import taxes on our closest allies, frozen aid for impoverished nations, illegally shuddered U.S. Agency for International Development (USAID) and Consumer Financial Protection Bureau (CFPB), and threatened to illegally seize Greenland, Canada, and the Panama Canal. Inexplicably, he has also sided with Russia's President Putin over allies in Ukraine and Europe, withholding military assistance and blaming Russia's murderous invasion on the victims of its war.

As Trump tears up treaties and alliances, embraces dictators, and abandons America's global leadership role, he has given China a free pass to fill the void left by his retreat. We are here to talk about China and discuss bills about countering Chinese Government aggression, all while Trump, Musk, and congressional—some—congressional Republicans give China the green light to seize other of our allies—such as Taiwan. Trump and Musk have so eagerly sold-out America's values and workers to China because they are singularly focused on billionaire tax cuts and amassing more personal wealth.

As it stands, Elon Musk makes billions in China, where more than half of Tesla vehicles are produced. Nearly 40 percent of Tesla's battery supply relies on Chinese companies, and Chinese buyers represent Elon Musk's largest markets. While Tesla's sales continue to collapse in the United States, last year, there was a 90 percent increase in China, and Trump is ready to forcibly remove Gazans to build golf courses for Trump and his billionaire friends and investors, just as the CCP—that is the Chinese Communist Party—forced removal of Uyghurs from their land.

Racist nationalism, antidemocratic activity, and even genocide and war are not a concern if it means power and wealth for them and their billionaire class. While this is to be expected from people like Musk and Trump, I am deeply disappointed that my Republican colleagues, many of whom have previously been outspoken about the important role the United States plays as a beacon of freedom and defender of democracy around the globe. Republicans did not even speak up when the Trump Pentagon refused to allow

one of its trafficking experts to join us today to speak about Chinese fentanyl precursors and Chinese money laundering.

Committee Democrats believe that together we can solve the world's greatest problems. To counter China, we must stand with our allies and fight for a vibrant, effective democracy with respected civil servants who carry out our foreign policy. Democrats will not rest until we stop the unlawful effort to dismantle our government here and overseas. Hopefully, our Republican colleagues will come to their senses and join us in this effort.

Thank you for the additional time, Mr. Chair.

Chairman HILL. The gentlewoman yields back. Today we——

Ms. WATERS. I yield back.

Chairman HILL [continuing]. we welcome the testimony of John Miller, Senior Vice President of Policy, Trust, Data, and Technology, and General Counsel, Information Technology Industry Council; Nicholas McMurray, the Managing Director of International and Nuclear Policy, ClearPath; John Cassara, a retired Special Agent formally with the U.S. Treasury Department; Martin Mühleisen, a Nonresident Senior Fellow at the GeoEconomic Centers at the Atlantic Council; and Dr. Rush Doshi, the Cornelius Vander (C.V.) Starr Senior Fellow For Asian Studies, and Director of the China Strategy Initiative at the Council on Foreign Relations, and an Assistant Professor at Georgetown University.

We thank each of you for taking time with us today. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony.

Without objection, your written statements will all be made part of the record.

Mr. Miller, you are now recognized for 5 minutes.

STATEMENT OF JOHN MILLER, SENIOR VICE PRESIDENT OF POLICY, TRUST, DATA, AND TECHNOLOGY, AND GENERAL COUNSEL, INFORMATION TECHNOLOGY INDUSTRY COUNCIL

Mr. MILLER. Chairman Hill, Ranking Member Waters, and distinguished members of the committee, on behalf of the Information Technology Industry Council, or ITI, thank you for the opportunity to testify today on examining U.S.' policies to counter China.

This is a timely topic, and I commend the committee for its thoughtful and sustained engagement in this area.

ITI is a global policy and advocacy organization representing eighty of the world's leading tech companies. I lead ITI's Trust Data and Technology Policy Team, including our work on security, artificial intelligence, and data policy in the United States and globally.

ITI's members represent every vertical of the tech ecosystem from cloud and artificial intelligence (AI) to consumer electronics, from semiconductors and data centers to cybersecurity. Our membership represents around 10 percent of the U.S. Gross Domestic Product (GDP), directly employs 9 million Americans, and accounts for roughly 32 percent of the market capitalization of the 500, Standard and Poor's (S&P) 500.

As of 2024, there were seven companies that had reached or exceeded global market cap of $1 trillion. Six of those seven are U.S. tech companies who are ITI members. Policymakers should recog-

nize the preeminence of these companies and the innovation economy they anchor as an asset and the envy of other nations.

Indeed, the strength of the innovation economy bolsters the broader U.S. economy and drives the U.S. competitive advantage in tools and capabilities that underpin U.S. national security, such as semiconductors, AI, quantum and advanced manufacturing.

Do not take for granted the current U.S. technology lead over China. China's longstanding disregard for international norms governing free trade and market access and its theft of information technology (IT) has been well established and must be addressed. However, regardless of whether China plays by the rules, we should be clear eyed that, over the past two decades, China has improved in technological development, innovation, and growth, and that these gains have not been achieved simply by virtue of stealing U.S. technologies.

Make no mistake, ITI and the companies we represent take seriously the U.S. Government's obligation to protect national security. Successful policies to counter China's technological rise must enable companies to better compete globally—not wall the United States off from competing with China or inadvertently erect hurdles to U.S. tech, innovation, and investment.

U.S. investments, supply chain, tax and trade policies, and regulations must be crafted to maintain the current asymmetric advantage as a key driver of U.S. economic security. We believe the government and industry must work together to achieve these objectives in a way that supports the innovation, investment, and economic growth that are foundational elements of economic security.

This morning, ITI released a paper offering our members' consensus policy recommendations for U.S. economic security. Our paper defines economic security as encompassing elements of the economy that affect the stability, technological competitiveness, and resilience that enable the government to better protect national security. The ideal policy environment to foster U.S. economic security is one in which the global success of American and multinational companies operating in the United States supports technological leadership and innovation, and the government and private sector work side by side to safeguard critical technologies.

Our paper, which is incorporated as part of my written statement, offers ten recommendations, three of which I will highlight now. First, in the area of financial policy, investment and transaction reviews should strengthen economic ties with allies by establishing clear and targeted national security criteria for what is reviewable.

Capital investments, both inbound and outbound, are foundational and help companies in the United States diversify the supply chain, engage the research and development ecosystem, gain access to global talent, and gather global market intelligence.

Overly broad investment restrictions, whether through CFIUS or the Outbound Investment Security Program, will impede domestic and overseas investment in and by U.S. companies and consequently decrease economic security.

Second, reinvigorate U.S. trade leadership and open new markets to optimize for both trade and economic security. ITI encourages the U.S. Government to negotiate robust finding commitments that

facilitate trade through new strategic and targeted bilateral and multilateral market access agreements to enable U.S. companies to compete on an even playing field.

Third, continue to incentivize innovation and investment in foundational and emerging technology. One near-term priority should be restoring the immediate tax deduction of research and development (R&D) expenses to drive innovation and create high-wage jobs in the United States. Another should be maintaining and improving the Creating Helpful Incentives to Produce Semiconductors (CHIPS) program by pursuing meaningful permitting reform and streamlined reporting requirements. Doing so will help promote these multibillion-dollar investments in semiconductors, the building blocks of the modern digital economy, as a strategic economic security asset.

Thank you again for the opportunity to testify today. I look forward to your questions.

[The prepared statement of Mr. Miller follows:]

ide

Written Testimony of

John Miller
Senior Vice President of Policy and General Counsel
Information Technology Industry Council (ITI)

Before the

Committee on Financial Services

United States House of Representatives

Examining Policies to Counter China

February 25, 2025

Global Headquarters
700 K Street NW, Suite 600
Washington, D.C. 20001, USA
+1 202-737-8888

Europe Office
Rue de la Loi 227
Brussels - 1040, Belgium
+32 (0)2-321-10-90

info@itic.org
www.itic.org
@iti_techtweets

Written Testimony of
John Miller
Senior Vice President of Policy and General Counsel
Information Technology Industry Council (ITI)

Before the
Committee on Financial Services
United States House of Representatives

Examining Policies to Counter China

February 25, 2025

Chair Hill, Ranking Member Waters, and Distinguished Members of the Committee on Financial Services, thank you for the opportunity to testify today. I am John Miller, Senior Vice President of Policy and General Counsel at the Information Technology Industry Council (ITI).[1]

I lead ITI's Trust, Data, and Technology policy team, including our work on security, data privacy, artificial intelligence (AI) and other emerging technologies, and related policy issues in the United States and globally. I have worked for the technology industry for nearly two decades, including deep experience working on policy and legal issues at the intersection of technology, national security, and global trade. I also have extensive experience working with the U.S. government in a leadership and expert capacity in public-private partnerships focused on security and technology. This experience includes serving as the current Co-chair of the Information and Communications Technology Supply Chain Risk Management Task Force (ICT SCRM Task Force), the preeminent public-private partnership entrusted with the critical mission of developing strategies and actionable tools to enhance the security and resilience of the global ICT supply chain, and on the Executive Committee of the Information Technology Sector Coordinating Council (ITSCC), the principal IT sector partner to the Department of Homeland Security and other federal partners on critical infrastructure protection and cybersecurity policy (after previously serving consecutive terms as ITSCC Chair). I have also previously served as a principal IT sector

[1] The Information Technology Industry Council (ITI) is the premier global advocate for technology, representing the world's most innovative companies. Founded in 1916, ITI is an international trade association with a team of professionals on four continents. We promote public policies and industry standards that advance competition and innovation worldwide. Our diverse membership and expert staff provide policymakers the broadest perspective and thought leadership from technology, hardware, software, services, manufacturing, and related industries. Visit https://www.itic.org/ to learn more.

representative to the Enduring Security Framework, a public-private partnership that works to address risks to the security and stability of U.S. National Security Systems and critical infrastructure, and on multiple National Security and Telecommunications Advisory Committee (NSTAC) panels, including most recently to study and issue a report on *Addressing the Abuse* of *Domestic Infrastructure by Foreign Malicious Actors*.

I am honored to testify before your committee today on the important topic of *Examining Policies to Counter China*, and I commend the committee for its thoughtful and sustained engagement over the past several Congresses in examining the complex China relationship and its impact on U.S. national and economic security. Today's hearing is particularly timely coming at the beginning of the Trump-Vance administration and a new Congress, as U.S. policymakers seek to evaluate the dynamic set of issues at the nexus of China, technology, security, and trade, including to evaluate the effectiveness of recently advanced policies in this space and whether they effectively address the government's national and economic security objectives without undermining U.S. technology leadership.

ITI represents 80 of the world's leading information and communications technology (ICT) companies.[2] ITI's membership comprises innovative companies from every vertical of the information technology ecosystem, including hardware, AI, software, digital services, semiconductors, network equipment, cloud, consumer electronics, and other internet and technology-enabled companies that rely on ICT to evolve their businesses. Most of ITI's members service the global market via complex supply chains in which technology is developed, made, and assembled in multiple countries, and service customers across all levels of government and the full range of global industry sectors, such as financial services, healthcare, and energy.

Our membership represents around 10% of the U.S. Gross Domestic Product (GDP), directly employs nine million Americans, and accounts for roughly 32% of the market capitalization of the S&P 500. As of 2024, there were seven companies that had reached or exceeded a global market capitalization of $1 trillion dollars. Six of those seven companies are U.S. companies, all of which are technology companies and ITI members. Policymakers should consider the preeminence of these companies and the innovation economy they anchor as an asset and recognize their leadership position is envied by other nations. The strength of the innovation economy bolsters the broader U.S. economy and drives the U.S.' competitive advantage in tools and

[2] See ITI membership list at: https://www.itic.org/about/membership/iti-members

capabilities that underpin U.S. national security, such as semiconductors, artificial intelligence (AI), quantum technologies, and advanced manufacturing.

I encourage policymakers not to take the current U.S. technology lead over China or other competitors for granted. China's longstanding disregard for international norms governing free trade and market access and its theft of IP has been well-documented and must be addressed. Regardless of whether China plays by the rules or not, however, we should be clear-eyed that over the past two decades China has improved in technological development, innovation, and growth, and that these technological gains have not been achieved simply by virtue of stealing U.S. technology. Therefore, efforts to wall the U.S. off from competition with China or even to preclude U.S. companies from competing there will not solve the problems associated with China's technological rise. U.S. investment, trade, supply chain, and tax policies as well as regulations must be crafted to maintain the current asymmetric advantage of U.S. companies as a key driver of U.S. economic security.

Maintaining and expanding this advantage requires policies that enable companies to better compete globally, not policies that may inadvertently erect hurdles to U.S. technology innovation and investment. Make no mistake - our organization and the companies we represent respect and take seriously the U.S. government's obligation to protect national and economic security. We believe the government and industry must work together to achieve these objectives in a way that supports the competitiveness, innovation, investment, and economic growth that are in fact foundational elements and drivers of economic security.

I. ITI's Policy Recommendations for U.S. Economic Security

This morning, ITI released a paper representing a consensus across our member companies of how to tackle this issue - *ITI's Policy Recommendations for U.S. Economic Security*. This paper is attached to and incorporated as part of this written statement. Our paper defines U.S. economic security as encompassing elements of the economy that affect the stability, technological competitiveness, and resilience that enable the government to better protect national security, identifies what U.S. economic security policy can and should achieve, and provides recommendations for policies that will foster U.S. economic security. Our paper posits that the ideal policy environment to foster economic security is one in which the global success of American and multinational companies operating in the U.S. supports technological leadership and innovation, while working with the private sector to safeguard critical technologies.

While the balance of my written testimony will highlight just a few of the key recommendations from our paper which speak directly to the topic of today's hearing, I refer to and encourage the members of the Committee to read our full paper which contains a total of ten recommendations, all of which are relevant to today's hearing.

A. Ensure that Financial Policy – Especially Investment and Transaction Reviews – Strengthens Ties with Allies by Establishing Clear and Targeted National Security Criteria for What is Reviewable. Capital investments, both inbound and outbound, are foundational to promoting U.S. economic security, as they help companies in the United States diversify the supply chain, engage the research and development ecosystem, and gather intelligence on global market conditions. Overly broad investment restrictions, whether through CFIUS or the Outbound Investment Security Program, will impede domestic and overseas investment in and by U.S. companies and consequently decrease U.S. economic security. Policymakers should be mindful of the economic security value of outbound investments, such as knowledge acquisition of the current state of the technology, insights into competitor activities, strengthened economic ties with allies, and access to global talent.

B. Reinvigorate U.S. Trade Leadership and Open New Markets to Support Economic Security and Competitiveness. ITI encourages the U.S. government to optimize for both trade and economic security by negotiating robust, binding commitments that facilitate trade through new strategic and targeted bilateral and multilateral market access agreements to enable U.S. companies to compete on an even playing field. Securing market access allows U.S. exports to reach a global marketplace, further strengthens supply chains by making them more resilient, and increases U.S. exports. Trade commitments should aim to reduce tariffs, secure non-discriminatory treatment of goods and services, promote acceptance of international certification and conformity assessments (instead of requiring country-unique reviews), and counter local content requirements.

C. Incentivize Innovation and Investment in Foundational and Emerging Technology. ITI recommends that the government continue to incentivize innovation and investment in foundational and emerging technology. One near-term priority should be restoring the immediate tax deduction of research and development expenses to drive innovation in areas such as AI and quantum and create high-wage jobs in the United States. Another should be maintaining and improving the CHIPS program by pursuing meaningful permitting reform and streamlined reporting requirements to help facilitate these multi-billion-dollar investments in semiconductors, the building blocks of the modern digital economy and a strategic

asset for any country's economic and national security. Since the enactment of the bipartisan CHIPS and Science Act, itself a product of the discussions during the first Trump Administration – total public and private investment in the U.S. has exceeded $300 billion, supporting over 115,000 jobs in direct manufacturing and construction.

Conclusion

Members of the Committee, ITI and our member companies once again commend you for your leadership and continued focus on this complex set of issues. Technology sector investments are fueling an American manufacturing renaissance, innovating new means of productivity and efficiency with artificial intelligence, and will continue to serve as the cornerstone of long-term US economic security. We appreciate your approach to engaging with stakeholders to ensure =we strike the right policy balance that keeps the U.S. in the lead.

ITI stands ready to provide the Committee with any additional input and assistance as it seeks to ensure that the U.S. approach to economic security policy achieves its multiple important objectives of protecting national security while promoting U.S. economic and investment competitiveness alongside continued technological leadership. The paper attached to my testimony, *ITI's Policy Recommendations for U.S. Economic Security,* is intended to help policymakers develop smart, balanced policies to address the topic of today's hearing and realize an environment in which the global success of American and multinational companies operating in the U.S. strengthens domestic manufacturing, job growth, technological development, and, by extension, national security.

I would like to again thank the Chair, Ranking Member, and Members of the Committee for inviting me to testify today and for your interest in and examination of these important issues. I look forward to your questions.

Thank you.

[The information referred to can be found in the appendix.]

Chairman HILL. Thank you, Mr. Miller.

Mr. McMurray, you are now recognized for 5 minutes.

STATEMENT OF NICHOLAS MCMURRAY, MANAGING DIRECTOR, INTERNATIONAL AND NUCLEAR POLICY, CLEARPATH

Mr. MCMURRAY. Good morning, Chairman Hill, Ranking Member Waters, and members of the committee. Thank you for the invitation to testify today. My name is Nicholas McMurray. I am the Managing Director of International and Nuclear Policy at ClearPath.

At ClearPath, we believe in markets over mandates and innovation over regulation. When it comes to energy, we want to make it here, sell it globally, and compete with China. The global energy landscape is rapidly evolving. Demand growth is skyrocketing——

Chairman HILL. Could you pull your mic a little closer please?

Mr. MCMURRAY. Supply chains are shifting, and we are in a global competition. Countries want more reliable, affordable, and cleaner energy to fuel their economies. This is a major opportunity for U.S. companies to lead. Strategic financing tools can help the United States strengthen its energy leadership, open new markets, and counter China.

Let me put this into context: China currently has 57 operating nuclear reactors and 28 reactors under construction. While the United States has 94 operating reactors, it currently has no commercial reactors under construction, but several demonstrations are close.

The world's electricity consumption is at an all-time high. The International Energy Agency says global electricity demand could increase up to 76 percent, and we could see double in U.S. electricity demand by 2050.

American private sector innovation is the key, and it extends beyond domestic borders. Take advancements in liquefied natural gas (LNG), for example. In 2023, the United States surged its LNG exports. As a result, Russia's market share in the EU, European Union, was reduced from 40 percent in 2021 to 8 percent in 2023. There is also a huge economic opportunity for American companies and other technologies.

If the United States does not act now; the world will choose cheap options from China. China is already taking an all-of-the-above energy approach. For example, last year, China started construction on about 94 gigawatts of coal capacity and also invested $940 billion in clean energy. Without a focused effort to expand domestic energy production, U.S. companies risk being sidelined in global markets.

To level the playing field, the United States must strengthen its trade and development finance toolkit. Export and development financing plays a pivotal role in advancing America's strategy for global energy dominance. Export-Import Bank (EXIM), and Development Finance Corporation (DFC), can strengthen U.S. leadership in global energy markets. America must take a more agile approach using financing tools to derisk projects and attract private capital.

Export and development finance prioritizes investments in infrastructure, manufacturing, energy security, and economic partnerships. EXIM Bank and DFC provide loans and guarantees that must be repaid, ensuring taxpayers dollars are used efficiently while expanding opportunities for U.S. businesses. This approach creates American jobs, strengthens economic ties, and positions the United States as the global energy partner.

Both the EXIM Bank and DFC are due for reauthorization this Congress, creating a prime opportunity to refine America's foreign policy toolkit. While EXIM Bank is one of the best tools for increasing export competitiveness, its current capabilities limit the Bank from achieving energy dominance.

The following five recommendations could bolster U.S. energy leadership, enhance energy security, and create domestic jobs. First, create a national interest account to consider the geostrategic value of investments. Second, expand the China and Transformational Exports Program to include broader technologies. Third, increase the default cap rate for nuclear projects. Fourth, reinforce the U.S. jobs mandate. Fifth, bolster domestic manufacturing and overall modernize the bank's mission.

I would be remiss if I did not mention DFC's reauthorization this year. Created during the first Trump Administration to counter China's Belt and Road Initiative, DFC has established itself as an effective tool in countering China. For example, it now supports nuclear projects after removing its nuclear moratorium in 2020.

The World Bank also plays a critical role, but its outdated policies have left a gap that China has eagerly exploited, particularly its self-imposed restrictions on financing nuclear power. In order to achieve energy dominance, the government must provide a predictable environment for developers to attract private investment. The work in this committee will be critical to providing stability for companies seeking to raise capital and compete globally.

In conclusion, the United States must build domestically and sell globally to compete with China. Meeting growing energy demand and strengthening global energy leadership requires bold action.

Finally, Congress has a unique opportunity to strengthen American solutions by modernizing export and developing financing to support nuclear, LNG, geothermal, and other technologies.

I look forward to today's discussion. Thank you.

[The prepared statement of Mr. McMurray follows:]

Testimony of Nicholas McMurray
Managing Director of International and Nuclear Policy
ClearPath, Inc.
U.S. House Committee on Financial Services
"Examining Policies to Counter China"

February 25, 2025

Good morning Chairman Hill, Ranking Member Waters, and Members of the Committee. Thank you for the opportunity to address the Committee today on the imperative of American energy dominance around the world to ensure our national security at home and leadership abroad.

My name is Nicholas McMurray. I am the Managing Director of International and Nuclear Policy at ClearPath, a 501(c)(3) organization that works to accelerate American innovation to reduce global energy emissions. Industry-informed but philanthropically funded, ClearPath runs like a business — we seek out the top private sector innovators, determine the barriers to their success, and help cultivate the environment that allows them to scale up.

The global energy landscape is rapidly evolving, shaped by growing demand, shifting supply chains, and heightened competition among major energy producers. For example, China currently has 57 nuclear reactors in operation and 28 reactors under construction.[1] In contrast, while the U.S. has 94 reactors in operation, it currently does not have any commercial reactors under construction[2] although several of the advanced reactor demonstrations supported by public-private partnerships are close. China also continues to finance and construct large-scale energy infrastructure in nations like Pakistan[3] and Argentina.[4] Nations around the world are seeking more reliable, affordable, and cleaner energy solutions to fuel their economies while breaking dependencies on predatory suppliers like China. This presents a significant opportunity for American energy dominance as U.S. companies lead in innovation across nuclear, natural gas, and other cutting-edge energy technologies. Strategic financing tools and pro-growth policies can help the U.S. strengthen its energy leadership, open new markets and counter adversaries.

The Global Energy Landscape

The world's energy consumption is at an all-time high. Some estimates show the demand for electricity generation in the U.S. will double by 2050.[5] Similarly, the International Energy Agency (IEA) notes that global energy demand is accelerating its growth rate.[6]

---

[1] https://pris.iaea.org/pris/CountryStatistics/CountryDetails.aspx?current=CN
[2] https://pris.iaea.org/PRIS/CountryStatistics/CountryDetails.aspx?current=US
[3] https://www.cnn.com/2023/06/20/asia/pakistan-china-nuclear-power-plant-deal-intl-hnk/index.html
[4] https://www.cfr.org/backgrounder/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri
[5] https://liftoff.energy.gov/demandgrowth/
[6] https://www.iea.org/reports/electricity-2024/executive-summary

American private sector innovation is the key to meeting today's rising energy demand while ensuring that the U.S. remains the global leader in clean, reliable, and affordable energy solutions. By rapidly scaling the deployment of cutting-edge energy technologies – such as advanced nuclear, clean hydrogen, long-duration storage, and carbon management – the U.S. can drive down costs and establish itself as the premier exporter of these solutions.

This kind of commitment to innovation extends beyond domestic borders. The U.S. has demonstrated its ability to address international energy challenges. For decades, the European Union (EU) relied heavily on Russian natural gas imports, which grew in share even after the invasion and annexation of Crimea in 2014. In one year, the U.S. surged its Liquified Natural Gas (LNG) exports,[7] driving Russia's market share in the EU down[8] from 40 percent in 2021 to 8 percent in 2023. The economic opportunity for America's clean energy innovators is immense, with some estimates suggesting a potential $10 trillion in domestic market and export opportunities reaching $330 billion annually by 2050.[9] More importantly, widespread adoption of these American technologies can strengthen U.S. economic and geopolitical influence while significantly reducing global emissions.

Meeting these historic energy needs at home and abroad demands a strategic approach. While the U.S. remains a leader in key areas like nuclear power operations and energy innovation, America's competitors are rapidly scaling up their domestic and international investments. China and Russia aggressively expand their influence in global energy markets by financing and constructing large-scale projects, extending their geopolitical reach. Their strategies include nuclear, oil and gas infrastructure, renewable projects, critical minerals, and others that entrench reliance on their state-backed enterprises. For example, in 2024, China started construction on about 94.5 GW of coal capacity,[10] which is just shy of total U.S. nuclear energy capacity. In addition, China also invested $940 billion in clean energy[11] last year. Without a concerted effort to expand American energy production at home and exports abroad, U.S. companies risk being sidelined in rapidly expanding global markets.

The past few years have exposed vulnerabilities in global energy markets, underscoring the need for reliable, market-driven alternatives. Supply chain disruptions from COVID-19, Russia's invasion of Ukraine, and China's tightening grip on clean energy supply chains have forced many countries to reassess their energy partnerships. Some nations, such as Finland, have already backed away from Russian projects, and others, from the Philippines to Panama, are seeking alternatives to avoid excessive debt burdens associated with Chinese financing.

China and others have leveraged their financial institutions to provide generous, long-term financing to developing countries, securing energy deals that come with diplomatic strings attached. Russia, for example, has funded a majority of Egypt's[12] and Bangladesh's[13] nuclear

[7] https://www.eia.gov/todayinenergy/detail.php?id=61483
[8] https://www.consilium.europa.eu/en/infographics/eu-gas-supply/
[9] https://www.bcg.com/publications/2022/usa-competitive-advantage-in-key-emerging-clean-tech
[10] https://www.reuters.com/business/energy/chinas-2024-coal-power-construction-hits-10-year-high-researchers-say-2025-02-13/
[11] https://www.reuters.com/world/china/chinas-clean-energy-investments-nearing-scale-global-fossil-investments-2025-02-19/
[12] https://www.reuters.com/article/us-egypt-russia-nuclear-idUSKCN0YA1G5/
[13] https://world-nuclear.org/information-library/country-profiles/countries-a-f/bangladesh

projects. By offering full-service packages – including financing, construction, and long-term operational support – China and Russia are creating decades-long dependencies on their technologies and fuel supplies. This strategy not only strengthens their economic and political influence but also undermines energy security in regions critical to U.S. interests.

The U.S. can contend by providing competitive financing and export support for diverse energy technologies, ensuring nations seeking long-term energy solutions turn to America over global competitors. U.S. innovators are already leading in these technologies, and while federal support exists, it needs modernization to stay competitive. With the right focus, America can seize this moment.

Leveling the Playing Field for U.S. Energy Dominance

U.S. government export and development financing plays a pivotal role in advancing America's strategy for global energy dominance. By providing financial support to expand innovative American energy technologies abroad, agencies like the Export-Import Bank (EXIM) and the U.S. International Development Finance Corporation (DFC) can help solidify U.S. leadership in international energy markets. Working alongside interagency partners at the Departments of Energy, State, Commerce, the U.S. Trade and Development Agency (USTDA) and others to level the playing field for America's private sector leaders both strengthens U.S. energy security and promotes the adoption of innovative American solutions worldwide.

The U.S. government will not – and should not – attempt to match China dollar-for-yuan in state-backed subsidies. Instead, America must take a more agile and strategic approach, using targeted financing tools to de-risk projects, attract private capital, and create market conditions that empower U.S. innovators and manufacturers to compete and lead globally without relying on government subsidies to prop them up.

Trade and development finance prioritizes investment in infrastructure, manufacturing, energy security, and economic partnerships that benefit both the U.S. and its trading partners. EXIM and DFC provide loans and guarantees that must be repaid, ensuring taxpayer dollars are used efficiently while expanding opportunities for U.S. businesses. This approach creates American jobs, strengthens economic ties, and positions the U.S. as the preferred energy partner for nations seeking reliable, long-term energy solutions.

An interagency effort in 2019 exemplifies the influence that the U.S. has in leveraging its financing agencies to compete with China and advance international American energy dominance. To counter China's growing influence in Romania's nuclear sector, the U.S. launched a multi-pronged strategy, including a Department of Energy (DOE) Intergovernmental Agreement[14] and an EXIM Memorandum of Understanding,[15] signaling long–term U.S. commitment. This diplomatic push resulted in the cancellation of China's negotiations to build

[14] https://www.energy.gov/articles/us-and-romania-announce-initial-agreement-cooperation-cernavoda-nuclear-power-projects-and
[15] https://www.exim.gov/news/exim-signs-7-billion-memorandum-understanding-romanias-ministry-for-economy-energy-and

Units 3 and 4 of the Cernavoda nuclear plant in Romania – an estimated $7.4 billion project.[16] In 2023, EXIM approved a $57 million loan for pre-construction studies at Cernavoda by Fluor Enterprises, supporting 200 American jobs.[17] Further, EXIM signed a letter of interest for $3 billion[18] towards the deployment of the project, set to be operational by 2031.[19]

In addition to the Cernavoda example, the U.S. is continuing to expand its nuclear financing activity in Eastern Europe. EXIM and DFC expressed letters of interest for multiple projects, including the NuScale small modular reactor (SMR) deployment in Romania,[20] the GE-Hitachi SMRs in Poland[21] as well as the Westinghouse AP1000 nuclear plants in Poland.[22]

Beyond nuclear energy, EXIM and DFC are proven valuable tools for exporting American technology abroad. In late 2024, EXIM approved a loan for over $500 million to support a natural gas project in Guyana, which will double the nation's installed electricity capacity, drive an annual emissions reduction of over 460,000 tons of carbon dioxide and generate 1,500 American jobs.[23] In the same year, DFC committed $126 million to a 31 MW geothermal plant in Indonesia[24] with the U.S.-based Ormat Technologies[25] as a part owner and developer. Additionally, both agencies are working to diversify and secure critical minerals supply chains, reducing reliance on China.

These efforts highlight the strategic value of sustained U.S. financial engagement in building energy partnerships, advancing U.S. clean energy technologies and countering adversarial influence across the globe. And these aren't handouts, they are commercially oriented efforts that earn a return on investment – $80 million back to taxpayers in 2024.[26]

Sharpening America's Toolkit

Both the EXIM Bank and DFC are due for reauthorization this Congress, creating a prime opportunity to sharpen and enhance America's foreign policy toolkit to benefit U.S. national, economic, and energy security. Other countries are bringing enormous resources to bear in an effort to dominate global energy markets, which requires the U.S. to be more agile and strategic in order to advance its long-term goals.

As America's official export credit agency (ECA), EXIM is one of the best tools for increasing export competitiveness. An increasingly competitive trade finance landscape has transformed ECAs worldwide from lenders of last resort into proactive partners, building capacity and creating business opportunities for their domestic exporters.[27] This shift is largely aimed at

[16] https://www.world-nuclear-news.org/articles/ec-approves-completion-of-romanian-reactors
[17] https://www.exim.gov/news/export-import-bank-united-states-board-directors-unanimously-approves-financing-for-three
[18] https://energyindustryreview.com/power/big-milestone-for-cernavoda-nuclear-power-plant-over-eur-6bn-funding-for-units-3-and-4/
[19] https://www.world-nuclear-news.org/articles/key-cernavoda-3-and-4-engineering-contract-signed
[20] https://www.world-nuclear-news.org/articles/us-exim-bank-approves-loan-for-romanian-smr-project
[21] https://www.energypolicy.columbia.edu/the-road-to-us-nuclear-energy-revival-may-run-through-warsaw/
[22] https://www.world-nuclear-news.org/articles/us-development-bank-considers-investing-in-polish-plant
[23] https://www.exim.gov/news/export-import-bank-united-states-board-directors-approves-more-526-million-for-guyanese-energy
[24] https://www.dfc.gov/media/press-releases/united-states-announces-new-126-million-commitment-ambitious-indonesian
[25] https://www.dfc.gov/sites/default/files/media/documents/9000104747.pdf
[26] https://www.exim.gov/news/export-import-bank-united-states-marks-90th-anniversary-84-billion-fy24-deals-supporting-38000
[27] https://img.exim.gov/s3fs-public/documents/exim_2024_competitiveness_report.pdf

countering China's non-market tactics, designed to eliminate competition in strategic markets and control geostrategic supply chains such as clean energy. China offers financing at favorable terms and conditions non-compliant with the Organization for Economic Cooperation and Development (OECD) Arrangement on Export Credit and Trade Related Support, which binds nations like the U.S. to acceptable terms for global trade.[28] While China's practices are a primary concern, other countries have already begun adapting their ECA policies to promote domestic industries, underscoring the potential for EXIM to set the pace in modernizing trade finance and reassert American global leadership.

While EXIM has made strides in the energy sector, its current capabilities limit the Bank from achieving energy dominance. Not only is China offering significantly higher levels of overall export credit than the U.S.,[29] but it is also shifting from its use of export credit to financing from state-owned commercial banks.[30] This poses an issue as these forms of financing are often more covert and difficult for the U.S. to track and compete against. Strategically tailored reforms can position the U.S. to advance national interests by improving its global export competition in critical sectors. The following recommendations outline key opportunities to bolster U.S. energy leadership and domestic jobs while enhancing energy security in partner countries:

1. **Create a National Interest Account (NIA):**

   EXIM's current mandate does not account for the geostrategic value of investments, but Congress can fix this by creating a National Interest Account that prioritizes projects related to U.S. national interests. An NIA would cement EXIM's role in the Trump Administration's America First Trade Policy[31] by leveling the playing field for U.S. companies against countries who already use similar tools[32] to work against American interests and American businesses.

2. **Expand the China & Transformational Exports Program (CTEP):**

   The CTEP program, created in 2019, was a strong first step to countering Chinese influence over advanced technologies. The NIA could prioritize similar technology areas while expanding beyond a narrow focus on renewables to support a balanced strategy for clean energy technologies such as nuclear energy, carbon management, clean manufacturing and grid infrastructure to reinforce an all-of-the-above energy dominance approach.

3. **Default Rate Cap Exclusion for Nuclear Projects:**

   EXIM's current 2% default rate cap is a unique requirement placed on the Bank that other countries do not face[33] and discourages EXIM's staff from meeting congressional

[28] https://www.oecd.org/en/topics/sub-issues/arrangement-and-sector-understandings.html
[29] https://img.exim.gov/s3fs-public/documents/exim_2024_competitiveness_report.pdf
[30] https://docs.aiddata.org/reports/belt-and-road-reboot/executive-summary.html
[31] https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/
[32] https://www.exportfinance.gov.au/our-organisation/our-governance/support-services/
[33] https://img.exim.gov/s3fs-public/documents/exim-oig_eca-evaluation_oig-ev-23-04_final_0.pdf

mandates.[34] Modifying the cap to support high capital costs technologies, like nuclear energy, would align the Bank with OECD norms and provide flexibility. This requirement, created over a decade ago and linked[35] to an outdated lending limit, is an unnecessary obstacle.

4. **Reinforce the U.S. Jobs Mandate:**

   EXIM's current standard to support its jobs mandate has not changed significantly since 1987 and is internal policy rather than Congressionally directed.[36] In a memo to the Board, EXIM reported that its current standard was the largest obstacle to the Bank's competitiveness and that it was the least flexible policy among all ECAs globally.[37] To account for globalized supply chains, Congress could authorize a forward-looking metric to modernize EXIM's mission to support U.S. jobs through exports. This incentivizes companies with globalized supply chains to shift to U.S. exporters in strategic industries.

5. **Bolster Domestic Manufacturing:**

   EXIM's Make More In America Initiative (MMIA) finances export-oriented U.S. manufacturers. This unique financing tool builds manufacturing capacity while working to improve America's trade position. With a clear tie to national interests, reauthorization could codify and strengthen the MMIA by including it in the NIA. Building domestic industrial strength in strategic areas like critical minerals could allow U.S. clean energy manufacturers to establish a leadership stake in securing supply chains.

6. **Modernize the Mission:**

   EXIM could update its mission to support American jobs *and* advance U.S. national interests. EXIM's U.S. jobs mandate remains critically important and could be reinforced with the recommendation above. However, an additional provision to consider national interests could strengthen the Bank's direction to proactively develop a project pipeline aligned with U.S. national security objectives, fostering a clear understanding that global competitiveness is a core priority.

EXIM's 2026 reauthorization is a crucial opportunity to strengthen the Bank's ability to compete and advance American national interests. However, in the short term, Congress can work with the Administration to confirm at least two additional board members to restore the Bank's quorum. Without a board quorum, EXIM cannot approve transactions over $25 million, hindering its ability to support American businesses competing in the global marketplace. The consequences of a non-functioning EXIM are significant, particularly when we consider the economic opportunities and job growth potential lost between 2015 and 2019 when the Board last lacked a quorum. During the three full fiscal years (FY 2016-2018) when EXIM lacked a

[34]https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/David%20Trulio%20Written%20Testimony.pdf
[35] https://img.exim.gov/s3fs-public/documents/exim-oig_eca-evaluation_oig-ev-23-04_final_0.pdf
[36] Ibid
[37] Ibid

quorum, it supported only 125,000 U.S. jobs and $22 billion in U.S. export sales.[38] In contrast, during the three prior fiscal years when EXIM was fully operational, it supported 624,000 U.S. jobs and $115 billion in U.S. export sales. This highlights the stark difference a fully functioning EXIM can make for American businesses and workers.

It is crucial that the Bank signals its long-term reliability and commitment to supporting American businesses, especially as it looks ahead to its 2026 reauthorization. A fully operational EXIM is not just good for business; it's good for America. It supports American jobs, strengthens our manufacturing base, and enhances our competitiveness in the global economy. It is important the President and Senate prioritize filling the vacant EXIM Board seats and restoring its quorum without delay.

Finally, the DFC – created during the first Trump Administration – already established itself as a key player in the United States' national interests for global energy leadership and in countering China. The DFC has already made notable geostrategic clean energy investments and in 2020, removed its moratorium on funding nuclear energy projects. Through DFC's reauthorization this year, Congress has the opportunity to make targeted, critical improvements to further enhance DFC's capabilities and efficiency, including 1) fixing the current budgetary scoring system DFC's equity stakes; 2) increasing the DFC's lending authority to provide the financial flexibility needed to engage in large-scale energy infrastructure projects; 3) and broadening the DFC's country eligibility criteria to invest in more strategically significant countries and regions, aligning with U.S. foreign policy objectives.

Aligning International Financial Institutions with U.S. Foreign Policy

International Financial Institutions (IFIs) like the World Bank also have a critical role to play in advancing firm, clean, and affordable energy infrastructure worldwide. Yet, they have been slow to align their financing with both energy security and geopolitical realities. These institutions were originally designed to support economic development and stability, but their outdated policies – including self-imposed restrictions on financing nuclear power and other firm energy sources – have left a gap that China has eagerly exploited. Over the past decade, China has dominated energy project financing, investing more than all major Western-backed development banks combined.[39]

Without reform, IFIs risk becoming passive enablers of China's broader geopolitical strategy to make developing countries dependent on Chinese technology and supply chains. To prevent this, the U.S. should push for reforms at IFIs not only to lift restrictions on nuclear energy financing but also to pursue broader procurement reforms that are essential to ensuring U.S. companies – not just Chinese state-backed firms – can compete fairly for IFI-backed energy projects. The United States, as a leading shareholder in these institutions, has the influence to drive these reforms. A more assertive U.S. approach would not only counter China's intentions

[38] https://www.exim.gov/news/reports
[39]https://www.bu.edu/gdp/2022/12/14/chart-of-the-week-energy-finance-commitments-by-major-development-finance-institutions-2016-2021/

but also ensure that developing nations have access to a wider range of market-driven, secure, and clean energy solutions that align with American national security interests.

Additionally, the Chinese Communist Party continues to benefit from developing nation status at the World Bank, amongst other international institutions, despite running the world's second-largest economy. Due to this status, China continues to receive over one billion in World Bank financing each year, which would be better used to contribute to economically developing democracies.[40]

Another near-term step that Congress and the Administration can take is to establish a Nuclear Energy Trust Fund at the World Bank. The World Bank is one of the largest funders of energy infrastructure in the developing world, with an active portfolio of roughly $40 billion active projects in energy and extractives.[41] The Bank is also an advisor to developing countries working to select partners and technologies. Despite this, the World Bank has no nuclear energy expertise and, by internal policy, refuses to build internal capacity. Russia and China have filled this role by exporting reactors with exploitive state-backed financing. Trust Funds are managed by the World Bank on behalf of funding partners, and complement core activities of the Bank. A Nuclear Energy Trust Fund would build analytical capacity to assess the viability of nuclear projects in Bank shareholder countries, giving the Bank expertise it could tap into when requested.

The global demand for nuclear energy is intensifying as countries aim to meet rising energy needs while curbing emissions. Over 30 countries have committed to tripling nuclear power.[42] Relatedly, 14 major banks support this goal.[43] To meet this interest, the World Bank needs to modernize its stance on nuclear energy, starting with building internal expertise that will allow the Bank to provide advisory services and assess nuclear projects. A trust fund could be the first step toward the Bank supporting nuclear energy, opening a major new financing source for U.S. companies looking to export, and providing objective expertise to buyer countries as they evaluate technology options.

American Innovation Will Power the Administration's Goals

The Trump Administration has a bold vision for a reindustrialized America that leads the world in everything from manufacturing to AI. As energy-intensive industries grow, so too will the demand for power — a trend already evident nationwide. To meet this ambitious agenda, the nation must prioritize developing abundant, reliable, and affordable energy. This means building on longstanding leadership in traditional energy sources like natural gas, while also expanding into new energy technologies. American expertise in oil & gas sectors can be leveraged to capitalize on burgeoning opportunities in LNG, geothermal, and carbon capture, driving

[40] https://financesone.worldbank.org/summaries/ibrd-ida?countries=CN
[41] https://crsreports.congress.gov/product/pdf/IF/IF11361
[42]https://world-nuclear.org/news-and-media/press-statements/six-more-countries-endorse-the-declaration-to-triple-nuclear-energy-by-2050-at-cop29
[43]https://world-nuclear.org/news-and-media/press-statements/14-major-global-banks-and-financial-institutions-express-support-to-triple-nuclear-energy-by-2050-23-september-2024

significant economic gains. The U.S. will also need to build out supply chains to match this ambition, ensuring that whatever next-generation technologies succeed, whether nuclear fission, fusion, geothermal, long-duration batteries, or anything else, that they will be made here in America.

America's greatest asset is its unmatched capacity to innovate. The U.S. is home to a vibrant private industry aiming to demonstrate market-competitive advanced technologies. Tech companies like Google, Amazon, Microsoft and Meta signaled this commitment through major nuclear energy investments,[44] complemented by groundbreaking geothermal technologies from companies like Sage Geosystems[45] and Fervo Energy.[46] Furthermore, Form Energy's iron-air battery project in Maine is set to deliver the highest energy capacity of any battery system in the world.[47]

At ClearPath, we believe in markets over mandates. But in order to achieve energy dominance, the government must provide a predictable environment for developers — one where long-term, stable policy frameworks help unlock private investment. Congress has made significant efforts to modernize permitting at Agencies like the Nuclear Regulatory Commission, and at a broader scale through changes to the National Environmental Policy Act (NEPA) in the Fiscal Responsibility Act. These efforts should increase investor confidence by creating clear and consistent pathways to market.

Additionally, the government has provided support to the private sector through targeted tax credits and demonstration programs like those created by the first Trump Administration under the Energy Act of 2020. These programs provide financial stability and encourage the scaling of new technologies like nuclear, carbon capture, geothermal, and more that can deliver reliability, affordability, and substantial emissions reductions. Maintaining an all of the above approach to supporting new technologies is necessary to ensure American energy dominance, which is fundamental to our national security but also to the Administration's goal of reindustrializing American industry. The work of this Committee will be critical to providing certainty and predictability for companies seeking to raise capital and compete on a global stage.

Conclusion

The scale and urgency of building new energy infrastructure to meet America's growing demand and strengthen our energy leadership globally requires bold action. The U.S. must focus on making these technologies here and selling them abroad. Ensuring American leadership in energy means having financial tools that are properly designed for U.S. companies to compete with aggressive state-backed financing from China and Russia.

---

[44] https://clearpath.org/our-take/five-states-to-watch-for-new-nuclear/
[45]https://www.sagegeosystems.com/sage-geosystems-and-meta-announce-agreement-for-next-generation-geothermal-power-generation/
[46] https://blog.google/outreach-initiatives/sustainability/google-fervo-geothermal-energy-partnership/
[47]https://formenergy.com/massachusetts-new-england-states-selected-to-receive-389-million-in-federal-funding-for-transformational-transmission-and-energy-storage-infrastructure/

Congress has a unique opportunity to strengthen American solutions by advancing commonsense policies, including modernizing development and export financing to support nuclear, LNG, and other critical energy technologies that align with our strategic national interests. By advancing smart reforms, the U.S. can unlock private-sector investment, reduce reliance on adversarial nations, and reinforce its role as the world's energy leader.

ClearPath looks forward to working with this Committee to advance these priorities, and I look forward to today's discussion.

Chairman HILL. The gentleman yields back.
Mr. Cassara, you are recognized for 5 minutes.

STATEMENT OF JOHN CASSARA, SPECIAL AGENT, UNITED STATES DEPARTMENT OF TREASURY (RETIRED)

Mr. CASSARA. Good morning, Chairman Hill, Ranking Member Waters, and distinguished members of the Financial Services Committee. It is an honor for me to testify.

Communist China is an ideological, military, economic, commercial, high tech, intelligence, and diplomatic rival of the United States and the West. The People's Republic of China has a growing exploitative presence in the developing world.

While these threats are known, the Chinese Communist Party's, involvement in transnational crime and money laundering is generally not recognized, understood, or investigated. My most recent book is "China—Specified Unlawful Activities: CCP Inc. Transnational Crime and Money Laundering." I found in writing that book the criminal activity has seemingly become part of the CCP's overall strategy to grow its power.

Regarding fentanyl, the Mexican cartels are still dependent on Chinese precursor chemicals and manufacturing expertise. Fentanyl and fentanyl-laced products are smuggled into the United States. In calendar year 2023 alone, the Drug Enforcement Administration (DEA) seized more than 77 million fentanyl pills and nearly 12,000 pounds of fentanyl powder. This is the most fentanyl the DEA has ever seized in a single year and more than enough to kill every single American. As it is, in 2023, more than 107,000 Americans lost their lives to drug overdose with 70 percent of those deaths attributed to opioids such as fentanyl. Each death a tragedy. Each individual that died has a story. Families and communities are devastated. This scourge affects every one of the Members' districts and our country as a whole. Of course, it all comes back to the money.

Fentanyl production generates enormous proceeds, and the Chinese are becoming the money launderers of choice for the cartels. They leverage an underground banking system that has long served China's immigrant diaspora. They have developed other Chinese-centric money laundering methodologies that enable the laundering of their illicit proceeds, not only in the United States but around the world.

In my written statement, I give an overview of some of the most pernicious enablers as they relate to fentanyl trafficking, such as trade-based money laundering, black market exchanges, underground financial systems like Fei-Chien or flying money, and mirror swaps that are facilitated by Chinese mobile phone apps. While my testimony focuses on U.S. efforts to counter illicit fentanyl trafficking and money laundering, I urge that we do not look at the fentanyl issue in a vacuum or as an isolated concern. The CCP's business model that fuels the fentanyl crisis is also active in many other sectors of crime, including counterfeit goods, intellectual property theft, human trafficking, illicit tobacco, and trade fraud. In fact, data indicates that China leads the world in 11 of the 12 largest categories of transnational crime. Each of these categories are also specified unlawful activities or predicate offenses to charge

money laundering. CCP Inc.'s involvement in these crimes is approximately $2 trillion a year. To put that in perspective, $2 trillion is very roughly half the estimated $4 trillion that is laundered annually around the world.

I call corruption a great enabler for money laundering. CCP Inc. has taken their domestic corruption and exported it overseas. They excel in so-called influence operations, which is probably a major reason for the lack of focus on CCP Inc.'s criminality and money laundering. Once again, these specified unlawful activities, methodologies, and enablers cannot be viewed in isolation. Rather, they are intertwined and must be addressed collectively. CCP international law breaking makes them exposed; it makes them vulnerable.

I conclude my written testimony with recommendations that emphasize law enforcement and more effectively following the money and value trails.

Thank you very much.

[The prepared statement of Mr. Cassara follows:]

Examining Policies to Counter China

Written Testimony

of

John A. Cassara

U.S. House Committee on Financial Services

February 25, 2025

Thank you, Chairman Hill, Ranking Member Waters, and members of the House Financial Services Committee, for the opportunity to testify today on "U.S. efforts to Counter Illicit Fentanyl Trafficking and Related Money Laundering by the People's Republic of China" at this hearing on "Examining Policies to Counter China.

Communist China is an ideological, military, economic, technical, commercial, intelligence, and diplomatic rival of the U.S. and the West. The People's Republic of China (PRC) has a growing exploitative presence in the developing world. While these threats are known, the Chinese Communist Party's (CCP's) involvement with transnational crime and money laundering is generally not understood, recognized or investigated.

Yes, there are plenty of news stories about China's theft of trade secrets and intellectual property. It is widely reported that China is the number one manufacturer of counterfeit goods. The average citizen might be somewhat aware that the African elephant and rhinoceros are endangered because of China's demand for ivory. Tropical forests are being destroyed to satisfy the PRC's demand for wood products. Some might have knowledge of China as the largest manufacturing source of illicit tobacco products. Others might have experienced being priced out of their local housing market due to suspicious Chinese capital flight pushing up property prices.

China supplies the precursors and the expertise the cartels use to poison American citizens that have resulted in hundreds of thousands of deaths. But all of these are single issue, focused stories, that are for the most part recognized and reported. What the U.S. and the West have been ignoring is the massive totality or the whole of what I call CCP Inc's transnational crime and uniquely Chinese-centric money laundering methodologies and enablers that facilitate the criminality.

My most recent book is *China – Specified Unlawful Activities: CCP/Inc., Transnational Crime and Money Laundering (Amazon / Kindle Direct Publishing 2023).* I wrote the book at the end of my long anti-money laundering career because I am simply staggered by facts and observations that demonstrate China's criminal hegemony and how it launders illicit proceeds. Similar to North Korea, today's communist China is a corrupt party-state regime with a significant crime portfolio. Criminal activity has seemingly become part of the CCP's overall strategy to grow its power.

The CCP/Inc. subtitle of the book makes clear that I am talking about communist China's transnational crime and money laundering - not the Chinese people. In many ways, they are the biggest victims of the CCP regime.

Simply referring to China alone or the CCP by itself is ambiguous, unfair, and inaccurate. To be clear, what I am referring to in my book and in this testimony is the centralized autocracy of the CCP and its heretofore unexamined linkages with illicit crime, corruption, and money laundering. Although I will use the term 'China,' and 'Chinese' in this testimony, that is solely in reference to the Party's dominance of the PRC's governance apparatus, and should not be misconstrued to be a condemnation of Chinese culture or the Chinese people, who have no choice in what regime they live under. The "Inc." is a term that signifies how the Chinese state has leveraged its industrial, high tech, global trading, manufacturing might, and illicit connections to turn the country into an economic superpower. So, I will use "CCP Inc." as a general descriptor of the subject under discussion.

Specified Unlawful Activities

In my book, I examine the 12 most significant sectors of transnational crime. In 11 of the 12 categories, CCP/Inc. is the world's leading criminal actor. The 11 categories of crime are:

- Counterfeit goods
- Intellectual property theft and trade secrets
- Human trafficking, smuggling and forced labor
- Wildlife trafficking
- Illegal logging
- Illegal fishing
- Illicit tobacco
- Trade fraud
- Arms trafficking and WMD proliferation
- Organ harvesting
- Corruption

Each of the above categories of crime are also "specified unlawful activities" (SUAs) or predicate offenses to charge money laundering. Using SUAs and the estimates of illicit funds generated is not an ideal way of assessing money laundering. Measuring the scale of illicit funds derived from criminal or illegal activity is challenging. Likewise, estimating the magnitude of international money laundering in general is fraught with difficulties. By definition, money laundering is opaque and hidden. The Financial Action Task Force (FATF) states, "due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year." [i] With that caveat in mind, the International Monetary Fund (IMF) has estimated that money laundering comprises approximately two to five percent of the world's gross domestic product (GDP) every year.[ii] Recognizing the IMF approximation as imperfect is probably the best we can do. Money laundering experts frequently use the IMF estimate when they need to discuss the magnitude of money laundering.

In 2024, global GDP was approximately $110 trillion USD. So, in very round numbers, the total amount of money laundered worldwide annually is somewhere in the vicinity of roughly

$2 to $5 trillion. Of course, the estimate could be far higher depending on what is included in the count. For example, I don't believe the IMF estimate includes tax evasion, forms of trade fraud, or underground financial systems. Capital flight is another category which could be considered money laundering but is generally ignored.

Putting things in context, let's use $4 trillion as a rough estimate of the annual magnitude of international money laundering. Using recognized estimates[iii] put forward by the Washington D.C.-based non-profit Global Financial Integrity (GFI) and other sources, a solid argument can be made that by examining China's leading role in the above listed transnational SUAs, China is responsible for introducing and laundering approximately $2 trillion dollars of illicit proceeds into the world's economy every year.[iv] (Full disclosure: I am proud to sit on the Board of Directors of GFI). In other words, China is responsible for approximately one-half of the money laundered throughout the world every year as measured by SUAs.

The number is staggering. It bears repeating. As measured by the largest categories of SUAs for transnational crime, CCP Inc. and its associated actors are responsible for about half of the money laundered internationally each year. No other country even comes close – not even the United States.

My book, *China – Specified Unlawful Activities,* examines each of the above listed SUAs and quotes recognized sources estimating the amount of illicit proceeds generated.

Having worked in the U.S. government as well as at one time being actively involved in the Financial Action Task Force (FATF), I understand the political hesitation to officially make the charge that CCP Inc. could be considered an ongoing criminal enterprise and the largest money laundering actor in the world. Generally speaking, both the international community and the U.S. government is silent on the magnitude of China's involvement in transnational crime and money laundering.

We shouldn't be silent. In my view, targeting CCP Inc. via coordinated and comprehensive law enforcement action, both within the United States and overseas, is where China is most vulnerable.

Narcotics Trafficking and Fentanyl

The twelfth category of transnational crime and SUA for money laundering that I discuss in my book is CCP Inc.'s involvement in narcotics trafficking. As opposed to the other 11 SUAs, China probably does not lead the world in narcotics trafficking. However, it is a very significant player. CCP Inc. is the world's largest producer of synthetic drugs.

According to the China National Narcotics Control Commission (NNCC), China's economic prosperity has turned recreational drug use into more than an $80 billion annual domestic business.[v] The estimate dates from approximately 2015. I have not been able to find more recent numbers. In all likelihood, the situation today is much worse. The NNCC also announced that over the last few years synthetic drugs—primarily methamphetamine and ketamine—have surpassed heroin and other opioids as the PRC's primary illicit drugs used in the PRC.[vi] As this hearing makes clear, China excels in the manufacture of synthetic drugs and precursors.

However, we should be skeptical of all official statistics put forward by CCP Inc. Communist regimes have always used government statistics as a propaganda and disinformation tool. CCP Inc. wants and produces numbers that reflect well upon the state. Truth is relative.

The government of China does not, as a matter of government policy, encourage illicit drug production or distribution, nor is it officially involved in laundering the proceeds of the sale of illicit drugs. However, some senior government officials have been severely punished for taking bribes and laundering illicit profits related to drug trafficking. In fact, in recent years, China has initiated an aggressive campaign of cracking down on narcotics trafficking that affects *domestic* consumption. There is no doubt that China faces growing and significant drug consumption challenges.

China shares borders with drug source countries in both Southeast Asia and along Mekong's Golden Triangle and remains a major destination and transit country for heroin produced in these areas. Its numerous coastal cities with high-volume seaports and its vast network of major international airports make China an ideal destination and transit country for illicit drugs, as well as a major source of synthetic drugs, new psychoactive substances (NPS), and precursor chemicals used to produce illicit drugs. Unsurprisingly, the production of these

drugs and the manufacturing of precursor chemicals is strongly linked to the country's developed and dynamic chemical and pharmaceutical industries. Domestic Chinese criminal organizations traffic illicit drugs within China. And in recent years Chinese authorities have noted the presence of international drug trafficking organizations originating from Africa and Mexico operating within the country through joint criminal ventures with Chinese syndicates.

Some may ask: "Since the U.S. is the largest consumer of drugs in the world, how can it be said that China is perhaps the most significant actor?" I am definitely not discounting the insatiable U.S. demand for illegal drugs and readily acknowledge that demand is the catalyst for international narcotics trafficking. For generations, the U.S. drug habit has been a national disgrace. But make no mistake, China is a leading global producer of NPS and related illicit drugs.

As imprecise as they are, let's examine some numbers. According to the GFI report referenced earlier, worldwide drug trafficking is estimated at about $426 billion to $652 billion per year. According to a 2014 study prepared for the U.S. Office of National Drug Control Policy (ONDCP), the U.S. illegal drug habit is approximately $100 billion a year.[vii] That number has also probably increased over the years, particularly due to opioids and other synthetic drugs flooding the U.S. market—more on that below. But in law enforcement and policy circles, $100 billion continues to be used as the most common estimate of illegal drug consumption in the United States. Per the above, according to China's own estimate, recreational drug use in that country is about $80 billion annual domestic business. The Chinese estimate was released in the same time frame as the U.S. study. Without a doubt, U.S. demand is greater than China's and the U.S. population is not as large. Per capita illegal drug consumption in the U.S. far exceeds that of China's. But it appears the illicit proceeds gap is not as pronounced as thought.

What differentiates China from the U.S. and other Western countries that are large consumers of illegal drugs is Chinese actors' direct and indirect involvement in facilitating international narcotics trafficking and laundering the proceeds. And in some instances, CCP Inc. tacitly supports aspects of the international drug trafficking by looking the other way as it does with the fentanyl trade.

In addition to domestic drug trafficking, Chinese organized crime groups increasingly traffic in international markets. Chinese triads were involved in narcotics trafficking long before it became a global phenomenon; the groups have grown as the trade has expanded. China is a major source of NPS and other synthetic drugs, including fentanyl and methamphetamine that are flooding into the U.S., Canada, and increasingly other Western countries.

Fentanyl is similar to morphine but is 50 to 100 times more powerful. Fentanyl is often reported as a single drug, but it is often mixed with other drugs such as heroin, cocaine, methamphetamine, and even processed into counterfeit pills under brand names such as Xanax, Percocet, Adderall, and Oxycontin. It takes very little fentanyl to produce a high, making it not only an addictive, cheaper option, but often times, a more deadly drug.

In 2023, more than 107,000 Americans lost their lives to a drug overdose, with nearly 70 percent of those deaths attributed to opioids such as fentanyl.[viii] Each individual death and overdose is a tragedy. To put things in perspective, in the 20-year period from 1955 - 1975 approximately 58,000 Americans died in the Vietnam War. Or, using a more current statistic, from 2020 - 2021 about 53,000 Americans between the ages of 18 and 49 died of Covid-19. In the same age group, fentanyl has also claimed more lives than car accidents, suicide, gun violence, and breast cancer, among others.[ix]

What accounts for the continuing rise in fentanyl deaths despite China's public claims that it has cracked down? According to the U.S. State Department, "following the PRC's implementation of class-wide controls on fentanyl in May 2019, fentanyl-related overdoses and seizures have continued to increase in the United States. Traffickers have adapted their strategies, resulting in the shipment of synthetic opioid precursor chemicals from the PRC to Mexico [and Canada] as well as greater fentanyl production and shipment from Mexico to the United States." [x]

This is where the "CCP business model fueling the fentanyl crisis"[xi] enters into the equation. Chinese companies make chemical compounds sold globally for legitimate purposes in medicine and industrial processes. Opioid vendors shield themselves behind these companies and layers of other interlinked companies sometimes in related fields such as biotechnology. Illicit production and distribution are assisted by layer upon layer of traders, brokers, and freight

forwarders that we see in other SUAs briefly discussed above. Moreover, Chinese trafficking organizations deliberately misuse this labyrinth to transport drugs, precursors, and contraband through shipping containers that are intentionally mislabeled; however even without the mislabeling it can be difficult for law enforcement and customs, "to track the origin of precursor chemicals or clandestinely-produced fentanyl because of the intricate network of freight forwarding companies commonly employed by criminal groups to conceal the origin of the product." [xii]

In other words, despite periodic crackdowns by the authorities, some Chinese vendors created new distribution strategies by producing and selling the precursor chemicals to foreign clients so they could make fentanyl. Precursors were not banned. Boutique suppliers also tweaked their formulas taking advantage of regulatory and enforcement loopholes. New transport and mail routes were developed sending the banned substances into Mexico and sometimes other third countries. It's a very effective and efficient business model. The U.S. is the final destination for most of the finished product – although fentanyl distribution is expanding elsewhere.

Over the last few years, there have been increasing cases involving Mexican and Chinese criminal groups cooperating in the manufacture of fentanyl and fentanyl-laced products including candies that target children. They are subsequently smuggled into the U.S. The fentanyl that still enters the U.S. directly from China primarily arrives in small amounts via international mail, express mail, and parcel packages sometimes routed through third countries.

In the calendar year 2023, DEA seized more than 77 million fentanyl pills and nearly 12,000 pounds of fentanyl powder. This is the most fentanyl seized by DEA in a single year. It amounts to more than 386 million deadly doses of fentanyl—enough to kill every American.[xiii] Almost all (98%) fentanyl seizures are intercepted at our southern border with Mexico.[xiv]

Recently, Canada's financial intelligence agency reported[xv] that organized criminal groups within Canada are increasingly involved in the production of fentanyl by importing precursor chemicals used and lab equipment from China. Some fentanyl is also entering Canada from the U.S.

Also troubling is that Chinese actors aggressively use the internet and social media platforms to advertise, market, and ship their products. A report by the Senate Permanent Subcommittee on Investigations found that Chinese websites selling fentanyl and carfentanil rapidly and efficiently respond to online orders for the drugs and that they are confident in their ability to get drugs into the United States.[xvi] Carfentanil is 100 times more powerful than fentanyl and 10,000 times more potent than morphine.[xvii]

The Chinese criminals use the open worldwide web to market their illegal and dangerous products in English. They blatantly target Western consumers. In contrast, websites based in the United States only sell fentanyl on the dark web because of law enforcement vigilance in tracking the sale of these illegal drugs. It is difficult for host platforms outside the United States to be taken down. Sometimes crypto-currencies are used for payment. Investigators have found Chinese online merchants are in some cases willing to accept Western Union, PayPal and even credit cards for their product. CCP Inc. has also developed its own robust new payment methods that are web and mobile based.

For example, the Shanghai-based Zheng Drug Trafficking Organization (DTO), run by Fujing Zheng and his father Guanghua Zheng, sold synthetic narcotics including fentanyl and advertised their products on multi-language websites. For more than a decade, the Zhengs ran an agile and sophisticated operation. The Zheng labs manufactured more than 250 different drugs, which were shipped to at least 25 countries.[xviii] They were able to quickly modify the formulas of these drugs—creating an analogue—in order to get around China's narcotics "controls."

C4ADS, a nonprofit organization specializing in data-driven analysis and evidence-based reporting on transnational security issues, reports that various Chinese drug groups operating online are also using password-encrypted websites. The Chinese DTOs facilitate private groups on social media and messaging apps and operate platforms or virtual marketplaces that connect illicit fentanyl consumers and sellers while avoiding detection by law enforcement.[xix]

Researchers at Terrorism, Transnational Crime, and Corruption Center (TraCCC) at George Mason University studied over 350 English language websites advertising fentanyl on open-web Chinese hosted web platforms. (Full disclosure: I am a proud Senior Fellow at TraCCC). The TraCCC team primarily used the Chinese search engine Baidu Research. The

following findings are taken from a 2020 paper prepared by Dr. Louise Shelley, University professor and Omer L. and Nancy Hirst Endowed Chair at the Schar School of Policy and International Affairs at George Mason University and founder and executive director of TraCCC.[xx]

TraCCC research identified the registration information of Chinese companies advertising on the websites. The researchers were also able to recognize the countries where fentanyl products were shipped and the key hubs for transport. The analysis was possible because 40% of the websites advertising illicit fentanyl were tied to officially registered Chinese companies. This TraCCC research is important because it contradicts frequently expressed statements that illegal fentanyl is produced primarily by rogue producers in China.

The researchers were also able to follow some of the layering involved. For example, many of the companies in advertisements are fronts, but the use of electronic identifiers and broader economic context facilitated identification to registered legitimate pharmaceutical companies. The TraCCC researchers were able to map and identify the global trade relationships of these chemical and pharmaceutical companies.

One of the prime networks identified through the TraCCC research was the Yuancheng Group, a Chinese chemical company based in Wuhan, China. The Yuancheng Group is comprised of at least 34 companies in China and Hong Kong. Studying identifiers from these companies reveals that the companies have posted advertisements for fentanyl and have registered at least 112 websites, including some devoted to the advertisement and sale of steroids. Further records indicate the Yuancheng Group has shipped to 43 countries across North America, South America, Europe, Africa, Asia, and Australia.

The fact that CCP Inc. allows hundreds of websites advertising fentanyl and its precursors to remain online is deeply troubling. It is important to remember that the PRC is a command state. China controls what its citizens can, or cannot, access, on the internet. It routinely blocks, censors, and takes down sites that do not meet its approval. If the CCP was to direct its robust censorship apparatus that is very effective in thwarting websites it deems a threat to its regime, it could easily do the same with companies' websites advertising fentanyl and other dangerous and illegal drugs. But the authorities do not act. Rather, they allow it flourish. Why?

While some observers blame Chinese organized crime groups for the international trafficking of narcotics, CCP Inc.'s refusal to eradicate websites (which, once again, they can do easily enough) that advertise such poisonous and deadly precursor chemicals and illicit drugs for foreign sales is a major factor in demonstrating official complicity.

There is another troubling indicator. As Channing Mavrellis of GFI writes, "while much of China's response to drug abuse, production, and trafficking could be considered draconian—such as proactive identification and registration of drug users, compulsory detoxification centers and labor camps for addicts, and the death penalty for traffickers—the punishment for mislabeling shipments of precursor chemicals, the most common diversion tactic, is significantly lighter, typically involving civil penalties and small fines. It is interesting to note the disparity in punishment between those crimes that directly affect the state internally and those that have external impact (i.e., on other countries)."[xxi]

Further exploration of Chinese involvement in other transnational SUAs for money laundering also shows that CCP Inc. has different internal and external standards and enforcement. This necessitates an important question. Is CCP Inc. using or permitting narcotics trafficking to the West as a form of asymmetric warfare to advance its long-term strategic goals? As noted, China's fentanyl trafficking is responsible for the annual death totals of tens of thousands of lives in the United States, and globally. Related products and precursors sourced from China are also responsible for countless ruined lives, families, and communities. Chinese-produced fentanyl and associated products cost the U.S. hundreds of billions of dollars annually in lost productivity, health care, and criminal justice costs. If China perceives itself to be in a silent or cold war with the U.S. these are all very effective and efficient outcomes.

Drug use has long been considered a form of asymmetric warfare. Others have advanced the premise that CCP Inc. is flooding the U.S. and the West with opioids as payback for the Opium Wars during the mid-19th century.

Of course, the ultimate responsibility lies with the user. And without question the U.S. has failed both in both drug interdiction and treatment, not only with fentanyl but also with heroin, opium, and other domestic illegal and legal drugs such as OxyContin. But from a law enforcement perspective, we must examine the source. And according to a 2020 report by the

DEA, "China remains the primary source of fentanyl and fentanyl-related substances trafficked through international mail and express consignment operations environment, as well as the main source for all fentanyl-related substances trafficked into the United States."[xxii] Moreover, increasing Mexican-Chinese transnational criminal organizations (TCOs) collaboration on crime and money laundering are significant national security threats to the U.S. homeland.

Money Laundering Methodologies and Enablers

In my book, *China – Specified Unlawful Activities,* I discuss a number of money laundering methodologies and enablers with "Chinese characteristics." (The term Chinese characteristics is used by the CCP itself). Many examples are given. Collectively, they are intertwined in the CCP's business model. Some of the methodologies I explore include Chinese underground banking or CUBS, capital flight, gambling, real estate, and the use of offshores and secrecy jurisdictions. Corruption can be both methodology and also a SUA. I also call corruption "the great enabler" for money laundering. Bribery is part of the CCP Inc. business model and gameplan. CCP Inc. has taken their domestic corruption and exported it overseas. The modus operandi abroad is using corruption and "corrosive capital" as instruments of foreign policy. This is further augmented by "elite capture" and sophisticated influence operations. This occurs in the United States and against American interests abroad. Other enablers I discuss in my book include Chinese organized crime, espionage, social monitoring, the promotion of Chinese control of Free Trade Zones (FTZs), lack of Chinese cooperation with international law enforcement, and poor Chinese money laundering compliance.

Three methodologies that are part of the CCP business model and directly impact the trafficking of fentanyl are trade-based money laundering, black- market exchanges, and fei-chien or flying money. I will provide brief explanations of each.

Trade-based money laundering (TBML)

Perhaps the most extensive or widespread form of Chinese (and global) money laundering comes from "trade-mis-invoicing" or trade fraud. Trade fraud or customs fraud is a

SUA for money laundering. Depending on its form, it can also be a money laundering methodology. In fact, I believe it is the largest and most widespread methodology for both China and the world at large. It is also the least understood, recognized, and enforced.

For a detailed examination of TBML, please see my book *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement,* Wiley, 2016

Most forms of trade mis-invoicing revolve around invoice fraud and manipulation. Generally speaking, invoice fraud means the contents, description, and/or the value of goods is deliberately misrepresented. Sometimes this is done to facilitate simple customs fraud, i.e., minimize the payment of taxes and duties, avoid currency controls, or move capital or value offshore. International trade via invoice manipulation is also a very common means used by criminals and criminal organizations to illegally transfer value across international borders.

TBML is defined by the FATF as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins."[xxiii] The key word in the definition is *value.* Instead of following the money trail via cash or the electronic bits and bytes of a bank-to-bank wire transfer, with TBML we examine the shipments of commodities and trade goods. Their sale and transfer—real and fictitious—very effectively launders money, evades taxes and tariffs, and transfers value between cooperating parties in the transaction(s).

TBML is very broad. It includes customs fraud, tax evasion, export incentive fraud, value-added tax (VAT) fraud, capital flight or the transfer of wealth offshore, evading capital controls, barter trade, underground financial systems such as hawala and fei-chien (the Chinese "flying money" system), black market exchange systems, and even forms of commercial TBML such as trade diversion, transfer pricing, and abusive trade mis-invoicing.

For money launderers and terrorist financiers, transferring value via trade goods is particularly attractive because it generally does not trigger financial transparency reporting requirements or the filing of financial intelligence or, as it is commonly called in the U.S., "Bank Secrecy Act data." Financial intelligence promotes a degree of financial transparency and is our primary AML/CFT countermeasure.

The most common forms of trade mis-invoicing are:

- Over and under invoice pricing
- Multiple invoicing for the same goods
- Falsely described goods
- Mis-representation of the quantity being shipped
- Mis-representation of voyage to disguise origin from sanctioned countries
- Mis-representation of shipment origin and voyage to evade customs duties

Most of the above are self-explanatory. But I do want to briefly explain how over and under invoicing is used to transfer value and launder money, because I will refer to this below when I discuss the Chinese underground "flying money" system.

The key element of this technique is the misrepresentation of trade goods to transfer value between the importer and exporter or settle debts/balance accounts between the trading parties. When an importer and exporter are working together, they can easily manipulate the invoice to reflect a price that does not adhere to true market value. The shipment (real or fictitious) of goods and the accompanying documentation provide cover for the transfer of money. Invoice fraud is generally considered customs fraud. And customs fraud is the primary predicate offense or specified unlawful activity in TBML cases.

What are the most common invoice scams? First, by under-invoicing goods below their fair market price, an exporter is able to transfer value to an importer while avoiding the scrutiny associated with more direct forms of money transfer. The value the importer receives when selling (directly or indirectly) the goods on the open market is considerably greater than the amount he or she paid the exporter.

For example, Company A located in China ships one million widgets worth $2 each to Company B based in Mexico. On the invoice, however, Company A lists the widgets at a price of only $1 each, and the Mexican importer pays the Chinese exporter only $1 million for them. Thus, extra value has been transferred to Mexico, where the importer can sell (directly or indirectly) the widgets on the open market for a total of $2 million. The Mexican company then has several options: it can keep the profits; transfer some of them to a bank account outside the

country where the proceeds can be further laundered via layering and integration; share the proceeds with the Chinese exporter (depending on the nature of their relationship); or even transfer them to a criminal organization that may be the controlling interest behind the business transactions.

To transfer value in the opposite direction, an exporter can over-invoice goods above their fair market price. In this manner, the exporter receives value from the importer because the latter's payment is higher than the goods' actual value on the open market.

Here is a simple way of looking at things:

To move money/value out:

- Import goods at overvalued prices or export goods at undervalued prices

To move money/value in:

- Import goods at undervalued prices or export goods at over-valued prices

Unfortunately, the magnitude of TBML has never been systematically examined by the FATF, international financial institutions (IFIs) —e.g., IMF or World Bank—or the U.S. government. Trade-based value transfer is also not closely examined by intelligence, law enforcement, and customs services. But some academics and non-profits have done very useful work examining TBML and estimating the extent of the challenge.

In the United States, Dr. John Zdanowicz, an early pioneer in the study of TBML, conducted research that identified glaring anomalies in U.S. trade data. For example, he found plastic buckets from the Czech Republic imported with the declared price of $972 per bucket! Toilet tissue from China imported at the price of over $4,000 per kilogram. Bulldozers shipped to Colombia at $1.74 each! Why are non-industrial diamonds being exported to France for $2.32 per carat but imported from South Africa for $929,390.82 per carat? Dr. Zdanowicz compares the declared value of the trade good or commodity against true market value. By examining 2021 U.S. trade data, Dr. Zdanowicz found that approximately $784 billion was moved into the U.S. via over-valued exports and under-valued imports. China was the trading partner for about $85 billion of the total. Approximately $640 billion was moved out of the U.S. via undervalued exports and over-valued imports. Approximately $70 billion was moved out to China via suspect

trade. He then compared those numbers to the overall value of U.S. imports and exports. He found (depending on import or export) approximately 14 to 17% of U.S. trade could well be tainted by customs fraud and perhaps TBML.[xxiv]

(The above has serious fiscal ramifications. Examining 2021 U.S. trade anomalies, per the above, Dr. Zdanowicz estimates that the U.S. Treasury lost about $640 billion of taxable profits due to trade-based tax evasion and TBML.[xxv] The same type of trade fraud revenue loss occurs in every country.)

China is the world's largest trading nation. In 2021, according to CCP Inc.'s own numbers, even factoring in the worldwide pandemic, China's foreign trade volume hit a record high of $6.05 trillion.[xxvi] China's total trade volume was approximately $5.87 trillion in 2023, based on figures from the General Administration of Customs (GAC). So, if we use a very conservative estimate that only ten percent of trade is suspect, mispriced, or related to forms of trade fraud, that could mean that suspect and possibly illicit Chinese trade is approximately $600 billion a year and could very easily be much higher than that!

By its volume and sheer dominance of international trade, Chinese actors are assuredly involved with a massive amount of trade fraud. In addition, trade also masks money laundering methodologies and value transfer schemes that are instrumental in the trafficking of fentanyl and other forms of contraband.

Black Market Exchanges

Illicit proceeds are the catalyst driving the tragedies surrounding the unsecured U.S. border. Yet few realize the quiet ascendency of Chinese money launderers. They are displacing Colombians and Mexicans.

Although various schemes are used to launder illicit proceeds from the sales of narcotics in the United States, for years the preferred methodology has been the Black-Market Peso Exchange (BMPE). It is arguably the largest and most effective money laundering methodology in the Western Hemisphere. The evolution of the BMPE is an excellent case study of how

international criminal networks adapt and how CCP Inc. has incorporated this form of TBML into its business model.

Ironically, the BMPE was not created to launder drug money. In 1967, Colombia enacted regulations that strictly prohibited citizens' access to foreign exchange. Colombian merchants who wanted to import U.S. trade goods – for example, John Deer tractors, Bell helicopters or Marlboro cigarettes – through legitimate banking channels had to pay stiff surcharges above the official exchange rate. To avoid these steep add-on costs, importers often turned to Colombian underground peso brokers, from whom they could buy U.S. dollars on the black market for less than the official exchange rate to finance their legitimate trade.

By the 1980s, the underground peso situation was taking on a new dimension. As U.S. cities found themselves awash in Colombian cocaine, narco-traffickers and cartels were faced with a logistical problem. They had to devise ways to launder and repatriate approximately 20 million pounds of U.S. currency they annually accumulated in North America.

The criminal organizations found a partial solution in the first law of economics. Supply met demand in the form of the BMPE.

Consider a Colombian drug cartel that has sold $3 million of cocaine in the United States. A representative of the cartel sells these accumulated dollars to a Colombian peso broker at a discount. The cartel is now out of the picture, having successfully sold its drug dollars in the United States and, in return, obtains pesos back in Colombia.

To complete the BMPE cycle, the peso broker must take two more steps. First, he directs his representatives in the United States to "place" the purchased drug dollars into U.S. financial institutions, using a variety of techniques designed to avoid arousing suspicion or triggering financial intelligence reporting.

Second, he takes orders from Colombian businesses for U.S. trade goods, arranging for their purchase using the laundered drug money he owns in the United States. Some businesses should know better. Via "willful blindness," they don't ask the questions they should. The broker has laundered the $3 million in drug money he purchased from the drug cartel.

This money laundering methodology was so successful that the Colombian BMPE became the premier money laundering methodology in the Western Hemisphere in the 1980s, 1990s, and the first decade of the 2000s.

In 2014 there was a turning point. A large law enforcement investigation called Operation Fashion Police showed how Los Angeles–based garment dealers took U.S. drug money and exported their product not to Colombia but to Mexico.

In addition, some of the clothing exporters mixed customs fraud into the BMPE conspiracy. "Made in China" labels were removed from thousands of imported garments. The fraud saved the co-conspirators from paying taxes on the "Made in China" imports because on paper they appeared to be "Made in the USA," and exempt from customs duties under the North American Free Trade Act (NAFTA).

Once again, with the Mexican BMPE, the proceeds from narcotics trafficking stay on the U.S. side of the border. The same is now true with the cartels' U.S. involvement in human trafficking, trade in opioids, kidnapping, stolen cars, and other illegal activities. In return, trade goods are shipped to Mexico.

About five to ten years ago, the BMPE shifted focus once again. Now, investigators are finding that Chinese manufactured goods are becoming favored instruments in the BMPE and that similar BMPE financial systems are found around the world.

In 2000 bilateral trade between China and Mexico was about 1 billion dollars. By 2023, trade between China and Mexico topped 114 billion dollars. Mexican authorities have said that the surge has allowed drug cartels and their money launderers to piggyback on this burgeoning trade relationship.[xxvii] Some of the piggybacking includes TBML, value transfer, and the BMPE.

Fronts for Mexican drug trafficking organizations use illicit proceeds to buy container loads of cheaply made Chinese goods. Using the TBML technique of over-invoicing discussed above, low-quality Chinese manufactured items are made to appear on paper as being worth significantly more. Payment for the goods is sent out of the country. That's the wash.

We see the result of this in our cities and towns but we don't recognize or understand what is going on. Massive quantities of cheaply manufactured Chinese goods including

counterfeits are found in black markets as well as souks, bazaars, marketplaces, dollar stores, Mom and Pop shops, swap meets, street kiosks, "China shops," and warehouse stores around the world.

In some cases, brokers under-invoice Chinese products. A variety of goods including electronics, garments, small household appliances, are purchased, imported, and sold in many "China shops" and on the black market in countries around the world. Via this form of value transfer, funds are used to buy contraband including drugs, ivory, endangered and illegal wildlife and their parts, and heavily regulated flora and food items that are later shipped to China. This is why I noted earlier in my testimony that the CCP business model and its involvement with various SUAs are intertwined and cannot be examined in isolation.

The BMPE has evolved further still as Mexican and other foreign national buyers and brokers travel directly to China to place orders for the goods or they avail themselves of e-commerce brokers to purchase consumer products that are made in China. Generally speaking, Chinese merchants also practice willful blindness. They do not conduct customer due diligence and do not care if they are being paid with illicit proceeds.

Over the past five years, Chinese money laundering rings have been increasingly moving the drug proceeds of the Mexican cartels. Since China's financial regulators limit private individuals from handling more than $50,000 in foreign currency, there is massive Chinese demand for U.S. dollars. This pent-up demand for dollars from China and the cartels' need to unload U.S. dollar proceeds creates this unholy alliance between Chinese money launderers and the Mexican cartels. They engage in a broad spectrum of mechanisms to move and obfuscate the origins of drug proceeds such as bulk cash smuggling, trade-based money laundering, mirror swaps, cryptocurrencies, and digital payment platforms like WeChat Pay and Alipay, shell companies and real estate.

Chinese actors working with the Mexican cartels have pioneered the growing use of **"mirror accounts" or "mirror swaps"** to launder the proceeds of crime.

With "swaps," Chinese brokers often working with Chinese organized crime groups and the cartels identify Chinese/American cash intensive businesses that are willing to cooperate. They often use Chinese social media apps.

How do the swaps work? The Chinese/American businessperson receives the drug cash from the Chinese broker working with the cartels. The business later "places" the proceeds of crime into its revenue flow and represents the drug cash as legitimate proceeds from the business. Or, the cash is used to assist other Chinese that want to circumvent Chinese capital flight restrictions and, for example, purchase U.S. property, housing or other high-ticket goods.

Meanwhile, these complicit businesses are asked to transfer a designated amount of money through Chinese phone apps to accounts based in China. Using a currency converter app on a smartphone, the participants agree on the exchange rate between the U.S. dollar and the Chinese yuan. Once the money is offshore in China, the value can be further re-routed to Mexico or elsewhere per the instructions of the cartels.

It's called a "swap" because the participating businessperson takes possession of the drug cash, while simultaneously transferring the equivalent in Chinese yuan from his/her account in China to the account provided by the broker. Of course, the Chinese/American businessperson also receives a commission.

During the original Colombian BMPE, the average commission for the black-market peso broker was about 15%. The Chinese are doing it for 1 to 2% on average.[xxviii] And the speed is almost instantaneous. For the traffickers, the big plus is that the Chinese organized crime groups involved absorb all the risk. The cartels know they will get paid.

Communications are generally accomplished via Chinese apps such as WeChat. Law enforcement is reportedly challenged to monitor the communications and monetary transactions. Yet the same transactions are easily monitored by the platforms involved as well as Chinese intelligence entities. Mirror swaps also avoid U.S. financial intelligence reporting requirements – our primary anti-money laundering countermeasure.

I discuss Chinese espionage and Chinese organized crime in my book *China – Specified Unlawful Activities.* I believe China's 2017 National Intelligence Law is pertinent to "swaps" and the use of Chinese/American businesses. The Law requires Chinese organizations and citizens, wherever they are in the world, to support, assist, and cooperate with PRC intelligence services.

Fei-Chien or Flying Money

Chinese underground finance or alternative remittance systems are primarily used to remit wages from the Chinese diaspora back to the homeland. Authorities have no wish to interfere with hard-working immigrants sending money "back to the home country" to help support extended family in China. Most of these money transfers are perfectly benign. Unfortunately, these low-cost and highly efficient financial systems are also abused by criminals to move, transfer, and launder illicit proceeds. Increasingly, the transfers are multi-directional. The system is very attractive to criminals because by its very nature it is opaque. Generally speaking, U.S. law enforcement does not understand or recognize Chinese underground finance. There are few trails for authorities to follow. Chinese underground finance or alternative remittance systems also avoid government scrutiny, taxes, and traditional countermeasures such as the filing of financial intelligence reports. Chinese flying money is used primarily in the layering stage of money laundering.

It is believed that *fei-chien*, sometimes known as "flying money," was started during the T'ang Dynasty (618 to 907 AD).[xxix] At the time, there was a growing commodity trade within China. Some historians believe it was the rice trade and others the tea trade that were the catalysts for this new financial system. Ironically, as opposed to modern day practices, the transfer schemes were not invented as underground methods of payment transfers, but were rather systems devised by the government to facilitate taxation. Merchants sold their goods and then brought their revenues to provincial "memorial offering courts." The government collected taxes. In turn, the merchants were issued certificates for the remaining value of the commodity sales. When the merchants returned to their home provinces, they would present the certificates to the provincial government for payment. Interestingly, some scholars believe these certificates were the forerunner of the paper banknotes that appeared during the Song dynasty (960 – 1279 AD). The fei-chien system became an efficient way of payment. Completing transactions in this way spared both the merchants and government the risk of transporting large sums of money and ensured all parties to the transaction would get paid.

Over the centuries, the *fei-chien* system continued to evolve. Chinese workers increasingly began to migrate to remote provinces, and then overseas. The Silk Road trade between China, Central Asia, and Europe created a demand for brokers at the ends of the major

trade routes who were prepared to settle each other's debts. Negating the need for physical currency or gold to travel was an important security consideration. In addition, families back home needed financial support to maintain their livelihoods. Expatriate Chinese businesses began to develop side businesses of remitting money back to China. The international Chinese diaspora spread this indigenous financial system further still. Today, modern Chinese businesses as well as "Chinatowns" and "China shops" and Chinese organized criminal groups are found around the world. So too is Chinese flying money. Chinese underground banks are a new iteration of an age-old financial system, re-purposing informal value transfer techniques for today's world.

Strong Chinese family bonds are incorporated into "*guanxi,"* which is an overarching social system of rules that govern relationships and social behavior. *Guanxi* is the guarantor of both secrecy and the integrity of the parties to the transaction. Those who violate its prescriptions find themselves as social outcasts, essentially shunned in all circles. *Guanxi* is an integral component of *fei-chien.* In other words, similar to hawala and other better known indigenous informal value transfer systems, an essential element is trust. The trust is based on family, clan, social mores, friendship, and culture. As a result, it is very difficult for outsiders to penetrate the *fei-chien* underground financial networks.

Let's use a simple scenario to illustrate how Chinese flying money works: Wang in Guangdong province wants to send 200,000 Chinese renminbi (RMB) to his brother in New York City. Wang wants to protect his hard-earned money by investing in dollars and the United States. He uses a series of underground flying money transfers to avoid the PRC's tight capital restrictions. Wang gives the Guangdong "flying money" broker the RMB and in turn receives a code number. He trusts the broker as they have a familial relationship. The "flying money" broker in Guangdong directs his counterpart in New York (perhaps a member of the same family) to pay the equivalent in U.S. dollars (approximately $28,000) upon presentation of the code. The code could be transferred in a telephone call or a message contained in an e-mail or perhaps the Chinese messaging system, WeChat. Not many years ago, a playing card or a portion of a currency note with a specific chop, marking, wax seal, or other physical sign would be presented to the broker as a sign of authentication. If it is a recurring transaction, codes aren't necessary. Upon receipt, the New York "flying money" broker pays Wang's brother in New

York City. The RMB did not physically leave China. The dollars were already in the U.S. Similar to hawala, the system can be described as "money transfer without money movement." [xxx] Wang's brother safeguards the $28,000 and following transfers. His brother's capital is now in the United States and authorities are none the wiser.

Money and value are also sent back to China. Like all immigrant groups, Chinese send money back home to help support their families. The same fei-chein brokers are involved. Even though "flying money" largely operates on trust and community ties, the brokers are in business to make money. Occasionally they have to settle accounts. Transactions are multi-directional. Using the above example, the New York broker might be running a deficit or a surplus with his counterpart in Guangdong. Various methods are used to settle accounts including banks, cash couriers, online payment services, mirror accounts, and trade-based value transfer.

Surplus credits could also be used by a client unrelated to the original transaction(s). For example, credits could be used for the purchase of foreign real estate. For a fee, the client that wants money outside China pays RMB in China to a flying money broker and receives credit in the desired foreign location in local currency.

One of the most popular methods of getting RMB or yuan out of China involves finding a willing foreign contact who would like to set up a private exchange for Chinese RMB. Flying money networks are sometimes used but so are informal personal networks and business associates. For instance, the overseas person puts their dollars into an account in Hong Kong or Singapore belonging to the Chinese individual. The Chinese individual in China puts the Chinese RMB in an account in Beijing that is connected with the overseas investor who wants the money in China.

What is often overlooked in hawala, flying money, and other informal underground financial systems is that historically and culturally trade is most often used in the settling of accounts between brokers. Recall the discussion of trade fraud, value transfer, and TBML. Of particular relevance is the section on over-and-under invoicing. Trade-based value transfer has been used as an efficient and effective settlement system for thousands of years. Most "flying money" brokers are directly involved or associated with trading companies - especially now that China is a global economic and trade power.

How do the "flying money" brokers profit? Although commissions are paid to the brokers at both ends of the transaction, the fees are less than banks or traditional money remitters such as Western Union charge. In comparison to large brick-and-mortar banks and money transfer chains, expenses are small. Often the brokers use legitimate businesses as fronts. The businesses include restaurants, "China shops," and trading companies. Of course, in the underground remittance segment of their business they skirt regulations and taxes. In the United States, the flying money brokers are technically classified as a money service business (MSBs) for the purposes of registration, licensing, and reporting financial intelligence. They must register with FinCEN and be licensed in 48 of the 50 states. They are also supposed to file financial intelligence. They do not comply.

After the September 11 attacks in the United States, law enforcement and intelligence agencies began to focus on hawala and its links with terror finance. As a result, hawala has received much worldwide attention and notoriety. There have been a number of successful investigations into how hawala is misused by criminals and terrorists. Because of the worldwide Chinese diaspora, I believe the magnitude of "flying money" is larger than hawala. Together, underground remittance systems could be valued at over $1 trillion per year.[xxxi] The important point to note is that both of these culturally-based systems are efficient and historically and culturally rely on trade-based value transfer.

I have the utmost admiration and respect for these underground financial systems. They are fast, efficient, reliable, functional, and provide much needed low-cost financial and remittance services for millions of people around the world. The primary drawback, of course, is that criminals take advantage of the systems' opaqueness and anonymity. Flying money is used to launder the proceeds of crime. These "underground," "parallel," or "alternative remittance systems" are very difficult for law enforcement and intelligence services to monitor. Most law enforcement at the federal, state, and local levels are not even aware of the existence of flying money. There are very few investigations.

Recommendations

CCP Inc.'s criminal activities are increasingly exposed. I believe CCP Inc. is vulnerable via a systematic and coordinated law enforcement approach. The following suggestions are offered in no particular order or priority. Most of them focus on law enforcement and related topics. I have made recommendations for combatting individual SUAs and money laundering methodologies elsewhere.[xxxii]

Investigate, Prosecute, and Convict Criminals

It all comes down to enforcement.

There are a large number of academic, think-tank, non-profit, and journalistic exposés of CCP Inc. criminality. As noted previously, they generally examine one case or perhaps study one SUA but do not examine the totality of CCP Inc. transnational crime and the corresponding CCP Inc.-centric money laundering methodologies. Nevertheless, these studies educate diverse communities around the world and are helpful. Unfortunately, scholarship does not solve the problem.

With a few exceptions, we have the laws, rules, and regulations that are necessary to investigate, prosecute, and convict CCP Inc. actors involved with transnational crime and money laundering. U.S. federal criminal investigators have the resources to make cases that meaningfully target China's corruption and criminality by investigating, prosecuting, and convicting criminals. We have the ability to follow the illicit money and value trails and take away the criminals' proceeds of crime. The civilized world is predicated on the rule of law, equal justice and holding wrong-doers accountable. Unfortunately, when it comes to CCP Inc. what is missing is political will, policy, consensus, mandate, and an articulated mission. Enforcement is the key.

Develop a U.S. Law Enforcement Strategic Plan Focused on CCP Inc. Crime

Every U.S. government department and agency has a mission statement. They have a number of strategic plans, five-year plans, performance goals, etc. Most importantly, the plans are used to allocate funding and resources. (Unfortunately, these five-year plans are seldom reviewed five years later. The failures in achieving the articulated goals are rarely noted and

those responsible for the failures are never, I repeat, never held accountable.) Having a strategic plan is simply how government bureaucracies work. We do not have an all-encompassing law enforcement-oriented strategic plan to confront PRC-focused crime in the United States and abroad. We need one.

An effective strategic plan should not fall under the purview of one government department or bureau. CCP Inc. criminality is extensive and wide ranging. There are multiple SUAs that demand attention. Crimes should be looked at as parts of a whole. The target should be considered an on-going criminal enterprise. The totality of CCP Inc. transnational crime and money laundering needs to be understood. These transnational crimes cut across the mandates of several U.S. intelligence, law enforcement, and regulatory agencies. The Department of State needs to become engaged. Perhaps Congress could mandate a U.S. government-wide law enforcement oriented strategic plan that investigates and holds accountable those involved with CCP Inc. transnational crime and corruption.

Establish CCP Inc. Task Forces

In the United States, the FBI has the mandate to pursue most of the CCP Inc.'s SUAs, money laundering methodologies, and enablers found in the United States. The criminal networks also have overseas ties. Fortunately, the FBI has 63 legal attaché offices—commonly known as legats—and more than two dozen smaller sub-offices around the world, providing coverage for more than 180 countries, territories, and islands. Other federal agencies and departments as well as state and local law enforcement offices have roles to play as well. Some, like the DEA and ICE, also have a large overseas presence.

According to former FBI Director Christopher Wray, China poses the biggest threat to the U.S., more than any other nation.[xxxiii] Wray made numerous statements about the dangers of Chinese espionage and IPR theft. The wide variety of other SUAs do not receive enough attention by the Bureau. There is also a general lack of understanding within the FBI of TBML and how it impacts so many crimes including China-centric money laundering methodologies. All of the above, and many other methodologies and enablers with "Chinese characteristics" are part of the CCP Inc. business model.

Over the last decades, U.S. law enforcement has enjoyed considerable success establishing task forces comprised of federal, state, and local law enforcement. There may be concurrent jurisdiction when, all at the same time, a crime is a violation of federal, state, and local law enforcement. Task forces typically focus on terrorism, organized crime, narcotics, gangs, and human trafficking. Some of the best-known national task forces are the Organized Crime Drug Enforcement Task Forces (OCDETF) and the Joint Terrorism Task Forces (JTTFs). The Director of National Intelligence and other U.S. intelligence agencies often assist the task forces in gathering and analyzing intelligence related to national security threats.

I propose establishing new task forces comprised of federal, state, and local law enforcement that specifically target the CCP Inc. threat domestically. And, understanding and adhering to the constraints posed by venue and jurisdiction, investigate the Chinese criminal presence overseas. This must be done in concert with our partners. Foreign investigations should include Chinese triads' involvement in illicit trade in ports, FTZs, BRI projects, transnational crime of all sorts, cross-border money laundering operations, and corruption. Per the above, certain CCP Inc.-backed crimes are currently being investigated—for example, espionage and IPR theft. But, once again, we need an understanding of the "totality" of what is going on including the relationships between criminal networks and their enablers engaged in a variety of SUAs. We need to focus on uniquely Chinese ways of laundering money and transferring value. We have to better understand the relationship between the government of China, its intelligence services, and organized crime. An isolated FBI field office or even a task force dedicated, for example, solely to narcotics trafficking is not going to be able to do that.

The new China Inc. task forces should be directed by Assistant U.S. Attorneys that have an aggressive approach but fully adhere to the law and respect and safeguard civil liberties.

Really, Truly, Finally Go After the Money

U.S. law enforcement has consistently talked about the importance of "following the money" and taking away the proceeds of crime from criminals and criminal organizations. Yet in practice those self-evident goals have not been emphasized. To take just one notorious example, in our "War on Drugs" our efforts have been concentrated on interdicting the participants and the products. Another strategy the DEA and other law enforcement organizations pursue is to go

after the "kingpins" or the leaders or heads of criminal organizations. The strategy is to decapitate the boss of bosses and kill the organization. A further tactic is to go after the low-level participants—the street-level dealers and the mules and follow them to the top of the organizational structure. However, the most common counter measure of all is to go after the product, from bags of fentanyl and opioid products smuggled across the border to tons of cocaine seized on the high seas. The history of the drug wars over the last 30 years has shown that none of these tactics have been effective.

Having been in federal law enforcement, I'll tell you the truth: We go after the participants and the product because it is far easier than going after the money. Also, the product is not just drugs. It similarly holds true for human beings in trafficking networks, counterfeit goods, illicit tobacco, wildlife trafficking, etc. All of the above and many more are SUAs for CCP Inc. money laundering. Criminals do not traffic in drugs for the sake of drugs or any other illegal good or service. They engage in crime for the money. Following the money trail and taking away proceeds of crime will hurt the criminal organization far more than a prison term or a seizure of contraband. Our emphasis on product and participants has led to failure. But the law enforcement bureaucracies persist in their efforts primarily because of careerism, bureaucratic culture, and lack of imagination. In order to change that paradigm, we need to emphasize the money and value trails including in the trade, cyber, and digital arenas. In other words, we must target and prioritize the proceeds of crime. To make that happen, we have to change the incentives and the culture of the law enforcement bureaucracies. I have written about this important topic elsewhere.[xxxiv]

Money Service Businesses

Require that PRC-based applications possibly involved in money laundering and the fentanyl trade should be required to register as money services businesses (MSBs). Moreover, only a tiny fraction of informal money remitters such as hawaladars and fei-chien brokers have actually registered with Treasury's FinCEN.

Cryptocurrency

We need to update and strengthen anti-money laundering (AML) requirements for cryptocurrency transactions and require all crypto exchanges to comply with KYC regulations and report high-risk transactions perhaps related to fentanyl trafficking and other SUAs.

Civil Forfeiture

I have little expertise in international law. I am not an attorney. So, the following is simply an idea that could be explored by victims of CCP Inc. criminal actions including the trafficking of fentanyl.

Sovereign immunity is a long-standing doctrine that grants immunity to a foreign country against the jurisdiction of the courts in another country. There have not been many exceptions to this principal, yet there may be one that is relevant to our situation with China. The 1976 Foreign Sovereign Immunities Act, or FSIA for short, presents the legal context that allows individuals or organizations to bring a civil lawsuit against foreign states or their representatives as well as foreign organizations. FSIA lists procedures to be followed when suing a foreign country as well as how assets are to be attached for international debt recovery purposes. It is still quite difficult under FSIA and international law to hold foreign countries liable for criminal offenses; however, there are exceptions. Some of these include:[xxxv]

- When a foreign state conducts commercial activities in, or when those activities directly affect the United States
- When there's a dispute over property taken in violation of international law
- When monetary damages against a foreign country are sought for loss of or damage to property, death, or personal injury resulting from its tortious conduct in the United States

For example, fentanyl and its precursors are produced in China. CCP Inc. could seriously crack down on the production, advertising, sales, and distribution of fentanyl and other opioids and their precursors. It chooses not to. An aggrieved plaintiff in the United States, perhaps the parent of a son or daughter that is a victim of fentanyl, working with an aggressive attorney, could bring a case against the PRC under the FSIA exceptions. Perhaps it could be a class action lawsuit. The same reasoning could hold under CCP Inc.'s peddling of dangerous counterfeit

goods in the United States as well as IPR theft, toxic foods and medicines, and possibly other crimes.

The evidence is becoming increasingly clear that Covid-19 was developed in a lab in Wuhan. At the time of the time of Covid-19's release, domestic flights in and out of Wuhan were shut down. International air travel was allowed to continue. The policy spread Covid-19 around the world. Perhaps, one day China could even be held accountable for the development and intentional international spread of Covid-19.

It's currently impossible to go after China-based assets of criminal actors involved in illegal trade. However, there are plenty of Chinese assets in the United States. According to FBI Director Christopher Wray, "Effectively all Chinese companies are in the pockets of the Chinese Communist Party (CCP). . .those [companies] that aren't owned outright are effectively beholden to the government all the same, as Chinese companies of any size are required to host a Communist Party cell to keep them in line.... almost like silent partners."[xxxvi] Therefore, since CCP Inc. is an authoritarian state and ultimately all assets belong to the government that condones criminality, in theory, CCP Inc. assets could be subject to civil asset seizure and forfeiture.

Formulate Intelligence Collection Taskings

I am out of the U.S. intelligence and law enforcement communities now, but it appears the concerned bureaus, agencies, and departments are for the most part ignorant about the totality of CCP Inc. transnational crime and, in particular, money laundering methodologies. This will only change when policymakers make it a matter of import. I urge the President of the United States to task the Office of Director for National Intelligence to include in the National Intelligence Priorities Framework (NIPF), and through Intelligence Community directives, to have the Central Intelligence Agency (CIA), National Security Agency (NSA) and other applicable intelligence agencies develop intelligence reporting requirements for HUMINT and SIGINT and other collection means that target Chinese transnational crime and money laundering globally. I further urge the release of unclassified overlays of global illicit markets with significant Chinese corruption and criminality (e.g., BRI). Within classification guidelines,

criminal investigators should be given access to the finished intelligence products to assist them in their targeting and investigations.

The FATF Should Name and Shame China

In the world of anti-money laundering/counter-terrorist financing (AM/CFT), it is the Financial Action Task Force (FATF) that makes things happen.

The FATF was created in 1989 by the G-7 to combat international money laundering. The FATF is an international AML/CFT policy making-body. It does so primarily through its 40 recommendations and periodic mutual evaluations that ensure countries adhere to the internationally accepted AML/CFT guidelines. I have been directly involved with the FATF in its annual plenary meetings and the mutual evaluation process serving as a law enforcement "expert." While the FATF, and FATF-style regional bodies, have done much good and have been highly successful in bringing attention to the scourge of international money laundering, the FATF has simply not fulfilled its original mission—curtailing international money laundering. What is not openly discussed is that by the "metrics that matter," i.e., money laundering convictions and asset forfeiture, over the last 30 years our efforts have been disappointing. As Raymond Baker, the Founding President of Global Financial Integrity said, "Total failure is just a decimal point away."[xxxvii] Money laundering enforcement has failed both in the U.S. and around the world. The reasons are many and I have written about them elsewhere.[xxxviii]

Internationally, one reason for failure is that the FATF 40 Recommendations and mutual evaluation process have evolved into a procedural box checking exercise. The boxes reflect debate about whether or not a country is "compliant" with a recommendation/s. What's lost in the discussion is the original founding intent of the FATF and the effectiveness of AML/CFT as measured by the metrics that matter. Moreover, countries are afraid of being put on the FATF "blacklist" (something that doesn't really exist) because of bad publicity and international risk, ratings and credit concerns. So, in response to FATF pressure, countries often pass legislation or create rules or make promises to get the FATF off their back. This is all well and good. Unfortunately, I have seen in my career that after the evaluation process and the checking of boxes some countries soon go back to business as usual. Countries posture and make promises. However, they don't have the political will to use their own initiative and truly combat

AML/CFT. And, unfortunately in the arena of combating international money laundering, we are only as successful as the weakest link. The Peoples Republic of China is a classic example of a very weak link. There are others.

In the most recent 2019 FATF mutual evaluation of China, none of the issues raised in this testimony were addressed. In my opinion, the mutual evaluation was simply another box checking exercise with political overtones if not unspoken pressure (China held the presidency of the FATF during the evaluation process) that did nothing to confront CCP Inc.'s involvement with transnational SUAs and money laundering.

As I state in my book *China – Specified Unlawful Activities,* measured by SUAs and China-centric money laundering methodologies and enablers, CCP Inc. represents the greatest money laundering threat in the world. Thus, despite China's latest mutual evaluation report, I urge the U.S. FATF delegation to build consensus within FATF to "name and shame" China. Other like-minded delegations should join the call. The same should happen in the FATF-style regional bodies of which China is a member – the Asia Pacific Group and the Eurasian Group on Money Laundering.

The FATF Should Create a New Recommendation that Specifically Addresses TBML

I have written about this elsewhere,[xxxix] and have also addressed it in previous Congressional testimony, but the international community will never seriously make progress against trade-based money laundering (TBML) and associated crimes such as black-market exchanges and flying money unless and until the FATF creates a new recommendation that specifically addresses the issue.[xl] Trade fraud is a very significant SUA for money laundering. Depending on its varied forms, TBML can also act as a money laundering technique or methodology. I believe it is the largest and most prevalent of all the money laundering methodologies. Moreover, trade fraud and TBML are inextricably intertwined with many of the CCP Inc. criminal activities and money laundering discussed. It has become part of CCP Inc.'s business model. It is time the FATF addressed the issue and create a specific anti-TBML recommendation.

Controlling the border is the single most important countermeasure to combat the scourge of fentanyl, human trafficking, money laundering and other related criminal activity. Controlling the border with a border wall will also assist law enforcement interdicting *southbound* bulk cash smuggling, weapons, and other contraband.

References

[i] Financial Action Task Force, "What is Money Laundering?" accessed November 17, 2017; http://www.fatf-gafi.org/faq/moneylaundering/
[ii] Ibid
[iii] Channing Mavrellis, "Transnational Crime and the Developing World," Global Financial Integrity, March 27, 2017; https://gfintegrity.org/report/transnational-crime-and-the-developing-world/
[iv] Note: Full disclosure – I am proud to be on the Board of Directors of GFI.
[v] Shannon Tiezzi, "China's Growing Drug Problem: China's drug problem is getting worse, despite harsh penalties," The Diplomat, March 28, 2015; https://thediplomat.com/2015/05/chinas-growing-drug-problem/
[vi] International Narcotics Control Strategy Report (INCSR), Volume I, U.S. State Department, March, 2021. China section, page 111; https://www.state.gov/2021-incsr-volume-i-drug-and-chemical-control-as-submitted-to-congress/
[vii] "How Much Do Americans Really Spend on Drugs Each Year?" The White House, 2014; https://obamawhitehouse.archives.gov/blog/2014/03/07/how-much-do-americans-really-spend-drugs-each-year
[viii] "Overdose Deaths Decline, Fentanyl Threat Looms," DEA, December 16, 2024;
[ix] Eric Lendrum, "Fentanyl Overdoses Leading Cause of Deaths in America in 2020," American Greatness, December 17, 2021; https://amgreatness.com/2021/12/17/fentanyl-overdoses-leading-cause-of-deaths-in-america-in-2020/
[x] INCSR
[xi] House Financial Services Subcommittee on National Security, Illicit Finance, and International Financial Institutions Hearing Entitled: Follow the Money: The CCP's Business Model Fueling the Fentanyl Crisis Thursday, March 23, 2023; https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408655
[xii] Steven Dudley et al.," Mexico's Role in the Deadly Rise of Fentanyl," Insight Crime, 2019, https://www.wilsoncenter.org/sites/default/files/media/documents/publication/fentanyl_insight_crime_final_19-02-11.pdf
[xiii] January 17, 2024; https://www.natronacounty-wy.gov/888/Community-Resources#:~:text=In%20the%20calendar%20year%202023,enough%20to%20kill%20every%20American.
[xiv] "How Does Fentanyl Get into the U.S.," BBC, February 4, 2025; https://www.bbc.com/news/articles/cvg93nn1e6go
[xv] "Laundering the proceeds of Illicit Synthetic Opioids," Financial Transactions and Reports Analysis Centre of Canada (FinTRAC); https://fintrac-canafe.canada.ca/intel/operation/iso-osi-eng.pdf
[xvi] Bob Portman Press Release, January 30, 2018; https://www.portman.senate.gov/public/index.cfm/2018/1/on-senate-floor-portman-highlights-psi-report-on-drug-traffickers-shipping-fentanyl-into-the-u-s-through-the-postal-service
[xvii] "Carfentanil: A Dangerous New Factor in the U.S. Opioid Crisis," Drug Enforcement Administration, Officer Safety Alert; https://www.justice.gov/usao-edky/file/898991/download
[xviii] "Two Chinese Nationals Charged with Operating Global Opioid and Drug Manufacturing Conspiracy Resulting in Deaths," Department of Justice Press Release, August 22, 2018; https://www.justice.gov/opa/pr/two-chinese-nationals-charged-operating-global-opioid-and-drug-manufacturing-conspiracy

John A. Cassara
www.JohnCassara.com

[xix] "Lethal Exchange: Synthetic Drug Networks in the Digital Era," C4ADS, 2020; https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/5fb3077189409576d229502a/1605568376184/Lethal_Exchange_S

[xx] Louise Shelley, "Fentanyl, COVID-19, and Public Health," World Medical percent Health Policy 12, no. 4 (2020) p. 392; please see the paper for sub-sources

[xxi] Channing Mavrellis and John Cassara, "Made in China: China's Role in Transnational Crime and Illicit Financial Flows," Global Financial Integrity, October 27, 2022, page 15; https://gfintegrity.org/report/made-in-china/

[xxii] "Fentanyl Flow to the United States," DEA Intelligence Report, January, 2020; https://www.dea.gov/sites/default/files/2020-03/DEA_GOV_DIR-008-20%20Fentanyl%20Flow%20in%20the%20United%20States_0.pdf

[xxiii] "Trade Based Money Laundering," the FATF, Paris, June 23, 2006, p. 1; http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf

[xxiv] Data and analysis were given to me by Dr. John Zdanowicz

[xxv] "U.S. Tax Coffers Lose $640 billion of Taxable Profits due to TBML Evasion and Money Laundering in 2021," SEK Strategies, May 4, 2022; https://www.prnewswire.com/news-releases/us-tax-coffers-lose-640-billion-of-taxable-profits-due-to-trade-based-tax-evasion-and-money-laundering-in-2021-says-sk-strategies-301539461.html

[xxvi] "China's foreign trade hits new high in 2021," State Council, Peoples Republic of China, Jan 14,2022; http://english.www.gov.cn/archive/statistics/202201/14/content_WS61e11577c6d09c94e48a3a0a.html

[xxvii] Drazen Jorgic, "Special Report: Burner phones and banking apps: Meet the Chinese 'brokers' laundering Mexican drug money," Reuters, December 3, 2020; https://www.reuters.com/article/us-mexico-china-cartels-specialreport-idUSKBN28D1M4

[xxviii] Sebastian Rotella and Kirsten Berg, "How a Chinese American Gangster Transformed Money Laundering for Drug Cartels," ProPublica, October 11, 2022; https://www.propublica.org/article/china-cartels-xizhi-li-money-laundering

[xxix] Much of this section is taken from: John A. Cassara, "Flying Money May Land in the U.S.," Banking Exchange, February 21, 2016; https://www.bankingexchange.com/news-feed/item/6079-flying-money-may-land-in-u-

[xxx] The definition of hawala was concisely expressed during the 1998 U.S. federal trial of Iranian drug trafficker and money launderer, Jafar Pour Jelil Rayhani, and his associates. The definition was coined by FinCEN analyst and expert witness Patrick Jost.

[xxxi] According to the World Bank, "official" global remittances totaled approximately $625 billion in 2018. According to the IMF, "unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows." For a full explanation and links to original sources, see John Cassara, "Money Laundering and Illicit Financial Flows," pages 99-103

[xxxii] John Cassara, *Money Laundering and Illicit Financial Flows: Following the Money and Value Trails*, Amazon Kindle Direct Publishing, 2020. Each chapter covering an individual money laundering methodology or technique concludes with recommendations. In addition, see Chapter 14, "More Forward Steps," page 315

[xxxiii] FBI website, International Operations; https://www.fbi.gov/about/leadership-and-structure/international-operations#:~:text=Today%2C%20we%20have%2063%20legal,countries%2C%20territories%2C%20and%20islands.

[xxxiv] I go into specifics on changing the culture and incentives in my book, *Money Laundering and Illicit Financial Flows: Following the Money and Value Trails.* See pages 316 – 318.

[xxxv] The information on the FSIA draws heavily, including direct quotes, from the article "Can You Sue a Country?" Law 101, September 1, 2021; https://laws101.com/can-you-sue-a-country/#:~:text=Although%20foreign%20nations%20enjoy%20sovereign,commercial%20and%20state%2Dsponsored%20activities.

[xxxvi] Judith Bergman

[xxxvii] Raymond Baker, Capitalism's Achilles Heel, Wiley & Sons, 2005, page 173

[xxxviii] John Cassara, *Money Laundering*, Chapter 2 – Sobering Statistics

[xxxix] John A. Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, Wiley, 2016

[xl] John A. Cassara, Written Statement for the Hearing On "Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance," Before the Task Force to Investigate Terrorism Financing, Of the House

Financial Services Committee, February 3, 2016;
https://financialservices.house.gov/uploadedfiles/02.03.2016_john_a._cassara_testimony.pdf

Chairman HILL. The gentleman yields back.
Mr. Mühleisen, you are recognized for 5 minutes.

STATEMENT OF MARTIN MÜHLEISEN, NONRESIDENT SENIOR FELLOW, GEOECONOMICS CENTER, ATLANTIC COUNCIL

Mr. MÜHLEISEN. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee, thank you for inviting me today. My name is Martin Mühleisen. Before joining the Atlantic Council's GeoEconomics Center, I retired from the International Monetary Fund in 2021, having served as chief of staff and director for strategy policy and review, among others. The following are my personal views and not those of the Atlantic Council or any other organization.

On the topic of multilateral institutions, I would like to focus on three recommendations. First, China should be held responsible for its bad lending decisions. Chinese loans have contributed to rising debt vulnerabilities in low-income countries. In several cases, their unsustainable debt put a hold on new loans by multilateral lenders. The speed of debt workouts has picked up in recent years, but China remains unwilling to provide haircuts to restore solvency when needed.

The United States should encourage the IMF to make full use of its debt policies when countries need deeper debt restructuring. For example, under certain conditions, the IMF's Lending Into Official Arrears Policy allows programs to proceed even if a country is in default to another IMF member. A more robust application of this policy could strengthen the negotiation position of debtor countries, eliciting more ambitious debt relief from China.

Second, focus on quality, not quantity, of multilateral programs. The World Bank and other development banks have been leveraging their capital base to increase lending to low-income countries who also benefited from a $650 billion issue of IMF special drawing rights. These efforts are intended to meet large financing needs of poorer countries, often with relatively little conditionality. Higher debts to multilateral institutions, however, can drive out private lenders, resulting in the end in higher dependence on China.

To attract private capital, the institution's main focus should therefore be on raising countries' long-term growth prospects, including through loan conditionality, but stepped-up lending by multilateral organizations alone will not win the struggle for hearts and minds in the global south.

The United States should work with multilateral lenders to incentivize needed reforms. If multilateral programs were flanked by cofinancing, investment funds, specific trade preferences, or private capital, they would have a larger chance of succeeding. Especially in Africa and Southeast Asia, with their growing populations, this could unlock important markets for U.S. exports in the future.

Third, protect the dominant role of the dollar. Large emerging markets have exhibited a remarkable degree of economic stability in recent years. Countries among this group are still vulnerable to external shocks. However, in case of severe crisis, some might need access to U.S. dollar sources to avoid sharp devaluations, and their financing needs could be large.

In this case, the IMF could deploy its lending capacity, its full lending capacity of around $1 trillion to avoid contagion and preserve global financial stability. This amount leverages the U.S.' contribution to the IMF by a factor of more than 5 to 1. In the absence of this safety net, countries would either have to acquire additional foreign exchange reserves, putting upward pressure on the U.S. dollar, or they would need to seek help from China, which could become a factor in undermining U.S. dollar dominance over the long term. It would, therefore, be in the U.S. interest if Congress ratified the increase in IMF quotas agreed last year, which would provide a stronger capital cushion and make loans available at short notice, if needed.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mühleisen follows:]

House Committee on Financial Services

Hearing Entitled: "Examining Policies to Counter China"

February 25, 2025

Witness Statement

Martin Mühleisen

Introduction

Mr. Chairman, Ranking Member Waters, and Members of the Committee, thank you for inviting me as a witness to today's hearing.

My name is Martin Mühleisen. Before joining the Atlantic Council's GeoEconomics Center as a Nonresident Senior Fellow, I retired from the International Monetary Fund (IMF) in 2021. I was Chief of Staff under Managing Director Christine Lagarde, and I served as Director for Strategy, Policy and Review between 2017 and 2020. The following are my personal views, not those of the Atlantic Council.

Multilateral financial institutions

International Financial Institutions (IFIs), such as the IMF, the World Bank, and regional Multilateral Development Banks (MDBs), have been important tools for the United States to exert its global leadership. Unlike the United Nations with its "one country, one vote" system, these institutions are shareholder-owned, and voting power is determined by shareholdings. The United States, in almost every circumstance, owns the largest share and, especially in the case of the IMF and World Bank, is the only country that holds a veto over changes to the institutions' fundamental governance arrangements and lending capacity.

The institutions are chartered for specific, narrow purposes. The World Bank and MDBs borrow in global capital markets to finance economic development in emerging and developing countries. The IMF's mandate, financed by issuing reserve assets to its member countries, is to preserve global economic stability by addressing external imbalances and serving as a lender of last resort to prevent balance of payments crises.

China's role in the IFIs

The People's Republic of China assumed China's seat at the IMF and World Bank in 1980, and it joined other MDBs over the course of the following decades. It has broadly supported the mandates of these institutions and, like many other shareholders, contributed

supplementary resources to help fund training, technical assistance, or interest rate subsidies for the poorest countries.

As China's economy has grown to rival that of the United States, its voting share in the IMF and World Bank has not risen accordingly. Relative to its size, China is now significantly underrepresented in these institutions, along with a number of other emerging markets. This has been the subject of intense debates about IFI governance arrangements in recent years. Nevertheless, China joined a broad consensus last year to increase the IMF's capital ("quotas") without any realignment of voting shares.

China As a Sovereign Lender

As it grew in size, China has also become the largest sovereign lender to emerging and developing countries over the past two decades, spurred on by President Xi's Belt-Road Initiative (BRI) that started in 2013. China's lending volume since 2000 is estimated at $1.3 trillion, approaching the total amount provided by the G7 over the same period.[1] More recently, the People's Bank of China has also acted as a lender of last resort, offering about $600 billion worth of bilateral renminbi swap lines to some 30 countries.[2]

China did not grown its loan portfolio out of altruistic motives. It has used its creditor relationships with emerging markets and developing countries to export construction and other services; to obtain access to naturals resources, ports, and other facilities; and to attract diplomatic support for its geopolitical objectives. For example, about 70 countries, many of them in the Western Hemisphere, have officially endorsed China's sovereignty over Taiwan.[3]

What This Committee Could Encourage

Hold China responsible for bad lending decisions

As a large and relatively new international lender, China has repeated many of the mistakes of other countries that went before it, including in the design of its lending programs and in the way that it manages relations with distressed borrowers.

BRI loans and the associated projects have been plagued by quality problems, lack of transparency, and quasi-commercial financial terms. Many loans have become distressed as a result, contributing to rising debt vulnerabilities in low-income countries.[4] In a number

---

[1] Gregory Makoff, Théo Maret, Logan Wright, "Sovereign Debt Restructuring with China at the Table: Forward Progress but Lost Decade Risk Remains," Harvard Kennedy School, January 27, 2025.
[2] International Monetary Fund, *External Sector Report: Imbalances Receding*, July 2024.
[3] The Economist, "China's stunning new campaign to turn the world against Taiwan," February 9, 2025.
[4] International Monetary Fund, "Debt Vulnerabilities And Financing Challenges In Emerging Markets And Developing Economies—An Overview Of Key Data," IMF Policy Paper 2025/002, February 20, 2025.

of cases, this has put an effective stop to lending by multilateral lenders, who cannot lend to countries with an unsustainable debt burden.

A number of borrowers have remained in limbo for several years because China refused to participate in collective debt restructuring exercises, preferring instead to bilaterally extend maturities or modify interest rates rather than providing comprehensive debt relief.

Since China has joined the G20 Common Framework for Debt Restructuring in 20200, the speed of debt workouts has picked up somewhat. Nevertheless, there is still a lack of coordination among China's state lenders, and there is a fundamental unwillingness to agree to loan write-downs that are sometimes necessary to restore countries' solvency (not unlike under Chapter 11 of the U.S. Bankruptcy Code), resulting in long workout periods that put an undue burden on debtor countries and other lenders.[5]

The United States should use its voice in the IMF to adopt a more forward-leaning approach when it comes to the restructuring of Chinese loans. Besides insisting on improved transparency, the U.S. Treasury should encourage the IMF to adopt a more forceful approach in cases where China's reluctance to engage in meaningful restructuring effectively grants it a hold over IMF program loans.

For example, the IMF's "Lending into Official Arrears" (LIOA) policy allows the institution to resume lending to borrower countries that are in default to one of its members, provided they engage in good faith negotiations and other loan conditions are met.[6] At the moment, the burden on countries to benefit from this policy is relatively high, given the risks for them to default on one of their largest lenders and trading partners. A more robust application of the LIOA policy, however, could strengthen the negotiation position of debtor countries and provide for more ambitious debt relief from China.[7]

Focus on quality, not quantity, of IFI programs

Following the Covid epidemic, and in order to help countries respond to global climate, food, and energy crises in recent years, the World Bank and MDBs have been looking to leverage their capital base to step up climate and development loans, including with private capital, and the IMF issued $650 billion of Special Drawing Rights (SDRs) to its membership in 2021 to boost global liquidity. At the same time, the fund has channeled some of the newly created SDRs of its richer members into its concessional loan programs.

---

[5] Makoff, Maret, and Wright (2025), op.cit.
[6] International Monetary Fund, "Reviews of the Fund's Sovereign Arrears Policies and Perimeter," IMF Policy Paper 2022/023, May 18, 2022.
[7] Sean Hagan, "The IMF's arrears lending policy: Just Use It", FT Alphaville blog, September 29, 2022.

These efforts were intended to meet emergency financing needs of poorer countries, often involving little or relatively weak conditionality. There is a risk, however, that an increase in debt owed to multilateral institutions, who enjoy preferred creditor status, could worsen the overall debt situation of recipient countries as it may drive away private creditors. Moreover, the increase in global interest rates from the zero rate-environment a few years ago also implies that programs and projects need to meet a higher standard to help countries escape from debt distress.

To attract private capital and decrease their reliance on Chinese lenders, recipient countries need to improve their long-term growth prospects, which should be reinforced through strong loan conditionality focused on improving legal systems, streamlining regulations, and limiting government involvement in the economy, among others.

At the IMF, the United States should insist on prioritizing "upper-credit tranche" (UCT) programs, where a country must undertake necessary economic reforms to qualify for disbursements. At the World Bank, this could involve some rebalancing of its focus on global public goods toward more ambitious growth objectives.

Given the still strong demographics in Africa and Southeast Asia, investing in these regions will open up market opportunities for U.S. exporters in the future. However, stepped-up lending by multilateral organizations alone will not be enough to win the struggle for hearts and minds in the Global South.

The United States and other large shareholders should therefore work with multilateral lenders to incentivize critical reforms and boost growth prospects in partner countries. If multilateral programs were flanked by bilateral co-financing, investment finance, specific trade preferences, or other forms of (geopolitical) incentives, they would have a larger chance to succeed.[8]

Protect the dominant role of the dollar

I have so far focused mostly on low income and developing economies, in part because large emerging market (EM) countries exhibited a remarkable degree of macroeconomic stability in recent years. Many EMs tightened monetary policy early in 2021 in the face of inflationary pressures, and they were able to relax policies quickly after the shock receded.

In most cases, there was no need for full-fledged IMF/World Bank programs during this period, as there has not been for several years, although some countries in the Western

---

[8] Martin Mühleisen, *The Bretton Woods Institutions Under Geopolitical Fragmentation*, Atlantic Council, October 9, 2023.

Hemisphere made good use of the precautionary credit lines offered to IMF member countries with high-quality policies and a strong economic track record.

Two factors contributed to this positive outcome. First, many EMs acquired large foreign exchange reserves in the wake of the Asia and Global Financial Crises, making them more immune to speculative attacks; and second, countries pursued orthodox macroeconomic policies, with a focus on strong institutions, responsible fiscal policy, and flexible exchange rate management.

In principle, however, many EMs are still vulnerable to external shocks, especially under a combination of financial market volatility and rising tariffs and trade barriers. Most are not benefiting from dollar swap lines offered by the Federal Reserve, nor are they members of powerful regional currency arrangements.[9] In case of a severe crisis, these countries would need access to U.S. dollar sources to supplement their own reserves in order to avoid sharp currency devaluations.

In this case, the IMF could deploy its lending capacity of around $1 trillion to stabilize countries' balance of payments, avoid wider contagion, and thereby preserve global financial stability. These funds are available through IMF programs or precautionary lines at relatively short notice, leveraging the United States' financial contribution to the IMF by a factor of more than 5:1.

Absent the safety net provided by multilateral institutions, countries would only have two viable alternative to protect themselves against larger shocks. They would either have to acquire additional foreign exchange reserves, putting upward pressure on the U.S. dollar, or they would need to seek help from China with its large currency reserves, which could in the long run be a factor in undermining the dominant role of the U.S. dollar.

It would therefore be in the U.S. interest if Congress were to ratify the IMF quota increase agreed last year, shifting a good part of the funds already contributed to the IMF's New Arrangements to Borrowing fully into its permanent capital.

A final word

When talking about the multilateral institutions, the focus usually lies on their finances and program activities. What is often overlooked is that these institutions are at the center of a worldwide network of country officials, financial market participants, and policy experts who are committed to market-based economics, global trade, free capital flows and responsible macroeconomic policies.

---

[9] In South-East Asia, the Chiang Mai Initiative (CMIM) provides for some regional support, but this is largely tied to IMF programs.

It is therefore no accident that emerging markets have become more stable in recent years. While this is an achievement on the part of each individual country, in many cases it has been spearheaded by officials that spent some years during their career working at multilateral institutions and/or continuing to benefit from close interaction with them. The transmission of knowledge through these contacts, as well as the large amount of technical assistance and training provided by multilateral institutions, are a public good that benefits the United States in many ways, and is unlike anything that China has to offer.

Chairman HILL. The gentleman yields back.

Dr. Doshi, you are recognized for 5 minutes.

STATEMENT OF DR. RUSH DOSHI, C.V. STARR SENIOR FELLOW FOR ASIA STUDIES, AND DIRECTOR OF THE CHINA STRATEGY INITIATIVE AT THE COUNCIL ON FOREIGN RELATIONS, AND ASSISTANT PROFESSOR, EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Dr. DOSHI. Chairman Hill, Ranking Member Waters, distinguished members of the committee, thank you very much for the opportunity to testify at today's hearing. I will focus my remarks on four questions related to China. First, what are Beijing's economic and technology ambitions? Second, what is its strategy to achieve them? Third, how is the strategy working? Finally, what should we do about it?

First, what are Beijing's ambitions? The People's Republic of China (PRC) has a grand strategy to displace U.S.-led order. It seeks to catch up and surpass the United States technologically, to reduce dependence on others while increasing their dependence on China economically, and to acquire the capability to defeat U.S.' forces militarily.

Beijing believes economic and technology competition is about power—not prosperity. It believes there have been four industrial revolutions that determine the fate of nations. The first was steam power, which led to British dominance. The second and third were electrification and mass manufacturing, which led to American dominance. Now we are in the fourth, AI, quantum computing, smart manufacturing, biotechnology, which China aims to win.

Second, what is Beijing's economic and technology strategy? There are three parts. First, Beijing acquires technology. It buys foreign companies to get it, it forces them to transfer it in exchange for market access, or it steals it outright through human intelligence and cyber espionage. Second, Beijing protects its companies. It uses tariffs, nontariff barriers, and exchange rate manipulation to keep out foreign competition. Third, Beijing wields industrial policy. It uses massive industry support, subsidies, tax breaks, R&D, support, cheap credit, State investment so that its companies can undercut rivals on price.

Taken together, PRC companies will lose money in their home market. They will lose money in foreign markets, but they will use that win in both their home and foreign markets, and eventually they know they can stay solvent longer than foreign rivals that do not have similar State backing. Dominance in one sector helps them climb the ladder to the next rung.

The scale of China's industrial policy efforts is breathtaking. Beijing likely stole more than a trillion dollars' worth of U.S.' intellectual property. Its industrial support is about 2 percent of the PRC economy every year. That is a conservative estimate, but it is more than any other country around the world. It is twice as much as U.S. support. It is probably about $400 billion a year. That is more in comparison with the CHIPS and Science Act, which is about $50 billion over multiple years.

Third, is this strategy working? In short, yes. In the last two decades after China joined the World Trade Organization (WTO), the

U.S. share of global manufacturing fell by half, from 30 percent to 15 percent. That so-called China shock cost millions of jobs and shuddered thousands of factories. Meanwhile, in the exact same period, China's share of global manufacturing quintupled from 6 percent to 30 percent. China is a manufacturing superpower. Its capacity exceeds that of the next nine countries combined, and it can leverage that manufacturing dominance to innovate and to gain military advantage.

Take innovation, China is at the leading edge of fields like robotics, AI, and quantum computing. It leads the United States in high-impact patents and scientific papers. It accounts for half of all industrial robot installations worldwide, 60 percent of all global electric vehicle production, 75 percent of global battery production, and over 90 percent of solar panel, rare earth, and antibiotic production.

Then take the military competition, the PRC has 200 times the shipbuilding capacity of the United States and is leading in new technologies like hypersonics.

Now Beijing's economy has problems. It is slowing. Its population is aging, but we should not feel confident. Beijing is pouring money into industry and exports to find growth. That strategy is causing a second China shock that is de-industrializing economies around the world, including our own.

Fourth and finally, what do we do about it? First, we cannot go it alone. China surpasses the United States on some industrial metrics, but the United States combined with its allies and partners has three times China's GDP, half of all global manufacturing, more than twice China's likely military spending, twice China's patents and top-cited publications, and massive market power. If we pull our markets, protect our technology, coordinate our research, and create defensive barriers to PRC excess capacity, we can handily weather the second China shock and reindustrialize and lead in technology.

Second, we need new institutions. The United States could benefit from a Federal industrial investment bank that can make long-term loans, take equity in strategic industries, and, most importantly, coordinate with private capital. That could allow us to also fund reshoring from China to the United States or to allied countries.

Third, we need a change in incentives. China can play the long game while our companies focus on quarterly earning cycles. We can consider tax policies to change that. We also need to invest more in basic science research where China outspends the United States now.

Finally, we have to play defense. That involves calibrated tariffs to protect our industry from excess capacity from China. It requires stronger export controls, research protection, and regulation of inbound and outbound investment to maintain our lead.

The United States has never faced an adversary quite as formidable technologically and industrially as China. We have everything that we need to succeed. We just have to make different choices in some cases.

I want to thank you for your time, and I look forward to your questions.

[The prepared statement of Dr. Doshi follows:]

COUNCIL on FOREIGN RELATIONS

February 25, 2025

SFS | GEORGETOWN UNIVERSITY Walsh School of Foreign Service

China as a Manufacturing Superpower: For the Hearing "Examining Policies to Counter China"

Prepared statement by
Dr. Rush Doshi
Assistant Professor of Security Studies, Georgetown University Walsh School of Foreign Service
C.V. Starr Senior Fellow and Director of the China Strategy Initiative, Council on Foreign Relations

Before the
U.S. House Committee on Financial Services
United States House of Representatives
1st Session, *119th* Congress

The following represents Dr. Doshi's prepared oral testimony:

Chairman Hill, Ranking Member Waters, distinguished members of the Committee, thank you very much for the opportunity to testify at today's hearing.

I will focus my remarks on four questions related to China.

1. First, what are Beijing's economic and technology ambitions?
2. Second, what is its strategy to achieve them?
3. Third, how is its strategy working?
4. Fourth, what should we do about it?

First, what are Beijing's ambitions?

The PRC has a grand strategy to displace U.S.-led order.[1] It seeks to "catch up and surpass" the U.S. technologically; to reduce dependence on others while increasing their dependence on China economically; and to acquire the capability to defeat U.S. forces militarily.

The Council on Foreign Relations takes no institutional positions on policy issues and has no affiliation with the U.S. government. All statements of fact and expressions of opinion contained herein are the sole responsibility of the author.

Beijing believes economic and technology competition is about power, not just prosperity. It believes there have been four industrial revolutions that determined the fate of nations. The first industrial revolution was steam power and it led to British dominance. The second and third were electrification and mass manufacturing which led to American dominance. And now we are in the fourth – which includes AI, quantum, smart manufacturing, biotechnology, and which China aims to win.[2]

Second, what is Beijing's economic and technology strategy?

There are three parts. First, Beijing acquires technology. It buys foreign companies to access it, forces them to transfer it in exchange for market access, or steals it outright through human intelligence and cyber espionage. Second, Beijing protects its companies. It uses tariffs, non-tariff barriers, and exchange rate manipulation to keep out foreign competition. Third, Beijing wields industrial policy. Beijing uses massive industry support – subsidies, tax breaks, R&D support, cheap credit, state investment – so its companies can undercut rivals on price.[3]

Taken together, PRC companies will lose money but win their home market, then leverage that domestic market dominance to win foreign markets. PRC companies can generally stay solvent longer than foreign rivals without similar state backing. Dominance in one sector helps them reach the next rung of the ladder.

The scale is breathtaking. Beijing has likely stolen more than $1 trillion worth of U.S. intellectual property.[4] Its industrial support is conservatively estimated at two percent of the PRC economy every year, more than any other country around the world, and twice as much as U.S. support.[5] Beijing probably spends at least $400 billion every year to support industry; in comparison, the U.S. Chips and Science Act was approximately $50 billion across multiple years.[6]

Third, is this strategy working?

In short, yes. In the two decades after China joined the WTO, the U.S. share of global manufacturing fell by half from 30% to 15%.[7] That "China shock" cost millions of manufacturing jobs and shuttered thousands of factories.[8] Meanwhile, in the exact same time period, China's share global manufacturing quintupled from 6% to 30%. China is a manufacturing superpower whose capacity exceeds that of the next nine countries combined.[9] It can leverage that manufacturing dominance to innovate and gain military advantage.

With respect to innovation, China is at the leading edge in fields like robotics, AI, and quantum computing.[10] It leads the United States in high-impact scientific papers and patents.[11] And it accounts for half of all industrial robot installations worldwide, 60% of global EV production, 75% of global battery production, and 90% of solar panel, rare earth, and antibiotic production.[12] And with respect to military advantage, the PRC has two hundred times more shipbuilding capacity than the United States and is leading in new technologies like hypersonics.[13]

Beijing's economy is slowing, and its population is aging. But to address these challenges, Beijing is pouring money into industry and exports to find growth and to reduce reliance on its dwindling supply of cheap labor. This approach may not return China to high-level GDP growth, but it is causing a "second China shock" deindustrializing economies around the world.[14]

Fourth, what do we do?

First, and most importantly, we cannot succeed on our own. China surpasses the US on many metrics. But the United States – combined with its allies and partners – has three-times China's GDP size, half of all global manufacturing, more than twice China's likely military spending, twice as many patents and top-cited publications, and massive market power. If we pool our markets, protect our technology, coordinate our research, and create defensive barriers to PRC excess capacity, we can handily weather the "second China shock," reindustrialize, and lead in technology.

Second, we need new institutions. The United States would benefit from a federal industrial investment bank that can make long-term loans and possibly equity investments in strategic industries and coordinate with private capital markets. This kind of bank could even fund reshoring from China to the United States or to allied countries.

Third, we need to change incentives. China can play the long game while our companies focus on quarterly earning cycles. We could consider tax policies that encourage shareholders to hold equity positions for longer.

Fourth, and of particular relevance to this committee, we need to improve our defenses. A number of general proposals follow below:

The United States needs stronger controls on outbound investment to ensure it does not fund PRC companies that support the PRC military or come at the expense of American competitiveness. Congress or the Administration could close existing gaps, expand the scope to industries like biotechnology, strengthen penalties so they are not seen as the cost of doing business, and improve enforcement capability.

The United States needs to strengthen CFIUS too. The Trump Administration has taken some actions that may limit PRC investment in sensitive sectors through the America First Investment Policy National Security Memorandum, but more needs to be done. Congress or the Administration should consider broadening CFIUS review to passive non-controlling investment as well as preventing mitigation agreements with the PRC that are unlikely to be effective given the PRC's policy of integration between he civilian and military sectors. Closing key loopholes is also essential. For example, the PRC only has to pre-disclose a planned investment if it is into export-controlled technology. The statutory definition of technology that requires such pre-disclosure should be widened so that the PRC cannot make an investment into any sensitive technology (e.g., in the semiconductor industry), transfer the intellectual property, and then notify CFIUS after the fact, at which point remedy is effectively impossible.

The United States requires calibrated tariffs to protect industry from PRC excess capacity, as well as regulatory instruments that restrict the import and sale of PRC products that may pose national security risks. The Information and Communications Technology and Services Supply Chain Executive Order is particularly important in this respect, and the office that administers it will need adequate funding given growing threats.

The United States needs stronger export controls, significant improvements to the export licensing system to expedite the process while cracking down on circumvention, and a greatly enhanced ability to monitor compliance with and enforce controls. This will require adequate funding at the Bureau of

Industry and Security. The United States also needs to strengthen research protection to maintain its technological lead as well as to increase funding for scientific research rather than cut it. The PRC likely exceeds US government spending on research.

The US has never faced an adversary as formidable economically, technologically, and militarily as China. But we have everything we need to succeed if we make the right choices.

Thank you for your time, and I look forward to your questions.

---

[1] Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (Oxford University Press, 2021).

[2] Ibid.

[3] Gerard DiPippo, Ilaria Mazzocco, Scott Kennedy, and Matthew Goodman, *Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perespective* (Center for Strategy and Economic Studies, 2022); Joe Weisenthal and Tracy Alloway, "Almost 10 Years Later, China's 'Made In 2025' Has Succeeded," *Bloomberg*, October 31, 2024, https://www.bloomberg.com/news/articles/2024-10-31/almost-10-years-later-china-s-made-in-2025-has-succeeded; Office of Senator Marco Rubio, *The World China Made: "Made in China 2025" Nine Years Later*, May 18, 2024, https://www.americanrhetoric.com/speeches/PDFFiles/Marco-Rubio-The-World-China-Made.pdf.

[4] Estimates vary, but all align around roughly at least $1 trillion in losses is conservative. See, Commisson on the Theft of American Intellectual Property, *Update to the IP Commission Report*, February 27, 2017, http://ipcommission.org/report/IP_Commission_Report_Update_2017.pdf; Nicole Sganga, "Chinese Hackers Took Trillions in Intellectual Property from About 30 Multinational Companies," *CBS News*, May 4, 2022, https://www.cbsnews.com/news/chinese-hackers-took-trillions-in-intellectual-property-from-about-30-multinational-companies/.

[5] One conservative estimate comes from DiPippo et al., *Red Ink.*; see also OECD data for sectoral subsidies.

[6] If *Red Ink* estimates are correct for 2019, and subsidies are roughly two percent of PRC GDP, that would be $360 billion in 2024 not adjusting for purchasing power. With such adjustments, the figure rises dramatically.

[7] Estimates for shares of global manufacturing vary. See, U.S. Library of Congress, Congressional Research Service, *U.S. Manufacturing in International Perspective*, by Marc Levinson, R42135 (February 21, 2018), https://sgp.fas.org/crs/misc/R42135.pdf.

[8] For a summary of the literature on the China shock, see Peter Dizikes, "Q&A: David Autor on the Long Afterlife of the 'China Shock,'" MIT News, December 6, 2021, https://news.mit.edu/2021/david-autor-china-shock-persists-1206; See also Robert D Atkinson," Why Foreign Competition, Not Productivity, Is More to Blame for Job Losses in U.S. Manufacturing: A Primer for Policymakers," Information Technology and Innovation Foundation, February 26, 2018, https://itif.org/publications/2018/02/26/why-foreign-competition-not-productivity-more-blame-job-losses-us/

[9] Richard Baldwin, "China is the World's Sole Manufacturing Superpower: A Line Sketch of the Rise," VoxEU (Column), Centre for Economic Policy Research, January 17, 2024, https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise.

[10] For one assessment, see Robert D. Atkinson, *China Is Rapidly Becoming a Leading Innovator in Advanced Industries*, Hamilton Center on Industrial Strategy, Information Technology and Innovation Foundation, September 16, 2024, https://itif.org/publications/2024/09/16/china-is-rapidly-becoming-a-leading-innovator-in-advanced-industries/.

[11] "China Has Become a Scientific Superpower," *Economist*, June 12, 2024, https://www.economist.com/science-and-technology/2024/06/12/china-has-become-a-scientific-superpower.

[12] Atkinson, *China Is Rapidly Becoming a Leading Innovator in Advanced Industries*; Brad Setser, "Xi Is Making the World Pay for China's Mistakes," *New York Times*, February 18, 2025, https://www.nytimes.com/2025/02/18/opinion/china-xi-jinping-trade-manufacturing-tariffs.html; China also produces roughly half the worlds steel, aluminum, and ships. Its exports are growing three times faster than global trade.

[13] Joseph Trevithick, "Alarming Navy Intel Slide Warns Of China's 200 Times Greater Shipbuilding Capacity," *Warzone*, July 11, 2023, https://www.twz.com/alarming-navy-intel-slide-warns-of-chinas-200-times-greater-shipbuilding-capacity.

[14] Setser, "Xi Is Making the World Pay for China's Mistakes,"

Chairman HILL. Thank you, sir. The gentleman yields back.

The chair recognizes Mrs. Beatty, the Ranking Member of the National Security, Illicit Finance, and International Financial Institutions Subcommittee, for 1 minute.

STATEMENT OF HON. JOYCE BEATTY, RANKING MEMBER OF THE SUBCOMMITTEE ON NATIONAL SECURITY, ILLICIT FINANCE, AND INTERNATIONAL FINANCIAL INSTITUTIONS, A U.S. REPRESENTATIVE FROM OHIO

Mrs. BEATTY. Thank you, Mr. Chairman.

First, let me say, I would like to echo Ranking Member Waters' comments and note the incredible irony of us holding this hearing while Team Trump-Musk are presiding. It is—and they are demolishing the U.S. leadership on the international stage. The White House and Department of Government Efficiency (DOGE) are illegally deleting entire agencies in violation of the Constitution, siding with adversaries, calling our allies dictators, and abruptly and ruthlessly rescinding U.S. aid that fosters global goodwill and advances our national security goals—all of which unquestionably allows China to fill the void and hands them the prize of global leadership on a silver platter, all while colleagues across the aisle who have a long record in Congress of loudly supporting soft power initiatives, like USAID and assistance for Ukraine, are stunningly silent now. This is unthinkable, and I yield back.

Chairman HILL. The gentlewoman yields back.

The chair recognizes himself for 5 minutes of questions.

Mr. Mühleisen, the IMF last major report on China comes from 2024 on their economy, and it reads like it is a parallel universe to me. The report says, "Directors"—meaning IMF directors—positively noted that China is a key player in addressing global challenges and welcomed its constructive role in supporting sovereign debt restructuring and low-income in vulnerable countries in tackling the global climate crisis. That is a quote from the report. They also emphasize China's important role in strengthening multilateral trading system in close cooperation with international partners. That sounds preposterous to me.

Mr. Mühleisen, what is your view on that.

Mr. MÜHLEISEN. Thank you, Mr. Chairman.

I think—and I am not speaking for my colleagues. I want to just emphasize that for my former colleagues. I think that the staff report wanted to point out that China did make some progress on the debt restructuring issue. There have been improvements, as I mentioned earlier, because China is participating under the Group of Twenty (G20), common framework for debt restructuring, and some country cases have been resolved.

Chairman HILL. You would not argue that the common framework has been successful, would you?

Mr. MÜHLEISEN. It has been a difficult effort to get China to contribute. It is not like the Paris Club, but it has some of the same principles.

Chairman HILL. Should not China belong to the Paris Club? Should they not participate in the Paris Club?

Mr. MÜHLEISEN. I would welcome them if they did.

Chairman HILL. Wouldn't that make all of this a lot easier? We would not have to have a made-up framework like the common framework from the G20.

Mr. MÜHLEISEN. I think I pointed out in my statement that I think there are still shortcomings in the way China does handle its loans to troubled countries. I would agree that having them in the Paris Club would make them play with the rules that are well established and functioning, but, obviously, this is China's own decision. I think at some point they considered it, but it was then rejected within China.

Chairman HILL. Yes, I agree with you. I think it was a mistake, and I think the IMF and the IMF members should put more pressure on China to participate through the Paris Club.

What should the IMF be doing now as it relates to this past 4 years of effort that really has not been very successful?

Mr. MÜHLEISEN. As I mentioned, I think the only real tool that the IMF has is Lending Into Official Arrears Policy.

Chairman HILL. Do they have the right information from the countries they are trying to lend to if the terms that China has are not transparent and are not disclosed?

Mr. MÜHLEISEN. There has been some improvement in disclosure. Again, I do not want to put my hand in the fire and say that everybody knows exactly what China is doing in member countries. That improvement has helped, especially to bring private creditors on board because now there is more of a level playing field. Now people understand more what the mass of loans is and how to negotiate that restructuring, but there is still a long way to go.

Chairman HILL. Thank you.

Mr. McMurray, I was pleased to be sponsoring in this Congress a bipartisan bill with Mr. Torres of New York that would support nuclear energy financing through the World Bank and the European Bank for Reconstruction and Development. This legislation would not only help lift the World Bank's prohibition on same financing, but it would kickstart a trust fund to add in the assistance that you referenced in your good testimony.

I would like to insert in the record two articles I have written on the importance on nuclear financing, "Build Back Nuclear" from 2021, and "Our Energy Future" from January 2025.

Without objection, it will be added to the record.

[The information referred to can be found in the appendix.]

Chairman HILL. Mr. McMurray, can you help us understand why funding for nuclear and other energy projects is so critical in countering China's influence in the world?

Mr. MCMURRAY. Thank you, Chairman, and thank you for your leadership on this issue.

China is actively building almost 30 nuclear reactors today, poising them to prepare to export and build their technologies elsewhere. The World Bank has a really important role to fund large global infrastructure projects so, by them not supporting nuclear, that limits the effectiveness of the World Bank and cedes that leadership to China.

As you mentioned, the trust fund is actually an excellent tool for the World Bank to do two things: One, build that internal expertise so it can start educating its own staff as well as its members; and

then, two, lay out some of those early stage projects so ultimately entities like the EXIM Bank can start funding and support additional projects globally.

Chairman HILL. Thank you very much. My time has expired

I now yield to the Ranking Member of the full committee for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

Dr. Doshi, in the Caribbean, nations increasingly disillusioned by the U.S.' unpredictability are turning to what is known as BRICS—that is Brazil, Russia, India, China, South Africa—including of course both in a very, very real way China and Russia for investment and financial support. China's Belt and Road Initiative have brought investments to the region, from ports and energy resources to hotels and highways, although often with predatory loan arrangements. In light of these developments, what strategic actions should the United States take to counterbalance China's growing influence and provide a more reliable, attractive alternative for Caribbean nations and other regions? I just want you to know that, when any of us participate in activities with our Caribbean countries, that is all we hear: "What are you guys doing? Cannot you help us to avoid what China is doing in the Caribbean?" What do you know about this?

Dr. DOSHI. Thank you very much, Ranking Member Waters. Let me just say this is a very important issue. Every great power adversary the United States has ever faced has wanted a role in the Caribbean, whether that was Germany, even the First World War, but especially the Second, with the Soviet Union and the Cold War. China is no different. They also want a role in the Caribbean because they know it is a weak spot for us potentially. They know about our reliance on the Panama Canal. The history here shows that China will want to be involved and if looking at their own statements, you know it.

I would add a few things. China's involvement picked up really in the early 2000s. They have accelerated their involvement in recent years. As you correctly noted, they are focused on a whole-of-government approach in the Caribbean. That means military assistance in some cases to a Caribbean country. That means law enforcement and military assistance. It also means investment, significant investment in Jamaica, investment in port infrastructure, including the operation of ports in the Caribbean, so they are there. They are present. In many ways, their economic relationship is growing rapidly. Tourism is another component.

What do we do about it? There are a few things. First, a little bit of support from us goes a long way. These are not large economies. Taken together, the entire GDP of the region is about the GDP of Kansas, maybe a little bit less. We can do more by being present and by increasing our aid activity.

Second, Caribbean countries, as you know well, want commercial engagement with the United States. We should find ways to make it easier, whether that is through EXIM Bank, DFC, or other institutions, for our businesses to be involved in the Caribbean.

Finally, we should remember that we have an asymmetric advantage. Those countries, as you noted, they want to be with us—not with China. They are not happy about the corruption that

China sometimes brings to their economies. Transparency and sunlight are the best disinfectants. We should fight in the information space that people know that we stand for anti-corruption and that the Chinese stand for corruption.

Finally, we have to worry about the military role that China is building there, and we should make sure that our Department of Defense is doing everything it can to strengthen military diplomacy with our Caribbean friends.

Ms. WATERS. Thank you very much and speaking about what more we can do. Some of our Caribbean Island states do not receive foreign aid because they say they make a little too much money. They are hit with storms, and they are in great debt as they try to reconstruct and renovate and all of that. Is this an area that we could help them in because of the debt that is incurred with all of these Mother Nature events?

Dr. DOSHI. Thank you very much, Ranking Member Waters. You brought an important point up, which is debt. Many of these countries are heavily indebted to China, increasingly indebted. Jamaica is another good example of that. In many cases, Suriname is another recent example. In many cases, they cannot pay back the debt, so that is a problem. It speaks to the previous discussion earlier about China's nonparticipation in the Paris Club, but I would just add that, yes, storm relief, we can do more there. Finally, very quickly, we might want to consider changing the thresholds for aid for some of these countries so that we can make sure that we can be more useful to them.

Ms. WATERS. Thank you very much. Quickly, do we have a security problem with China getting so much influence in the Caribbean and being so close to us, should we be concerned about that?

Dr. DOSHI. We should, in my opinion. It has somewhat compromised some of the activities that we undertake in the Caribbean. We have U.S. Southern Command (SOUTHCOM) operations and others that are worried about this. In particular, I would note just two things: First, that the PRC operates out of Cuba a number of sensitive sites, and we should worry about those and their ability to collect on our operations in the Caribbean. Second, I would also add to that the PRC's ownership of port infrastructure in the region, including on the Panama Canal, can pose security threats as the Trump Administration and the Biden Administration have identified.

Ms. WATERS. Thank you. I yield back.

Chairman HILL. The gentlewoman yields back.

The gentleman from Michigan, the vice chair of the full committee, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Hey, everybody. I want to get to IMF reform and some other things but, Dr. Doshi, I want to very, very quickly hit on this. I learned a new phrase recently, which is the lie-flat generation in China. My question is, can China survive economically from the downturn that they are seeing? It seems to me, as a child of the Cold War, in that era, the difference between our space race and the Cold War race that we had with Russia is they had a much smaller economy. I am very curious, very quickly, your view on China with that.

Dr. DOSHI. Thank you, Congressman. It is a very important question. Very quickly, I would say that, yes, they can survive. We have generally underestimated China's ability to compete. Very importantly, China has scale, and every rising power that has scale tends to do pretty well.

The Soviets did not have the scale that China does. Happy to go into more detail.

Mr. HUIZENGA. Okay, all right. Mr. Mühleisen, I want to turn to you about your work at IMF and your views from the IMF, not necessarily your particular work there. According to the Wilson Center, 80 percent of China's government supported loans are to countries that are in some sort of debt stress. The IMF has failed to convince China to work on restricting this debt, which some estimate is in excess of a trillion dollars. To me, having worked with IMF and World Bank and others over the years, I would argue it seems to be a strategy, not a coincidence, that oftentimes they are lending into these countries that have a debt strain and then they are then utilizing the loan documents and the profile of that to then flip that into an asset that they either control or own. My question is, what roles should these International Financial Institutions (IFIs) play here? Should they simply just back away from countries when that sustainability is unclear?

Mr. MÜHLEISEN. Thank you, Congressman.

I would put it this way, I do not see China engaging in some kind of debt trap, if that is what you meant, where they entrap countries.

Mr. HUIZENGA. I think a clear-eyed look at what is happening in Africa and the rest of Asia would contradict that.

Mr. MÜHLEISEN. What I would rather look—how I would rather look at it is they are getting a lot of benefits out of that engagement because what they do is, of course, they have these trade relations also with countries——

Mr. HUIZENGA. I am sorry, are you saying that they have a higher risk profile than the rest of the world does?

Mr. MÜHLEISEN. To some extent, I think China was not even aware of the risks they got into. I could speak to that in a second, but what I meant is the strategic advantage is they are getting access to ports and access to other facilities——

Mr. HUIZENGA. Including in Latin America and other places now.

Mr. MÜHLEISEN. Exactly and Caribbean. That is, I think, the main benefit. It is not like they would kind of own a port that a country has to hand over because they cannot pay their debt.

Mr. HUIZENGA. Staying with you, in your testimony, you mentioned that the United States should insist on, "improved transparency" at the IMF. I am also curious, what can the U.S. Treasury do to encourage the IMF to adopt a more forceful approach, including that transparency?

Mr. MÜHLEISEN. I did not mean to say that the United States should push the IMF to be more transparent. It is actually the debt transparency of China that needs——

Mr. HUIZENGA. Yes, I understand that, but the IMF is the tool for that, correct?

Mr. MÜHLEISEN. Yes. I myself——

Mr. HUIZENGA. Is the IMF doing enough to push that transparency and to push a country like China to give that transparency?

Mr. MÜHLEISEN. I myself have worked with Chinese officials in my formal capacity to help them understand how much actually countries are owed to China because, within China, their facilities as lenders of all these different institutions that are lending are kind of not as far developed as we in the West would have it. They are not kind of set up to do that. They are only slowly getting into the business of lending.

Mr. HUIZENGA. I have got 45 seconds. I think the Chinese are far better businesspeople than what you seem to be implying, but—the latest shareholder review at the IMF did not increase China's voting power. They were pushing to do so. What conditions should the IMF insist on in the future if China lobbies for more shares would be a question, but I am going to actually get that in writing because I do have to hit this, Mr. Chairman. I previously introduced a bill, the IMF Reform and Integrity Act, that would prevent any shareholder increase at the IMF for a country such as the PRC that does not meet basic obligations codified in the organization's articles of agreement. I believe, and this goes back to my time working with Madame Lagarde, when she was there, the IMF needs to get tougher and tighter about enforcing its own rules. I would like to include—submit a copy of my bill.

Chairman HILL. Without objection.

[The information referred to can be found in the appendix.]

Mr. HUIZENGA. I yield back.

Chairman HILL. The gentleman yields back.

The chair recognizes the gentlewoman from New York, the Ranking Member of the Small Business Committee, Ms. Velázquez, for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Let me start off by saying that I am glad we are having this hearing discussing the rising threat of China, but holding this hearing is not enough. If we want to talk about countering China, then we need to be discussing how President Trump and his unelected President, Elon Musk, are the biggest threat to the United States in countering China. President Trump has abandoned our closest allies in favor of cozying up to dictators, illegally closed down USAID, and cutting off aid for needy nations, destroyed our national security apparatus, and installed conspiracy theorists, like Kash Patel, at the top levels of our government. Dismantling this institution that has helped keep our Nation and the world safe since World War II opened the door for China. Countries across Africa and Latin America are turning to China for financing and leadership, a geopolitical move China is facilitating and exploiting.

Mr. Cassara, by hollowing out the government through illegal firings and layoffs, Elon Musk and DOGE are making Americans less safe from financial scams coming from China and encouraging corruption both home and abroad.

An article printed in The Wall Street Journal, not exactly a bastion of liberal media, last week describes how illegal proceeds from fentanyl sales are being laundered through China for reinvestment

in real estate and other vehicles here in the United States. The proceeds and flow of illegal fentanyl from China is an issue Members on both sides of the aisle care about. How can Congress bolster current Bank Secrecy Act (BSA)/Anit-money Laundering (AML) statutes to reduce the reinvestment of illegal fentanyl proceeds here in the United States?

Mr. CASSARA. Thank you for the question. Regarding BSA, Bank Secrecy Act, financial intelligence reporting requirements, I think one of the best things that could happen to counteract some of the issues that are developing is for real estate agents, for example, to not—no longer be exempted from Know Your Customer (KYC), reporting requirements, and to follow suspicious activity reports.

I think something else needs to be done that is more efficient utilization of suspicious activity reports in general, which is going to require additional personnel. It is going to require technology. Most importantly, it is going to require additional resources on the ground for agents to work cases.

Ms. VELÁZQUEZ. Would not you agree that to reduce the laundering of money from Chinese fentanyl sales, we are going to need to continue to crack down on anonymous shell companies here in the United States?

Mr. CASSARA. Absolutely, in money laundering, there are three stages of money laundering, placement, layering, and integration. Shell companies, LLCs, Delaware corporations, whatever you want to call them, are one of the premier tools of choice by money launderers in the layering stage of money laundering. It makes it very, very difficult for criminal investigators to follow the money trail. Same thing with the integration stage. Once the money is layered and integrated into the economy, we do not know who owns that shopping center, who owns that yacht, who owns that property. We need beneficial ownership information.

Ms. VELÁZQUEZ. Thank you for that answer.

Dr. Doshi, how important is it for both the United States and the allied nations to adopt and enforce transparency measures like beneficial ownership registries and anti-corruption laws to prevent bad actors from abusing our financial system.

Dr. DOSHI. Thank you, Congresswoman. I think it is incredibly important. Every step that we want to take, whether on law enforcement with anti-money-laundering, with export controls or with investment restrictions, all of those steps are going to require knowing essentially the beneficial owner. If we do not have that, then the PRC can always set up shell companies and get around our restrictions, and they have been doing that. I think it is indispensable to our competitiveness agenda.

Ms. VELÁZQUEZ. Thank you. I yield back.

Chairman HILL. The gentlewoman yields back.

The gentleman from Oklahoma, Mr. Lucas, the Chair of the Task Force on Monetary Policy, is recognized for 5 minutes.

Mr. LUCAS. Thank you for holding this hearing, Mr. Chairman, and thank you to our witnesses for testifying today.

As the former Chairman of the Science Committee and representing an energy-dominant State, I am particularly sensitive how China weaponizes energy as a geopolitical tool. The United States must continue to prioritize targeted investments in clean,

reliable, and affordable nuclear energy, which will contribute to enhanced energy security, geopolitical stability, and emissions reductions.

Mr. McMurray, can you touch on why maintaining U.S. leadership in energy production is so critical in countering China in energy security national issues?

Mr. MCMURRAY. Thank you, Congressman and thank you for your leadership on clean energy innovation, especially as the former Chair of Science, Space and Technology (SST) Committee.

China is activity building projects, and right now, countries around the world want and need more energy for either energy access, as they are just having more manufacturing or as they are growing. They are going to look at whatever options are cheap and available. Right now, in many cases, that is China. The United States has to look at, how does the government support private companies, which are developing all sorts of innovative technologies, such as nuclear energy, to be able to make it easier to compete on an unlevel playing field. Some of the best tools are EXIM Bank and DFC to kind of help with that financing piece, but, ultimately, we have to be able to make these technologies here and build them here. That requires support from the Department of Energy and National Labs so we can demonstrate these technologies so we can ultimately sell them.

Mr. LUCAS. Thank you.

Authorities at the Oklahoma Bureau of Narcotics have identified transnational criminals that are moving illicit drugs on the black market and laundering money in China. Mr. Cassara, how can Congress address the financial streams that are the foundation of this illegal activity so we can cutoff these very sophisticated criminal enterprises? I know it is a complex question.

Mr. CASSARA. It is a complex question, but I think to get to the heart of the matter, I think we have made a mistake over the last so many years. Our enforcement agencies have been putting emphasis on what I call the product, for example, illegal drugs, and the people, meaning like drug kingpins and those involved with it. I think what we have been missing is to really truly and finally go after the money because all of these organizations are motivated by greed and avarice. The way to hurt these individuals, these organizations, better than anything is to identify their assets and take them away. The reason we have not been doing this is because going after the money is hard. Enforcement agencies are statistic-driven, metric-driven. They want measurements of success. Instead of going after a meaningful, long-term complex money laundering investigations that may take 2 years or more, they are content to go after these quickie little buy-bust cases that really do not make any difference. We have to change the incentives for law enforcement.

Mr. LUCAS. Play chess, not checkers.

Mr. CASSARA. Yes.

Mr. LUCAS. Turning back to the EXIM Bank for a moment, Mr. McMurray, in the most recent re—or authorization of EXIM Bank, Congress built the China Transformational Exports Program, or CTEP. That program reserves at least 20 percent of EXIM's au-

thority to neutralize China's export subsidies. How can we improve on that program and scale it up to match their actions?

Mr. MCMURRAY. Thank you, Congressman. CTEP has been an excellent tool to compete with the very competitive financing that China is able to offer. Right now, CTEP focuses on only a certain subset of technologies. One of the best ways to increase the competitiveness of U.S. companies is to expand that, for example, including nuclear energy as part of CTEP's mandate. I would also want to just mention DFC was also created under the first Trump Administration directly as a counter to China's Belt and Road, and there is an opportunity as well to strengthen DFC to make U.S. companies, again, more competitive.

Mr. LUCAS. I just want to simply note in my closing comments; we cannot afford to get caught flat footed on the issues we are discussing today. Outcompeting China in export markets, financing energy investments must be a top priority. I am thankful to the chairman for focusing on this in our hearing today.

I yield back, Mr. Chairman.

Chairman HILL. Mr. Lucas yields back.

The gentleman from California, Mr. Sherman, the Ranking Member on our Capital Markets Subcommittee, is recognized for 5 minutes.

Mr. SHERMAN. Thank you, Mr. Chairman.

Some of our witnesses seem to be here advocating what they would advocate in any other committee that was not even talking about China. If you are paid to convince Congress to let you drill for oil in Yellowstone National Park, you can then come to a hearing on China and say, "Well, that is the way to take care of China."

Mr. Chairman, thank you for focusing on the importance of the U.S.' world reserve currency, and we should remember that the announced purpose of crypto is to partially displaces the U.S. dollar. There is a bill in the Senate to make crypto the reserve currency of the dollar, and I think you understand how important it is that nothing displace the dollar as the world's reserve currency.

Likewise, I think it was Mr. Cassara who focused on money laundering. Crypto is advocated by its own supporters as a way to do massive transactions or large transactions out of the view of the U.S. Government, and that is perhaps why 100 percent of the ransomware attacks in recent years have demand payment in crypto.

Mr. Mühleisen, I would like—I hear what you say about China debt. Too many small countries are being told, "Well, you borrowed China's money, so you have to give us your port." What we need to do is say to every lender and every credit rating agency that, when China makes an unfair loan and you do not repay, that cannot be used against the country's credit rating. Countries who face this circumstance will, instead of giving China their port, they can give China their middle finger and still borrow from American corporations, banks, and international lending institutions.

We have made some unforced errors, one of those, as The Wall Street Journal points out, is we should be focused on China, and, instead, we go to economic war with Canada and Mexico. Second, we have cut aid in some cases to tiny countries in the Pacific, to the Cook Islands, to Solomon Islands, to Tonga, where we just have

million-dollar programs. These are the islands where my father's friends gave their blood in the last war in the Pacific, and now we are turning over control of those islands to China for a few—to save a few million dollars.

The original sin was giving China most-favored-nation status. Before then, their economy was tiny. The majority, the vast majority of Democrats voted against that, and we stood up to our own President. I turn to my Republican colleagues and say, perhaps your proudest moment this year will be when you stand up to one of—to a Republican President.

In capital flows, it is nice to say, "Well, we should not send any capital to China." Keep in mind, because of that huge trade deficit, which I might add was much bigger under Trump than it was under Biden and was even bigger still in the pre-coronavirus disease (pre-COVID) years of Trump. Trump gave us the worst trade deficit in history vis-á-vis China. We are dependent for over $1.5 trillion of investment in our debt instruments on China, but we have got to look at equity flows.

Believe it or—right now, we subsidize Americans who invest in Chinese stocks. We do so through our tax system and the capital gains allowance. I am going to ask all witnesses here, please raise your hand if you believe that we should provide subsidies to Americans who choose to invest in Chinese stocks.

Let the record show, no hand went up.

Yet, I have great difficulty—I have only gotten one Republican cosponsor for the bill that I am going to reintroduce—I hope all of you join me in cosponsoring this—to say no capital gains allowance for investment in Chinese stocks. Now, I know that offends the billionaire class, but you cannot go—you cannot stand up to China if you are unwilling to offend the billionaire class.

Dr. Doshi—I am not able to read your sign so well, so I might have mispronounced your name—are there unique risks for Americans when they invest in Chinese stocks, such as appropriation, that should be part of the disclosures they get from the U.S. Securities and Exchange Commission (SEC)?

Dr. DOSHI. Thank you, Congresswoman. I think that there are significant risks. I am not sure that we have—I mean, that market itself is highly volatile, unpredictable. There is no adequate auditing of these companies. Our due diligence——

Mr. SHERMAN. The auditing, Senator Kennedy and I did something about.

Dr. DOSHI. Yes.

Mr. SHERMAN. But there is everything else.

Dr. DOSHI. And——

Chairman HILL. The gentleman's time has expired.

The gentleman from Texas, Mr. Sessions, is recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. I am delighted we are having this hearing today. I think that the panel is well positioned to provide a lot of information to us.

Mr. McMurray, I want to go directly to your testimony, and we are talking about China. China currently has 57 nuclear reactors in operation and 28 reactors under construction. The United States has 94 reactors, none currently evidently on the books to replace

them. What is the major reason why we cannot build economic—the funding that is necessary for these? Is the market not robust? Is there not an understanding? What is the reason why America would not be building at least one or two?

Mr. MCMURRAY. Yes. Thank you, Congressman. China over the last several years has made a concentrated focus on building new nuclear, and that has played out in the number of reactors under construction. I would say, the United States has also done that. There has been significant bipartisan policy for the past several years focused along every step to build new nuclear, whether it is demonstrating early technologies, developing the fuel supply chain, providing tax credits, improving the regulatory framework. Congress has really focused on this for the last several years.

Mr. SESSIONS. The market has not gathered itself together to take advantage of this?

Mr. MCMURRAY. Today there are several projects that are very close to breaking ground. There are two research reactors that are under construction. There are several reactors through the Department of Energy's Advance Reactor Demonstration Program that are also nearing construction, as well as several private companies that are also looking to build, so the United States is close.

Mr. SESSIONS. They are trying to go to next-generation (NextGen). They are waiting for the newest research in development.

Mr. MCMURRAY. There is an interest in all sorts of technologies, after the Vogtle plants came online in Georgia, pairing that with the projected demand increases for electricity in the United States. There is also a renewed interest in large reactors as well. It is important for policy in the market to kind of recognize all of these different technologies have a role to play domestically because there is also an interest in all of these technologies internationally.

Mr. SESSIONS. Yes. In Texas, we have a lot of land, but a lot of that land is being grabbed up 30,000 and 40,000 acres at a time for solar panels, taking then agricultural ability off that land. We know, as you alluded to, we are going to double the amount of electricity that is necessary.

Tell me about the proposed Trump tax cuts. Will that provide more capital available for these kinds of projects to where they do not have to come to the Federal Government?

Mr. MCMURRAY. Focus on Texas for a moment. There has been a lot of great work out of the State to build new nuclear, including through the Governor directing the Public Utilities Commission to figure out what State policies would help attract new nuclear. I think, on the Federal level, we have seen significant support going back to nuclear specific tax credits that have supported the Vogtle plants, as well as existing policies that support the new technologies today. I think Congress has the opportunity to continue that support and continue that focus so it can provide certainty and predictability for the companies looking to build.

Mr. SESSIONS. Great. We need them, because we cannot continue to grab 30,000, 40,000, 50,000 acres to meet the needs of not just the electrical system, electrical grid system, but we need it because we are going to grow exponentially, and we have that issue.

I want to thank you. I think that the—if we are going to be a capitalist nation and we want to grow and meet the demand for all this, we need to move toward what I would call all of the above, and that has to be a better reliance upon what we are doing with nuclear. I want to thank you very much for being here today.

Mr. Chairman, I yield back my time.

Chairman HILL. The gentleman yields back.

The gentleman from New York, Mr. Meeks, the Ranking Member on the House Foreign Affairs Committee, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

As the chairman has just indicated, I now serve as the Ranking Member of the—and formerly Chairman of the House Foreign Affairs Committee. When we are discussing the topic at hand, I have to say, I come here gravely concerned about our great country. China and Russia, both nuclear-armed permanent members of the U.N. (United Nations) Security Council have a vastly different vision of the world than we do—at least that used to be the case.

The first month of the Trump Administration, however, has confirmed my worst fears, that it has severely undermined American global leadership, not just for the next 4 years but for decades to come. Just yesterday, the United States, along with a few other tin-pot dictators, Russia and Russian satellite states, voted at the U.N. not to condemn Russia's aggressive, unprovoked, and unjustifiable invasion into the Ukraine.

Dr. Doshi, just give me a yes or a no, do you believe it is in our interest to stand with Russia over Ukraine?

Dr. DOSHI. To stand with Ukraine.

Mr. MEEKS. I would also ask—just yesterday, I dropped a resolution. I would ask my colleagues on the other side of the aisle to join us on this resolution that just basically says we are—because this is the third year of Russia's invasion into Ukraine. Join our resolution. All it says is that we condemn Russia's invasion of Ukraine, of which the U.N. tried to pass, and we voted—or the Administration voted against.

Dr. Doshi, let me ask you another question, this time as you are an expert on China. Do you believe that China will read into our failure to stand up to—Ukraine as it thinks about aggressive action against Taiwan or in the South China Sea?

Dr. DOSHI. I am always reluctant to say that credibility transfers like that. In this case, however, everything I have ever learned about the Chinese Communist Party tells me two things: First, they are disproportionately focused on the United States use of power; that is, if they think we are weakening, they are more bold; and, number two, if they think domestically we cannot rise to the occasion against Russia, they will think we would not rise in defense of Taiwan.

If we do not stand for Ukraine, they will be emboldened in the Taiwan Strait and the South China Sea. That is a strong belief that I have based on everything I have ever studied about them.

Mr. MEEKS. Thank you for that. All we have to do is let us review our record of our President and his positions on China. Back in 2017, he signed a deal to let Zhongxing Telecommunications Equipment Corporation (ZTE) off the hook, despite their record of

violating U.S. sanctions, which to this very day undermines telecommunications security around the globe.

In 2020, he repeatedly praised Xi for the job he did regarding COVID–19 instead of criticizing China's secretive response and failure to allow an impartial investigation into the origins of the coronavirus. Since returning to office, President Trump allowed TikTok to continue to operate in the United States, despite clear congressional intent to the opposite effect.

Second, he has severely undermined economic trust in the United States among allies worldwide by aggressively threatening tariffs on our allies. This includes tariff threats on semiconductors from our close Taiwanese partners. He has allowed Elon Musk to decimate USAID, which is the tip of the spear of American soft power and good will around the globe.

Dr. Doshi, do you think it is in the U.S.' interest to compete with China for commercial and soft power projects around the globe?

Dr. DOSHI. Yes, I do.

Mr. MEEKS. I do, too. Mr. Miller, do you agree?

Mr. MILLER. Yes, absolutely, it is in our interest to compete.

Mr. MEEKS. Mr. McMurray, do you agree?

Mr. MCMURRAY. Yes, we need to make sure we can compete.

Mr. MEEKS. Now I am hearing that the President wants to sign a big deal with China to get them to buy more of our commodities while allowing the PRC to build up its military and undercut our workers. All of this is encouraged by Elon Musk and others who have enormous business interests there.

Let me be clear, I think we need to continue to trade with China, and I am not supportive of the trend of stoking xenophobia or undermining our economy just to spite the PRC. The Chamberlain policy of appeasement coming out of the White House is about self-enrichment, affinity for dictators, not Americans' economic growth or national security, and we should be competing with the PRC across the globe, not shutting down agencies. We should be cracking down on the China-Russia no-limits partnership, not trying to join it.

I yield back.

Chairman HILL. The gentleman's time has expired.

The gentlewoman from Missouri, Mrs. Wagner, the Chair of the Subcommittee on Capital Markets, is recognized for 5 minutes.

Mrs. WAGNER. I thank you, Mr. Chairman, for holding this vitally important hearing, and I want to thank our witnesses certainly for being here today.

Back in my home State of Missouri, it is estimated that three people lose their lives every single day from an overdose. I have heard from countless constituents who tell me about a neighbor, a friend, a family member who has lost their life due to an accidental overdose of fentanyl. Transnational criminal organizations, many of them based in China, make millions of dollars off the illegal production and trafficking of this deadly narcotic. The CCP knows this and is allowing it to continue.

There are many different ways in which Federal policy needs to be strengthened to combat this crisis, but to quote the testimony of one of our previous witnesses, "Financing serves as the oxygen for criminal networks. We must coordinate our government re-

sponse to identify, isolate, and interdict the financing, manufacturing, and trafficking apparatus of fentanyl and its precursors from China through Mexico and into our neighborhoods. We must cutoff the oxygen to these criminal networks."

Mr. Cassara, can you describe how Chinese entities exploit both the Chinese and American financial systems to launder illicit funds gained through fentanyl trafficking, being mindful of my time?

Mr. CASSARA. Thank you for the question. I think one of the primary ways they undermine the integrity of our financial system is they use a lot of methodologies and enablers that are Chinese centric, and many of these are designed to bypass our financial transparency reporting requirements. Meaning, they use things like trade-based money laundering, underground financial systems, value transfers, mobile phone apps. These types of things that we are not set up to capture from our primarily money-laundering countermeasures, financial intelligence.

Mrs. WAGNER. In what ways is the Chinese Government complicit in this illicit financing?

Mr. CASSARA. As you said yourself, China, CCP is its command State. They are aware of what they are doing. They are aware of criminal triads and criminal organizations committing crime and laundering money. If they wanted to shut a lot of this stuff down, they could. Nothing happens in China, or for that matter, with their diaspora, without their permission.

Mrs. WAGNER. How does the U.S. Government need to change or alter its current oversight or enforcement to ensure Chinese entities are not laundering funds in these illicit ways, as you have outlined, through American companies?

Mr. CASSARA. There is a number of things that I put in my written statement as far as recommendations, but if you are talking about underground financial systems, illegal or unregistered money remitted services; for example, we need to do a much better job of enforcing the fact that these companies need to be registered with Financial Crimes Enforcement Network (FinCEN) and, I think, licensed in 49 of the 50 States. We are not ensuring that is done.

Mrs. WAGNER. On his first day in office, President Trump issued an executive order to designate drug cartels as foreign terrorist organizations. Mr. Cassara, how will terrorist designations affect the flow of funds between China and drug cartels in Mexico?

Mr. CASSARA. I think we have to wait a little bit to see how this plays out, but I think it will give the Administration and the executive branch, including law enforcement and intel, and even our diplomatic corps, more tools to go after these organizations.

Mrs. WAGNER. Clearly, that is the intention. Does this designation impact any potential U.S. intermediaries that the drug cartels use to launder funds?

Mr. CASSARA. I think it depends on the specifics, but I think this is focused on those cartel organizations if they use third parties or whatever. We will see what happens.

Mrs. WAGNER. Are there stronger steps, sir, that Congress can take to disrupt these financial networks?

Mr. CASSARA. I would go back, again, to some of the recommendations I put in my statement, but I think we need to enhance and prioritize law enforcement. This is where they are most

vulnerable, but we are not making cases, and there is a lot—there is a number of reasons for this. Some of it we are just not aware of it. We do not have the tools. Most importantly, law enforcement does not have the resources.

Mrs. WAGNER. I thank you, and hopefully we are going to be getting them, the resources, here soon to dig even deeper now that we have designated them as terrorist organizations.

My time has expired, Mr. Chairman, and I yield back.

Chairman HILL. The gentlewoman yields back.

The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Ladies and gentlemen, China is taking advantage of us. They are looking at the United States now as weaker than ever. Reports now indicate an increase in efforts by Chinese hackers to infiltrate U.S. Government networks and classified systems with backing directly from the Chinese Government. Need I look at fentanyl that is destroying the very fabric of our Nation, our young people, in record numbers? It is almost like China has declared war on the United States and, damnit, we need to declare war back. I hope this hearing will go far and loud. We are tired of China taking advantage of the United States. Our young people are too precious. As you know, CFIUS recently experienced a CCP-backed cyber breach meant to undermine the committee's integrity. This is too significant a threat to our national security and economic security—some of you all may remember, I sat right here in this committee when we let the damn balloon go over there after China had taken all their data from our farmland, our food, and from our sensitive areas, our military bases, and waited until they got over there off of Myrtle Beach and the Atlantic Ocean, then we shoot it down. They take these things as a sign of weakness.

Mr. Miller, let me get to my first question here. How effective has CFIUS been at reviewing—listen to me carefully—Chinese companies' attempts to invest in U.S. businesses, particularly involving critical infrastructure, large amounts of personal data, or sensitive technologies?

Mr. MILLER. Thank you for the question, Congressman. I think that the CFIUS investment review regime has been effective particularly in recent years at making those types of reviews and particularly after CFIUS was revised after the, via the Foreign Investment Risk Review Modernization Act (FIRRMA).

Mr. SCOTT. Let me just interrupt——

Mr. MILLER. Yep. Sure.

Mr. SCOTT [continuing]. you briefly on that. I have got to get to this other question. I might have taken too long in the first—Earlier this month, Congressman Frank Lucas and I sent a letter to Treasury Secretary Scott Bessent signed by both Democrats and Republicans on this very committee urging him to take a stronger, more proactive approach to embattling future cyber breaches.

I would like to insert the letter for the record, Mr. Chairman.

Chairman HILL. Without objection.

[The information referred to can be found in the appendix.]

Mr. SCOTT. Now, our letter asks the Secretary to give a firm commitment to CFIUS would continue to move on with longer review processes and detailed investigations of Chinese Government-

linked investments. How can Treasury improve the parameters in oversight necessary in its service providers and refocus training to better identify potential Chinese cyber threats, particularly those targeting CFIUS?

Mr. MILLER. Thank you for that, as well. We need to take all cyber threats very seriously, and that means starting with getting full visibility of the networks, including the networks at Treasury monitoring systems. As always, using a risk-based approach is really important, and also, just using the tools that we have, the basic risk management tools such as end-to-end encryption, multifactor authentication, and logging. It sounds like a broken record——

Chairman HILL. The gentleman's time has expired.

Mr. MILLER [continuing]. because we say this all the time, but we need to do this.

Mr. SCOTT. Mr. Chairman.

Chairman HILL. The gentleman's time has expired.

Mr. SCOTT. I just want to end with this; it is very important that we understand China is targeting our food supply system—and our national security——

Chairman HILL. The gentleman's time has expired, and his closing remarks are so noted. Thank you.

The gentleman from Kentucky, Mr. Barr, the Chair of the Subcommittee on Financial Institutions, is recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

Last Friday, Mr. Miller, President Donald Trump issued an executive order titled "America First Investment Policy." He also issued a national security policy memorandum in which he stated that we will adopt new rules to stop U.S. companies from pouring investments into China, stop China from buying up America, and allowing at the same time all of those investments that serve American interests.

It seems to me this is exactly the right policy. This is the America First policy. It is the policy that says that investments that help advance our national and economic security should go forward, green light, and investments that undermine our national security should not go forward, red light. A red light/green light system.

I appreciate that because it is common sense, and this Congress has been focused on an outbound screening tool and legislation over the past several years. I introduced the Chinese Military and Surveillance Company Sanctions Act, which was a sanctions-entity-based approach. We also introduced the Comprehensive Outbound Investment National Security (COINS) Act, at the end of the last Congress working with the Speaker's Office. It was a bipartisan effort and a bicameral effort, and we added an additional focus on specifically defined technologies.

Now, what I have always said on this committee and on the Select Committee on the Strategic Competition with the Chinese Communist Party is that our advantage is that we are capitalists, and we allocate capital effectively and efficiently. Their disadvantage is that they are Communists, and they misallocate capital. This is perhaps why Chairman Xi's crackdown has actually backfired on the Chinese economy and why U.S. venture capital deals have fallen in China by 87 percent, and, by 2023, net foreign investment into China turned negative for the first time on record.

It is also true that U.S. investments made in China still are valued at about $127 billion.

I want you to address specifically this first comment you make in your written testimony, Mr. Miller, that overly broad investment restrictions could actually decrease economic security and that policymakers should be mindful of the economic security value of outbound investments. Explain that a little bit.

Mr. MILLER. Thank you for the question, Congressman Barr. Yes, if—I think that—in my experience anyway companies absolutely want to and make their best efforts to comply with these regimes, but if the scope is overly broad or it is not clear and defined as to what exactly the companies are supposed to be doing, it really does create some headwinds there in terms of compliance. I think specifically with respect to the outbound regime that you are talking about, it is——

Mr. BARR. I think one thing that you said that I agree with is that some outbound investment could provide insights into competitor activities.

Mr. MILLER. Right.

Mr. BARR. Not all outbound investment is bad. I think clarity is very, very important. That is why I talked about why the President's approach, green light/red light, is the right approach, and that is what we tried to do in our sanctions bill. Sanctions do provide clarity. Companies know how to comply with it and, if properly defined in terms of these technologies, we can also provide private investors with clarity. There are also advantages of multilateralism with sanctions approach.

Here is the next question. In a post-Chevron world—and this is for anyone—what is the benefit of having a statute that guides this policy consistent with executive order as opposed to just relying on the Biden executive order or the Trump executive order? Any one of you.

Mr. MILLER. I will take that. Yes, you are right, in a post-Chevron world, under Loper Bright, the onus really is on Congress to write these rules as clearly as possible so that there really is not—it is not left to executive agency discretion which might be overturned by the courts.

Mr. BARR. I think, here is the bottom line in my remaining 30 seconds. Is the President's approach in his national security memorandum and executive order exactly right? It is America First. It recognizes that some outbound investment actually is in the interest of our country. Some foreign direct investment is in the interest of the country, but not all of it. We need to provide clarity, and we need to do it through a statute consistent with the Treasury Department's guidance here. That is what we are going to be working on, and we invite the expertise of the panel to work with us on that, and we look forward to getting this policy exactly right.

With that, I yield.

Chairman HILL. The gentleman's time has expired.

The gentleman from Massachusetts, Mr. Lynch, the Ranking Member of the Subcommittee on Digital Assets, Financial Technologies, and Artificial Intelligence, is recognized for 5 minutes.

Mr. LYNCH. By the time you announce me, I will not have time to speak. That is a pretty long title. Thank you, Mr. Chairman, and

I want to thank the Ranking Member. This is a great hearing and one that is both timely and incredibly important.

I want to thank the witnesses for your very thoughtful testimony, not always in agreement, but always thoughtful.

China has developed extensive cyber capabilities offensively over the past 10 years or so and now I think is admittedly a world leader in vulnerability exploitation, either directly or through proxies. The Chinese Government's targets in the United States have included infrastructure, our government agencies, companies, private organizations, and individuals as well.

They use tools and methods that breach international law. These malicious acts can be aimed at control or just simply disruption and exposing vulnerabilities in our electrical grid and critical infrastructure. It also involves economic espionage and international property theft. Those are among the most concerning intrusions.

Most recently, China had a state-backed Chinese malicious cyber group. They hacked the U.S. Treasury Department, and they gained access to hundreds of workstations and sensitive but unclassified documents from the Committee on Foreign Investments in the United States, CFIUS, and the Office of Foreign Asset Control.

With that backdrop, we have right now Elon Musk, who has got massive, massive investments in China. He has this giga factory that produces two of his most popular cars there. He has billions and billions of dollars in investment in China. He has employees there. He is now inside Treasury and has had, at least for a while, before the judge stopped him, access to U.S. Treasury payment systems.

It really worries me that he has young kids in there who—I have a letter here from five Treasury Secretaries that are expressing concern that these individuals with no training and no ethics requirements and no security requirements are all inside Treasury. Meanwhile, they work for a guy that has billions of dollars of investments in China. It just looks like a bad, bad situation.

Dr. Doshi, as Elon Musk and DOGE continue to have access to personal and payments data inside Treasury, along with sensitive information about what we are doing with defense contractors and other initiatives, what sanctions could they potentially open up holes in our security system and make Americans' financial information vulnerable to attacks from China?

Dr. DOSHI. Thank you, Congressman. China is the most capable cyber actor the United States faces. I think that there is a risk that efforts to kind of take data off government systems and put them perhaps even on private systems so they can be run through artificial intelligence will create additional vulnerabilities that China will be very happy to exploit.

Mr. LYNCH. What are the strongest measures we can take in terms of requiring the people who have access to that system to maintain the integrity of the financial system itself?

Dr. DOSHI. Thank you, Congressman. I think that there are a number of technical steps that have to be taken on the end-to-end encryption side, on securitization—security essentially for that equipment, technology, the data. There is also a human element as well, and I worry about mass firings leading to insider threats particularly of people with clearances.

Mr. LYNCH. Should those individuals, if they have access to any of that, all go through a lengthy and robust security clearance process?

Dr. DOSHI. My personal view, based on my time working in the National Security Council (NSC), is that more and more of U.S. Government work in these sensitive areas should be moved to classified systems. That does not mean it cannot be democratically accountable, but the unclassified systems are compromised whether at State Department, Treasury, or the U.S. Trade Rep, which gives China insight into what we are doing and an advantage in negotiation. We should move that into a more secure system.

Mr. LYNCH. All right. Mr. Chairman, that just about wraps up my time. Thank you. I yield back.

Chairman HILL. The gentleman yields back.

The gentleman from Texas, Mr. Williams, Chairman of the House Small Business Committee, is recognized for 5 minutes.

Mr. WILLIAMS of Texas. Thank you, Mr. Chairman, and thank all of you for being here today. I appreciate it.

The lack of transparency into the Chinese economy is a large concern of mine and one of the world's largest creditors. This lack of insight presents extreme risk to the U.S.' economy and our national security. This is why I introduced the China Financial Threat Mitigation Act, which my colleague, Representative Gottheimer, and I have joined together. This is a bipartisan legislation that would require a study on the exposure of the U.S. financial sector to risks from China. Reliable data is crucial for the U.S. Government to accurately assess our financial exposure to the Chinese, and through this, we will be able to better protect the U.S.' financial interest and our own national security.

Mr. Mühleisen, how can the United States best hold China accountable for the lack of transparency in their financial system?

Mr. MÜHLEISEN. The IMF has certain tools, like, for example, the financial sector assessment programs and the like, that look at whether member countries live up to standards by the Basel Committee, for example, among others. Of course, as a multilateral organization, it has limits as far as it can go, because it needs to look at these standards and can only assess those that exist.

The IMF as such has no direct tools to increase transparency, but it can publish their findings. It can rely on peer pressure and shareholders in the IMF to then exert pressure on China to improve its policies.

Mr. WILLIAMS of Texas. Thank you.

China has continuously exploited global supply chains to advance their strategic ambitions using economic coercion or slavery and predatory trade practices to dominate key industries. This has created vulnerability to the United States and puts American businesses and consumers at the mercy of the Chinese Communist Party policies. In addition to their use of global supply chains, the CCP's opaque lending practices and state-subsidized competition have undercut American manufacturers, making it increasingly difficult for them to compete on a level playing field.

Mr. Miller, what specific policy should Congress pursue to counteract China's stranglehold on critical goods and manufacturing? Additionally, how can we create a stronger incentive for American

companies to diversify their supply chains and reduce dependence on China?

Mr. MILLER. Thanks very much for the question, Congressman. It is absolutely critical that we focus on supply chain resiliency and security. I think companies, certainly in the technology sector, for some time have been working to increase supply chain diversity. We have to be realistic that we have complex global supply chains right now, and it will not be an overnight process. Moving certain parts of manufacturing and supply to friends and allies as well as the United States is something that is already underway.

Mr. WILLIAMS of Texas. In the short time I have left, throughout your career, Mr. Cassara, you have investigated international money laundering networks and underground financial systems that enable transnational crime. Today we see Chinese financial networks playing a key role in laundering fentanyl profits from Mexican cartels using trade-based money laundering and underground banking to move illicit funds while evading U.S. authorities.

Given China's history of shielding these operations from scrutiny, what steps should the United States take to disrupt these financial channels, and what is China's end game, do you believe, in weaponizing fentanyl in the United States?

Mr. CASSARA. Thank you for the question. Regarding fentanyl, I believe it is a form of asymmetric warfare that the Chinese are employing against the United States. Maybe some of this goes back to the opium wars of a century or so ago. I think it is, in effect retribution.

To answer your question about what can we do for underground financial systems, we could talk for a great length of time about this. I think one of the most important initiatives that we came up with a number of years ago is trade transparency units. Basically, having customs information exchanged back and forth just like the Egmont Group of financial intelligence units, where we exchange financial intelligence, exchange customs-related information, imports and exports to help look for anomalies in specific trade transactions, over and under invoicing, for example.

This initiative has been stalled. In my opinion, one of the reasons it has been stalled is because legacy customs have been shortchanged through an emphasis on immigration enforcement under Immigration and Customs Enforcement (ICE).

Mr. WILLIAMS of Texas. My time is up. Thank you for your testimony.

Chairman HILL. The gentleman's time has expired.

The gentleman from Missouri, Mr. Cleaver, Ranking Member on the Housing and Insurance Subcommittee, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

A couple of years ago, I was in Addis, in Ethiopia, Addis Ababa, and as I moved around the city, I was walking by a building, large, majestic building, and the Ethiopian friends who were carrying me around said, "Do you want to go in?" and I said, "Sure." We went in. It was the African Union building. As you walk into the building, there is a sign about the gift of this building to Ethiopia by the Chinese.

When I went on down south to Tanzania, or Tanzania, where I have about 50, 75 family members—actually, our Ranking Member met some of my family members from Tanzania—all they could talk about was the money China was spending in Tanzania. The Ambassador appointed by Bill Clinton, Charles Stith, Dr. Charles Stith, had really revved up everything he could in Tanzania to attract the attention of the United States because China was steadily investing in Tanzania.

Unfortunately, as China was investing, we were decelerating. If you go all the way through the continent, you will see that China has created quite a relationship with the entire continent. Dr. Stith wrote a book called "For Such A Time As This," and I think that book would be contrary to what we have just seen with USAID so we cannot take advantage of anything now.

China has had some failures. They did establish 25 economic zones on the continent and in 16 different countries, by the way. When USAID shut down, let me find out from those of you if we move on down, how many of you think that it was a mistake—it is a mistake for us to cancel out all of the work that people have been trying to do, like Dr. Stith, in Africa, and all of a sudden we make a statement that we are first. We do not—we are not that interested in helping anybody except ourselves? How do you think that is coming across, and does it impact the economy of the continent when obviously China is trying to take over? Anybody? Did we make a mistake? Is there a mistake with USAID?

Please.

Dr. DOSHI. Yes, Congressman, I think it is a mistake to cut USAID in this fashion. It needs reform, but this is not the way.

Mr. MÜHLEISEN. I think it will hurt unless it is replaced by something else relatively quickly.

Mr. McMurray. I think we need to take all the available tools to compete with China.

Mr. MILLER. I agree. We need to compete with China everywhere we can by using all the tools that we have.

Mr. CLEAVER. We had a good chance if we would work. Most people probably do not even know. One of the Members of Congress during the 1990s, Mickey Leland, had become so familiar with Africa, he and Donald Payne, Sr., that they were invited to everything that went on in the continent. In fact, Mickey Leland's plane went down just outside of Addis Ababa, and there is a statute of him built in downtown Addis Ababa. We were moving through Africa and making friends, and all of a sudden, that had just been blown to pieces.

I know, I am not trying to get any of you in politics. I do not like politics, but I do think that this is more than political. I think it is a futuristic look of where we need to go back.

Thank you, Mr. Chairman.

Mr. WILLIAMS of Texas [presiding]. The gentleman's time has expired.

The chair now recognizes the gentleman from Ohio, Mr. Davidson, Chairman of the Subcommittee on National Security, for 5 minutes.

Mr. DAVIDSON. I thank the chairman.

I really appreciate our witnesses.

Confronting China is certainly one of the central things for American foreign policy and frankly for governments around the world. They are confronting the same kinds of practices by China. When they were admitted into the World Trade Organization as a, quote, "developing country," they promised to become a market economy, and clearly, they are not a market economy. In fact, they use the same kinds of practices everywhere to block market access, to use a whole-of-government approach, using their intelligence services and everything else, to steal intellectual property, and then to subsidize and dump to take over market shares strategically. Confronting outbound investment is one of the most important things that this committee, and frankly this Congress, is going to deal with, and it comes in the context of a whole host of other policies.

I want to go back to the Dodd-Frank Act. When I was in manufacturing, prior to coming to Congress, I owned a group of small manufacturing companies in Ohio. Early on, after one acquisition, someone came to me with a form and said, "You need to sign this form saying that none of the steel that we buy contains, quote, 'conflict minerals.'"

Now, at that time, we had under 50 employees, and they are coming to me, and I am like, "I am buying steel from U.S. Steel, and you are asking me, a small manufacturing guy in western Ohio, where the tin that coats the steel comes from?" Might it come from this place in Central Africa? How am I supposed to know that? Why are not you—if the government cares to know that, why is not the government doing that?

This is the fallacy behind one of the approaches to our Outbound Investment Act. This is the Cornyn approach in the Senate. This has been one of the approaches presented through the Foreign Affairs Committee. Thankfully, in this committee, this Financial Services Committee, where we follow the money, we know that really does not work. It just shifts the burden to the private sector. The reality is the private sector does not even have the resources to know the answer to some of these things. We do not do that when it comes to sanctions. We use an aggressive licensing approach that targets specific actors. It does take a lot of work, and the sanctions regime itself is stressed. It goes back to 1975.

I am going to butcher your name, but, Mr. Mühleisen, I cannot find the note here, and I cannot see you without reading glasses, so can you highlight the problem with this approach where you put the burden on the companies.

Mr. MÜHLEISEN. Thank you, Congressman. I am not really an expert on regulation of American companies, but I do think that light regulation in general and something that is in the power of companies to live up to and fulfill is the right way to go.

Mr. DAVIDSON. Thank you.

One of the other challenges that we confront as we deal with outbound investment is our international institutions, and we have since, the end of World War II, structured things like the International Monetary Fund, the World Bank. We have development—Inter-American Development Bank. We have the Asian Development Bank. The idea that we are subsidizing China with this makes little sense to me.

From 1981 to 2001, the World Bank lent China over $40 billion for 280 projects. Since 1986, almost 40 years now, the Asian Development Bank has committed 1,218 public sector grants totaling $44.3 billion. Right now, the current portfolio, as of right now, 77 loans worth $12.55 billion. We have the Chinese Currency Accountability Act, where the IMF wants to grow the influence. I guess, Mr. Mühleisen, why would that make sense?

Mr. MÜHLEISEN. Personally, I do not wish for China to gain a bigger share in these institutions at the moment, in part for the reasons you mentioned, also in part of the strategic competition that the United States and other countries are engaged with against China. The IMF and other institutions are, I think, really important assets for the United States where a lot of capital and human capital is invested in. It would be, I think, not right to allow China to interfere with the work of these institutions if they wanted, if they would get a bigger voting share.

Mr. DAVIDSON. Yes, thank you for that.

Mr. Miller, unfortunately, I missed the question to you, but on the outbound investment if you could respond, we will send a note following the hearing. My time sadly has expired, and I yield back.

Mr. WILLIAMS of Texas. The gentleman's time has expired.

The chair now recognizes the gentleman from Illinois, Mr. Foster, Ranking Member on the Subcommittee on Financial Institutions and an old colleague of mine from the Science Committee. You are recognized for 5 minutes, sir.

Mr. FOSTER. Thank you.

I would like to—I will focus on artificial intelligence and anti-corruption efforts. Mr. Miller and Dr. Doshi probably, are the right ones for this. Artificial intelligence is coming at us, and we are not ready for it. It is probably the most important area of competition between China and the United States. The first country that gets what amounts to an artificial general intelligence (AGI), this is an ability to simply—an artificial intelligence agent that can outperform humans in most things.

I think computer coding is arguably already here. Just in the last few days, there was an announcement about a—from Google about a co-scientist, a device that actually outperformed a small scientific group who worked for 4 years at a problem that it solved in 48 hours. We are almost there, and whichever country gets that capability first will have effectively an infinite army of highly skilled technical workers that will make all of our efforts at workforce education irrelevant. This is the battle we cannot lose.

Now, the free world is in a very fortunate position that the production of the graphics processing unit (GPU) is the key core elements of these, is almost entirely in the free world. We rely on the Dutch systems, the German optics, the Tokyo Electron, and a number of companies in the United States, and final production of many of these chips in Korea and Taiwan. We have, by luck maybe or maybe by not luck, we have all of the chokepoints to control that technology and potentially keep it out of Chinese hands.

However, we tried to do that with normal export controls and found that people are simply smuggling those devices out. You saw deepfake is widely believed—deepfake—sorry, DeepSeek is widely believed to have trained their cutting-edge model using systems

smuggled out of the United States because our export controls exist but are not enforceable. What are the things that we can do that will actually get enforceable controls on these, assuming that we get the entire free world to buy into the need to keep these out of Chinese hands?

Dr. Doshi, you and I have been on a panel discussing this recently, and so I will start with you.

Dr. DOSHI. Thank you, Congressman, and I appreciate your leadership on this issue. As you know I am partial to a solution that is technical, that would make it difficult for GPUs to be operated in jurisdictions where there is hardware built into it preventing the operation unless, again, it is in the correct jurisdiction. There are——

Mr. FOSTER. If they were smuggled into China, they would simply stop working——

Dr. DOSHI. Exactly.

Mr. FOSTER [continuing]. or smuggled outside of their licensed area, they would simply stop working.

Dr. DOSHI. In addition to enforcement mechanisms, which we need to strengthen. In addition to better controls, which we have not really tried. We should also look at these hardware-based solutions to keep our chokepoints strong.

Mr. FOSTER. Yes. There was a very impressive hardware demonstration near the Executive Office Building with one of these systems that showed this can be done if we choose to do it.

Mr. Miller, any comments?

Mr. MILLER. Yes. Thank you for the question, Congressman. Just to go back to your lead-up to the question talking about the fact that we are working with allies in Taiwan and in Germany and the Netherlands, et cetera. I think it underscores the fact that for any export control to really be effective, it should be, of course, targeted at the bad actors and the national security risks that we are trying to control. It really needs to be multilateral, and we need to get buy-in from all of our partners and allies on a unified approach if we are really going to be successful.

Mr. FOSTER. Yes. That is why things like voting along with all the rogue states in the United Nations are not a good step forward. The way this Administration is frankly destroying the confidence in our allies is not going to make those necessary negotiations work easier.

Let us say, I would like, Mr. Mühleisen, one of the best areas that IMF has been involved in is anti-corruption. You correctly point out in your testimony that the Chinese Belt and Road loans should be treated very skeptically by the international community because they are frequently involved—created through corrupt payments and that result in white elephants built by Chinese contractors and unpayable loans behind them.

Traditionally, the United States has been at the forefront of anti-corruption efforts. Can you just say quickly how the United States benefits from leadership in anti-corruption efforts as opposed to what we have seen with the Administration announcing recently they are no longer going to enforce the Foreign Corrupt Practices Act, because apparently the President believes that it has blocked some deals that he wanted to do?

Mr. MÜHLEISEN. I think——

Mr. FOSTER. You have got a few seconds here, so——

Mr. MÜHLEISEN. I think it is important to pursue the avenue that bad loans start from the corrupt practices, and China has demonstrated that. While there is a need to respond and to expand U.S. loans and projects, one has to very carefully weigh the pros and cons of what has just been proposed.

Mr. LUCAS [presiding]. The gentleman's time has expired.

The chair now recognizes the gentleman from Tennessee, Mr. Rose, for 5 minutes.

Mr. ROSE. Thank you, Chairman, and thanks to Chairman Hill and Ranking Member Waters for holding this hearing and thank you to our witnesses for taking time to be with us.

Last Congress, Ari Rubenstein testified that we should be more concerned about how prepared American capital markets are for a Chinese invasion of Taiwan. Dr. Doshi, I know that you believe the Chinese market is highly volatile. As we look to prepare our markets for geopolitical instability, would it not be beneficial to have better market data regarding our systematic and material risk exposure to China?

Dr. DOSHI. Congressman, I think you are exactly right, we need better information about our vulnerabilities across a variety of sectors, in the financial sector, supply chains. In addition, this is harder to do because our due diligence firms in China where—are being shut down.

Mr. ROSE. I think we are woefully underprepared in the event of a Chinese invasion of Taiwan, and I know that my colleagues plan to introduce widely supported legislation that would provide us with key data on exposure risk. I believe that, coupled with a heavy-handed tariff strategy, will incentivize American industry to return home and protect our markets.

Just to further comment, I am just always kind of struck by the difficulty in getting visibility for the exposure to China. I sit on the board of a nonprofit with investments across a range of assets and I have been asking this question now for a number of years and have yet to get a really clear dial in on exactly what our exposure is. I think if there was a terrible event vis-á-vis Taiwan, we would find out really quickly exactly what that exposure looks like, but that would be too late, of course.

Shifting gears now. In Tennessee, we are proud to be a leader in nuclear energy innovation through the Oak Ridge National Laboratory and the efforts at the Tennessee Valley Authority; however, we are not innovating fast enough, in my view. China is building dozens of nuclear reactors, you have testified to that today, witnesses have. Looking to finance—China is looking to finance even more abroad. We are learning now that China is expanding its nuclear influence internationally by funding projects in Pakistan and Argentina.

Mr. McMurray, how does China incentivize foreign nations to accept their funding for these international nuclear projects?

Mr. MCMURRAY. Thank you, Congressman. China is able to offer very competitive financing packages, and they have done that, for example, in Pakistan, to—some loans, 2 percent interest, for example. That is very hard for private U.S. companies to compete with.

That said, there is a real opportunity, then, to leverage other financial institutions such as EXIM Bank and DFC.

Two really recent examples are in Romania where the Department of Energy and the EXIM Bank worked together to, essentially, finish a project in Romania where China was also competing. The United States ultimately won that project, issued a loan for some preconstruction work that directly benefited U.S. jobs, then also signed a letter of interest for a multi-billion dollar loan there as well.

We have seen examples where, when U.S. companies are on more of level playing field, they are able to compete in other countries.

Mr. ROSE. Do you think that our technology and our focus on maintaining American superiority in terms of just the technology available, is that an issue, number one. Number two, our own failure to move forward with projects here domestically, how big of an impact does that have on our ability to provide or to win projects overseas?

Mr. MCMURRAY. Yes. The private companies developing new technologies are one of the United States' greatest assets. That gives us the ability to compete globally, because countries want to work with the United States and build these technologies. The challenge is, if we are not at the table by either building them or developing them, they are going to turn to other options. Recently, that has been, Russia and China are well poised to take that if the United States does not make sure we have the tools to be able to compete.

Mr. ROSE. As we have been discussing, part of what has made Oak Ridge National Lab in Tennessee so successful is how it leverages public-private partnerships to resolve technical hurdles and develop industry-leading technology.

Mr. McMurray, using Oak Ridge National Lab as an example, how can the government improve American private corporations' abilities to compete with China?

Mr. MCMURRAY. Yes. The Department of Energy and the national lab system are incredible resources for private companies. The public-private partnerships to develop technologies allow these early ideas to really get to market.

A great example recently out of Oak Ridge is the development of Tri-structural ISOtropic (TRISO) fuel, which is the type of fuel for a lot of new reactors. There is going to be a fuel facility being built near Oak Ridge, Tennessee, and this technology is going to be built here in the United States as well. Taking those ideas from market or from the lab to the domestic market and then to the global market really should be the goal for a lot of these public-private partnerships.

Mr. ROSE. Thank you. My time has expired. I yield back, Mr. Chairman.

Mr. LUCAS. The gentleman yields back.

The chair now recognizes the gentlelady from Ohio, Mrs. Beatty, Ranking Member of the Subcommittee on National Security, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman.

My first question here goes to you, Mr. Cassara. As a member of this committee, I am proud to support legislation that would pro-

tect Ohioans from dirty money and harmful effects that it has on our communities. For example, the Corporate Transparency Act passed by Congress with bipartisan support and signed into law by President Trump will help us understand who really owns anonymous shell companies and will give our law enforcement more tools to keep our community safe.

For example, in my home State of Ohio, which has suffered the brunt of the Nation's lethal opioid epidemic, the threat of anonymous shell companies is very, very real. In just one instance a Chinese synthetic opioid trafficker manufactured and shipped deadly fentanyl analogs to 37 United States, using shell companies formed in Massachusetts to run their operation. This scheme led, as you can imagine, to multiple fatal overdoses in Ohio.

Now, I agree that we must work with small businesses to help them comply with reporting requirements but cannot abandon these landmark anti-money laundering policies all together, because the human cost is just unacceptable.

Here is my question. Mr. Cassara, you have worked to counter illicit finance for decades. Can you please address why understanding the true owners behind U.S. anonymous companies would be important for countering China's role in the fentanyl trade?

Mr. CASSARA. Thank you for the question. I have looked at anti-money laundering, counterterrorism finance for over 30 years. In my opinion, lack of beneficial ownership information surrounding anonymous shell companies is kind of like the last hurdle. I remember back in the day when we started passing a series of laws, rules, and regulations but kind of, in my estimation, this is the last major hurdle that we have to overcome.

The current legislation, in my opinion again, is not perfect, but it is something. It is something that we can work with going forward. The reason it is so important is, again, following the money and the value trails and finding out who is actually behind all this. Myself, my colleagues, constantly we get to a certain stage in an investigation, and they bump into one of these anonymous companies and we cannot go any further. As I explained earlier in testimony, they are very active in the layering stage of money laundering, and they are very active in the integration stage of money laundering. We need something, some tools to avail ourselves.

The other thing is—very, very quickly—we are being criticized around the world for lack of beneficial ownership information. We failed the most recent mutual evaluation from Financial Action Task Force without having this type of information available. Personally, when I have been overseas mentoring, teaching our colleagues overseas, talking about the importance of transparency, they come back to me and say, well, Mr. John, we are doing an investigation into your company—in your country and it goes to these anonymous shell companies. Can you help us?

Mrs. BEATTY. Sure.

Mr. CASSARA. There is nothing I can do.

Mrs. BEATTY. Thank you. I have time for maybe one more question.

Let me go to you, Mr. Mühleisen. In your testimony, you outlined that China has become the largest sovereign lender to emerging and developing countries over the past two decades.

Now, we all know that Project 2025's agenda, which President Trump denies ownership of despite executing its provision by provision by provision by provision, proposed that the United States withdraw from the IMF and the World Bank. Can you discuss how the United States withdrawing from these IFIs would affect our ability to preserve dominance of the U.S. dollar and compete with China on the global stage?

Mr. MÜHLEISEN. First of all, I mentioned earlier that the institutions really leverage U.S. contributions by a large amount. Second, if the United States were to exit from the institutions, they would still exist. The headquarters would move to the largest second shareholder, but probably they would not be able to access easily the dollar anymore. Therefore, they would have to loan in other currencies. That would be, for example, one way that other currencies would gain in stature. Of course, the effect of the fall in U.S. leadership would contribute also to that.

Mrs. BEATTY. It would affect it. Can you give me a yes or no on that?

Mr. MÜHLEISEN. Yes.

Mrs. BEATTY. Okay, thank you. My time is up.

Mr. LUCAS. The gentlelady's time has expired.

The chair now recognizes the gentleman from South Carolina, Mr. Timmons, for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and I want to thank the witnesses for being here today.

China poses the most significant risk to both global financial markets and our country's economic future. With its growing influence over the global economy, technology, and key industries, China has the potential to disrupt financial systems worldwide. Institutions like the IMF and the World Bank help maintain stability, but China's increasing role within these organizations raises concerns about the direction of the global economy.

That said, we should not be anti-China. Instead, we need to hold China accountable for issues like currency manipulation, unfair trade practices, and the rising debt they impose on other countries. This is important. The United States cannot do all of this alone. We must work with our allies to protect the global economy, without creating unnecessary conflict, by pushing for greater transparency and fairness in international financial institutions.

Mr. Miller, could you please explain the role China's Belt and Road Initiative has played in exporting emerging Chinese technologies to developing nations worldwide, and how significant is the cyber security risk these technologies pose within the economic frameworks of these countries?

Mr. MURRAY. Thank you for the question. Yes, China Belt and Road Initiative is—has definitely increased the availability of Chinese technologies around the world. When it comes to cybersecurity, I think, the first principles are always that we need to mitigate risks and be as targeted as possible in doing so.

As we saw during the 5G debates here, when it was determined that there were risks involved in certain of those Chinese technologies, steps were taken to both mitigate the cyber risks—I am happy to get into more details on that—but also to exclude equip-

ment when there has been a judgment made that it is causing those types of issues.

Mr. TIMMONS. Thank you for that. We are talking about Huawei, a global player in 5G technology, and the risks posed by the Chinese Communist Party. In 2019, the U.S. Government lead the effort, alongside allies like the United Kingdom (U.K.) and Australia, to restrict Huawei's access to global supply chains, citing national security concerns over the potential for espionage through 5G networks. Despite this, many developing countries continue to adopt Huawei's technology, drawn in by the lower cost, because the Chinese Government subsidizes the entire thing and the company's alleged commitment to investing in local infrastructure when they just want a back door into their system.

Huawei's growing presence in the global infrastructure, particularly in developing nations, has caught the attention of the IMF. The IMF highlights the complex relationship between economic development and geopolitical risks. For many of these countries, Huawei's affordable and advanced 5G technology is vital for building telecommunications networks, which are crucial for economic growth and modernization. At the same time, the United States has urged nations to reconsider their reliance on Huawei, citing concerns over espionage and Chinese influence on communication systems.

This has created a challenge for the IMF because they have to balance the need for financing and long-term stability with the political and security risk that could impede development.

In 2020, I introduced the Promoting Secure 5G Act to counter China's efforts to expand its telecom influence in countries receiving aid from international financial institutions, particularly the IMF and the Interagency Security Committee (ISC). I was pleased to see that bill was passed into law as a part of the 2022 National Defense Authorization Act (NDAA).

Mr. Mühleisen, how has the IMF approached the challenge of balancing its mission to support global development with concerns raised by Western nations about potential security risks linked to Huawei and other innovative Chinese companies that have close ties to the CCP?

Mr. MÜHLEISEN. I think the IMF as a multilateral institution cannot really assess the technological risks. The money that is being provided is for balance of payment support, and, of course, it is up to the countries how to spend it and use it. The IMF as a macroeconomic organization cannot go into the details of how it is used.

Mr. TIMMONS. Thank you for that.

I think the Huawei example is a perfect way to chart a path forward to hold China accountable. Obviously, Huawei was engaging in untoward behavior in exposing the cybersecurity risks associated with them, essentially giving away 5G to developing countries and getting our allies to get onboard to essentially force Huawei to become an arms-linked transaction in the future. I think it is a perfect example of how we can ban together with our allies to hold China accountable.

Thank you, Mr. Chairman. I yield back.

Mr. LUCAS. The gentleman yields back.

The chair now recognizes the gentleman from Illinois, Mr. Casten, for 5 minutes.

Mr. CASTEN. Thank you, Mr. Lucas, and thank you all for coming here today. I really appreciate the chair bringing up this important hearing.

I want to focus—there is a lot about sort of theoretical future risks. I want to talk about real-time ongoing risks and things that 6 months ago were very bipartisan. I hope they are still bipartisan.

We had, as part of the continuing resolution, an agreement to block outbound investment in China. I think Mr. Davidson; Mr. Barr have alluded to pieces of that. I suspect from their comments they may not have agreed with all of it, but it was a very bipartisan agreement that had been developed.

That package was removed under pressure from Elon Musk right at the end of the last term, and so now we do not have an outbound investment screen that we would have had but for that pressure.

Are any of you familiar enough with the terms of that proposal for me to just ask you a couple of follow up questions?

You are all—well, let me just share with you the concern and what is going on there. That provision would have required—restricted or required notification of U.S. investments in Chinese companies that were involved in semiconductors, microelectronics, quantum information technologies, and AI.

If that is the only thing you know, I see—Dr. Doshi, I see you nodding your head, so I am going to pick on you here.

Let us say that you owned a U.S. automobile-based company that got its start in an infusion from capital from a Department of Energy loan from the Loan Program Office. You wanted to build factories in China to bring self-driving cars from China. Does that sound like something that might be restricted or retained under that program?

Dr. DOSHI. I think it is possible under that program that could be restricted.

Mr. CASTEN. Okay, and you would also like to build an AI data center in China to train the algorithm that is needed for your autonomous vehicles. That sure sounds like something that would also probably be restricted given the data collection.

Dr. DOSHI. Yes, Congressman, I think a sectoral approach does make sense.

Mr. CASTEN. Okay. That, of course, is Elon Musk I am talking about. It makes perfect sense if he is only looking out for his self-interest that he might have pressured Speaker Johnson or others to pull that from the floor. I am speculating, but why else would he. Right?

Now, we also 6 months ago had a very bipartisan agreement to force the sale of TikTok from a CCP-controlled company. We had lots of hearings, lots of scary information about the way that the CCP was taking data, the way they were weaponizing that data in places like Taiwan and could potentially weaponize it in the United States. All of sudden, Trump comes into office and that deal is indefinitely postponed, not legally, because the law is very clear the sale should have happened. Again, one questions the motives.

We have had Elon Musk who has said—this is a direct quote from him. He said that "Taiwan is an integral part of China." From

a diplomatic perspective, that sounds an awful lot like Donald Trump saying Zelenskyy is a dictator.

Dr. Doshi, any comments on what that might do to Chinese aggression in the region if they hear the United States—the leader of the United States suggesting that Taiwan is integral and Russia can take land by force?

Dr. DOSHI. Congressman, I think that the PRC looks very carefully at our statements and actions on Taiwan and in Ukraine. They think that if we, for example, abandon Ukraine in a fit of dysfunction, then that means that we are not going to come to Taiwan's defense. It will embolden them, as will statements that suggest that Taiwan should pay us for defense.

Mr. CASTEN. I share the concern.

Last thing that happened. Trump gets into office, issues a meme coin. The meme coin, as all meme coins do, surges in value and then collapses because it is a piece of garbage. Along the way, there are $120 million worth of trades made by Chinese investors. The Trump family and entities controlled by the Trump family made over $100 million in brokerage fees. Even though they did not get the value of the coin, because there is no value of the coin, they have made $100 million in deal fees.

The World Liberty Financial, Trump's entity, which was about to hit a liquidity crisis, all of a sudden got a $30 million infusion of capital from Justin Sun, whose Real-time Operating System Nucleus (TRON) blockchain is used by drug traffickers and terrorist groups, that all of a sudden gave Donald Trump access to the cashflows from that company under their terms of agreement.

My question for you all—and I say this is an immediate concern—is there a national security concern if entities affiliated with the Chinese Communist Party have direct economic involvement with the President of the United States and Elon Musk?

If you are hesitating on that question, let me put it another way. Should we care about national security only when it is bipartisan or should we care even more when the call is coming from inside the damn building?

I yield back.

Mr. LUCAS. The gentleman yields back.

The chair recognizes the gentleman from Pennsylvania, Mr. Meuser, Chairman of the Oversight and Investigation Subcommittee.

Mr. MEUSER. Thank you, Mr. Chairman, and thank you to our witnesses.

China is outpacing us, leveraging trade practices, currency manipulation, and aggressive state-backed investment to dominate critical industries. The Biden Administration did absolutely nothing to change that. Under President Trump, we are seeing a different approach, one that puts America first, by attracting over a trillion dollars in foreign and domestic investment from the likes of Saudi Arabia, Taiwan, Oracle, Apple, Nippon Steel. Securing critical industries and leveraging tariffs creates a more competitive playing field.

Mr. McMurray, AI data centers demand significant power, as we all know, including nuclear to power the investments President Trump recently secured. I do have a nuclear plant in my district

working to power an AI data center. How critical would you put it that strong energy infrastructure in attracting AI investment, in keeping the United States ahead? How important is——

Mr. MCMURRAY. Thank you, Congressman, for your question.

Access to electricity and power is going to be incredibly important for technologies like AI. Domestically we have to make it easier to build the different generation sources to provide that power, nuclear being one of the many technologies to do that. Looking at the broader permitting system and making it easier to build new generation, to build new transmission lines all needs to happen so the United States can continue to lead on AI.

Mr. MEUSER. Nuclear will play a big role in this?

Mr. MCMURRAY. Hope so.

Mr. MEUSER. Okay, great.

Mr. Mühleisen, my bill recently passed the House, the China Exchange Rate Transparency Act, directing the U.S. representative of the IMF to hold China accountable for currency manipulation. With China's unreliable economic data, opaque exchange rate practices, first off, do you agree with that, and how can the IMF be effective in stopping such currency manipulation by China?

Mr. MÜHLEISEN. Yes, IMF assesses the exchange rate policies of its members annually in the external sector report. It has not found evidence of strong misalignment. There are issues with some of the data that go into that assessment. There is a very interesting debate about the discrepancy between China's current account and trade account. That is an ongoing discussion, but truly in terms of macroeconomic variables, imbalances have come down and there is no evidence of currency manipulation, which I think has also been found——

Mr. MEUSER. Excuse me. That is like saying there is no gambling at Rick's. That is just not correct, sir.

Mr. Miller, I am going to move on to you. CFIUS is focused more on scrutinizing allies and stopping China from bypassing investment restrictions. President Trump's National Security Memorandum correcting this by expediting allied investments over 1 billion, like tightening controls on Chinese investments, is critical, sectors like AI and healthcare. Does this—do you think this addresses flaws in CFIUS?

Mr. MURRAY. Congressman, thank you for the question. I absolutely agree that we should be incentivizing investments with U.S. allies. The National Security Presidential Memorandum (NSPM), that you mentioned, I think it is commendable in that it seems to address a risk-based approach. Allied investments would seem to present a very low risk, so why would we not want to fast-track those types of investments. I think—so I do think that there are improvements there for the overall CFIUS process.

Mr. MEUSER. Okay. Mr. Mühleisen, I know I cut you off fast. I will send you the facts and evidence that I have, which show that it does happen in a very slick manner, but it is a regular activity that takes place.

Mr. Miller, President Trump's approach to outbound investment focus specifically on ensuring U.S. dollars do not fund the CCP's military buildup. How does this targeted approach better protect

national security and economic interest compared to a broad one-size-fits-all investment ban?

Mr. MURRAY. You are absolutely right that one-size-fits-all approach is not the right approach to outbound investment, and I would suggest not the right approach to really any economic security issues. We really need to target these policies to clearly identifiable risks so that we do not accidentally undermine the U.S. investment and competitiveness that we know is so key.

I do think that the implementation details will matter as we see more details regarding the NSPM but—and also enforcement resources, right. If we do not have the resources to enforce these policies, then it also can be very difficult.

Mr. MEUSER. All right. I am out of time. Mr. Chairman, I yield back.

Mr. LUCAS. The gentleman's time expired.

The chair now recognizes the gentlewoman from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you, Mr. Chair.

I just came from my office in meeting some of my constituents, and I can tell you overwhelmingly right now, this week, I am not getting calls about this particular issue. I wish we were using the power to convene and discuss the issues that matter to many of our families in our district more directly. Right now, they are very worried about the budget proposal. They are very worried about families being impacted by the illegal firings. It is just important to say for them the biggest threat right now is, again, unchecked balances. You have court decisions after court decisions saying that there are unconstitutional moves in regard to this Administration. I really stress to my colleagues, anything we can do to be more transparent with our residents about what is going on specifically right now with our Federal Government.

Instead of—right now sometimes I feel like we are scapegoating foreigners, and we continually target people that are sometimes even our most vulnerable among us. Again, I think the real threat right now in our country is what is going on with this Administration and the lack of accountability on the part of Congress to hold them in check.

I do want to ask Mr.—is it Mühleisen? Am I saying it right? Thank you. One of the things that I think that is critically important about United States and China and how we can tackle global challenges, from the climate crisis to public health crises, that we continue to see unequal growth, require multilateral collaboration and so forth. We have got to create some sort of opportunities to have some sort of dialog to, again, address some of these concerns.

For instance, take the global overcapacity. Many United States critics demand that China end its industrial policies to reduce excess production. Instead of making this a zero-sum problem where one country must produce less, we could work together so that all countries—they all can consume more. That means focusing on development, higher wages, and more global public goods.

How can you see the United States working more closely with China and other countries to reduce global overcapacity by expanding global consumer demand?

Mr. MÜHLEISEN. Expanding global consumer demand in the current situation could be potentially inflationary. Having said that, of course there is a need to ensure that China does not unfairly subsidize its manufacturing exports. I think the multilateral approach would, of course, be through the World Trade Organization, but I think in the forthcoming trade negotiations between the United States and China this should be a key focus.

Given the current situation, multilateral institutions can only be of limited help in contributing to a bilateral trade dispute. Although, I personally, of course, very much support the objectives of getting China to play fair and by the rules.

Ms. TLAIB. Dr. Doshi, in the long game, you state that countries could engage in co investment with China on Belt and Road Initiative projects in exchange for improved standards. Do you see an opportunity for co investment by United States to improve standards, including labor standards?

Dr. DOSHI. Thank you very much, Congresswoman. I think it is possible. When I wrote that 4 or 5 years ago, it seemed like it was more plausible than it is today, given the competitive dynamics between the United States and China. I do think that if there were some projects where the United States came in and said, we will come in, but it has to be done in X, Y, and Z way, with perhaps certain U.S. companies, with certain U.S. labor standards, the Chinese would be interested, because for them it would help legitimize some of the projects.

That being said, I think this is a very hard thing to do because they are not necessarily as inclined to work with us in some of these places because they are using their infrastructure loans to get ports and other things for their own strategic benefit.

Ms. TLAIB. Yes, I have seen that. Let us talk a little bit, Dr. Doshi, about nuclear deescalation. Of course, there is—do you see any openings for us in regard to arms control talks with China?

Dr. DOSHI. When I worked for President Biden and we were thinking about stuff like this, we were unable to really get the Chinese to engage. When they did engage, they did it for one simple reason, they wanted to whitewash their mass of nuclear buildup, and they could look like they were being responsible.

That being said, there is a lot we have to do, and I was grateful to work on the ability for the United States to basically come with China and say, nuclear weapons should not be connected to artificial intelligence. There are things we can do like that we should keep working on, and I think the Trump Administration will build on that foundation.

Ms. TLAIB. Yes. I will just lead with folks. As we talk about these issues and they are real issues, I just hope we do not racialize it. One of the things, just as a Muslim American in the United States, I know, for instance, when many countries are doing, bad things or—it is not reflective on a whole people. I say that because there are so many folks, I think, directly impacted sometimes in how we approach accountability with China.

Thank you.

Mr. LUCAS. The gentlelady yields back.

The chair now recognizes the gentleman from New York, Mr. Garbarino, Vice Chairman of the Subcommittee on Capital Markets, for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman.

For years we have heard warnings to the intelligence community on the threat of state-sponsored cyber actors conducting malicious activity on our Nation's critical infrastructure. These warnings have now become reality. Cybersecurity and Infrastructure Security Agency (CISA), National Security Agency (NSA), and the Federal Bureau of Investigation (FBI), and other governmental agencies confirmed the People's Republic of China have successfully infiltrated the networks of U.S. critical infrastructure. PRC-sponsored Volt Typhoon hackers are prepositioning themselves on IT networks to enable lateral movement to OT (operational technology) assets that is to disrupt functions within our water, energy, communication sectors. Then you have Flax Typhoon hackers who take directions from the Ministry of State Security and have unleashed a large-scale botnet targeting American Taiwanese computer networks.

As a result of these discoveries, Treasury issued a series of sanctions aimed at combating increasingly aggressive cyber activity by PRC-sponsored actors. We must do everything in our power to hold nation-states like the PRC accountable. Recent events prove that cyber risk is an evolving and persistent problem that is not isolated to one sector nor one threat actor.

Mr. Miller, what should the United States do to best mitigate the impact of PRC cyber incursions now that we have acknowledged so publicly that they are currently in our networks?

Mr. MURRAY. Thank you for the question, Congressman Garbarino.

Yes. As you know well and as you mentioned, state-sponsored cyber attacks from China and elsewhere have been a problem for quite a while. In terms of mitigating these risks I would say we really do need to go back to some cyber-first principles, right. There are—once they have breached the networks, which they obviously have in this case, organizations need to, frankly, follow the advice of CISA and others and do things like using end-to-end encryption. It is something that has been flagged a number of different times. Multifactor authentication logging so that you can really figure it out. Then maybe even more fundamentally it is so important to get visibility into your network and your assets to really understand the scope of the breach.

Those are some of the very basic cyber things that we all need to be doing and doubling down on.

Mr. GARBARINO. Yes, absolutely. Cyber hygiene, I have always pushed, is something that everybody needs to do. Better cyber hygiene. FBI disrupted Flax Typhoon's grasp on these compromised devices. They were being run by a company called Integrity Technology Group, which was sanctioned by the Treasury office. This is, I think, now the second major Chinese hacking group that has been disrupted and sanctioned.

I am wondering, do you think sanctions, more sanctions could deter China from future attacks? Do you think that is worth it, or is there something that we can do to deterring Chinese actors?

Mr. MURRAY. I think particularly when we have been able to verify or, more specifically, when national security and law enforcement agencies are able to verify the attribution of an attack, absolutely, sanctions targeted at those bad actors are a way to not only hold them accountable but to deter other actors. I do not think we should look at sanctions as a silver bullet solution here. Something that we all know is that this is a continuous process when we are dealing with cybersecurity. I do not think we are ever going to eliminate all risks.

We are always going to have to be manage these risks, and there probably are always going to be new actors too, but the more we can do to hold them accountable the better.

Mr. GARBARINO. Absolutely. I appreciate that answer. Thank you very much. I wish there was a silver bullet.

Nuclear energy is one of our largest sources of clean power and advanced nuclear energy shows a lot of promise. The International Atomic Energy Agency says that nearly 30 countries are looking to build nuclear power. However, over the last several years, the export markets for this energy have been dominated by Russia and China. We must do more to make sure that we have a robust supply chain to build new nuclear reactors domestically so that we can become leaders in the international marketplace.

Mr. McMurray, how does innovation at home translate to our ability to export these technologies internationally?

Mr. MCMURRAY. Thank you, Congressman. Ultimately, we need to make it easier for private U.S. companies to compete globally. I think especially for countries that are interested in building nuclear power for the first time. The United States can offer a lot of other things, whether it is the Department of Energy and the national labs and the technical expertise there, the regulatory expertise from the Nuclear Regulatory Commission, and just the operations expertise that we have from our existing fleet.

When we look to compete, we have to think broader than just competing financially, although EXIM Bank and DFC can help play a role in that, but really try to focus on the broader suite of offerings and technologies that we have.

Mr. GARBARINO. I appreciate that. I am out of time. Thank you very much for your interest.

Thank you, Mr. Chairman. I yield back.

Mr. LUCAS. The gentleman's time has expired.

The chair now recognizes the gentleman from California, Mr. Liccardo, for 5 minutes.

Mr. LICCARDO. Thank you very much, Mr. Chair.

Mr. Miller, I very much appreciate your testimony. As someone who lives in Silicon Valley and represents Silicon Valley, particularly to your emphasis on ensuring U.S. competitiveness through better tax policy, financial policy, and particularly the deductibility of research and development expenditures, which I know is of great interest to many entrepreneurs and small companies in my district. As I recall, those expenditures—I am sorry—the expensing of the deductibility of those expenditures was phased out in 2022. Is that right?

Mr. MURRAY. I am not 100 percent sure on the year, but I believe that did happen, yes.

Mr. LICCARDO. It happened as a result of the passage of the Trump tax law in 2017.

Mr. MURRAY. I believe so.

Mr. LICCARDO. In fact, we are now faced with proposals to extend those tax cuts for the next decade or so at a cost of $4.6 trillion or so. In fact, the expensing deductibility of research and development expenditures, that was largely sacrificed as a way to pay for those very expensive tax cuts in 2017, was it not?

Mr. MURRAY. I am not certain that is the exact exchange there, but both those things did happen, yes.

Mr. LICCARDO. They happened to happen in the same tax law; that is, we gave very large tax cuts in other areas and we got rid of this critical provision that has been part of the U.S. Tax Code for more than half a century to provide entrepreneurs and small companies the ability to expense in the current year research and development expenditures.

Mr. MURRAY. We released a paper on economic security today, and one of our recommendations is that we should absolutely reinstate that ability to expense in the year that the—, to not amortize over 15 years, yes.

Mr. LICCARDO. I very much share your perspective on that, so I appreciate your point.

As we think about competitiveness with China, certainly those kinds of tax provisions are very important. How important is it that we would exempt the first $13 million of someone's estate from an estate tax to our competitiveness with China?

Mr. MURRAY. I am not a tax expert, I will be honest with you, but so—I am happy to take some of these tax questions back and get you an answer for sure.

Mr. LICCARDO. Okay. Thank you, sir.

I very much appreciate your advocacy, and I hope that all of us will come to the same conclusion that we need sensible tax policy that makes us more competitive and not tax giveaways that simply amount to handouts for very, very wealthy individuals.

Dr. Doshi, I appreciate that you have certainly been studying and working in this space for many, many years. You undoubtedly remember a situation more than a decade and a half ago, I think, with Huawei and several other Chinese companies that were essentially caught in trade secret theft. As we think about our intellectual property (IP), many of those companies are still operating in the United States, are they not?

Dr. DOSHI. They are sir.

Mr. LICCARDO. They would be subject to U.S. laws and to Federal investigation.

Dr. DOSHI. They should be Congressman.

Mr. LICCARDO. If we have a challenge being able to find FBI agents or assistant U.S. attorneys to be able to investigate and prosecute those cases, that will not help in our efforts to crack down on trade secret theft and the IP theft.

Dr. DOSHI. Congressman, yes. The FBI has indicated it needs more resources for the China challenge across Administrations.

Mr. LICCARDO. The current Administration's position so far has been to essentially fire thousands of FBI agents and Federal prosecutors. Is that right?

Dr. DOSHI. Yes, Congressman, and to reprioritize the FBI for other missions.

Mr. LICCARDO. Is that going to make us better or worse at halting trade secret theft in this country?

Dr. DOSHI. I think it is important to invest in enforcement. The Chinese Communist Party is one of the most formidable challengers for IP theft that the country has ever faced, and so more enforcement on this issue is always better.

Mr. LICCARDO. Thank you. Thank you very much, Mr. Chairman.

Mr. LUCAS. The gentleman yields back.

The chair now recognizes the gentlewoman from California, Mrs. Kim, for 5 minutes.

Mrs. KIM. Thank you, chairman and I want to thank our witnesses for joining us today to talk about some of the ways that we can compete against China.

Dr. Doshi, good to see you again.

Mr. Miller, I know I read your testimony, and I agree with you about not taking our current U.S. technology edge over China and other competitors for granted. We all saw how China shocked the world in global markets when it unveiled DeepSeek as a competitor to many of our domestic AI companies. Can you elaborate on what policies should the United States implement and/or expand on to better compete against China, and why do you believe DeepSeek has found success competing against our more established AI companies?

Mr. MILLER. Thank you for the question, Congresswoman. In terms of the policies that we should be pursuing, as I mentioned to your colleague, just a moment ago, ITI released a paper just today with 10 different recommendations to promote economic security and innovation, including on a number of different areas. Many of those relate specifically to competition in emerging technologies and promoting competition in emerging technologies such as AI.

In the economic security context what we really want to do is calibrate our policies so that we are—whether it is investment restrictions or export controls targeting national security risks but not doing anything to undermine the U.S. ability to compete. We have the leading innovation companies in the world and that is a source of strength not only for the economy——

Mrs. KIM. Mr. Miller, we are introducing the legislation that I co-led with Congresswoman Beatty on the other side of the aisle, this is a bipartisan bill, the Strengthening Exports Against China Act. This is to give the EXIM Bank the tools to better support exports of American emerging technologies like AI, 5G, and advanced semiconductors. Do you believe this type of legislation will be helpful to implement or complement our competition against China?

Mr. MILLER. Yes. Obviously, exports are a key part of that U.S. economic strength in technology. We want to really promote all tools that we can to really help facilitate companies of all sizes in making those exports abroad.

Mrs. KIM. Thank you. Since 2015, the Chinese Communist Party has been the largest creditor to low-income countries. According to the World Bank's figures, the total external government debt of low and middle-income countries increased from 1.7 trillion in 2011 to

3.5 trillion in 2021. A large part of that is a huge increase that can be directly attributed to the CCP's irresponsible and opaque lending programs like the BRI, Belt and Road Initiative.

I want to ask this question to Mr. Mühleisen? Right there, Okay. In your testimony, you mentioned that since China joined the G20 common framework for debt restructuring in 2020, the speed of debt workouts has picked up somewhat. Why have our debt workouts picked up at full speed? Can you start that?

Mr. MÜHLEISEN. It would be ideal if China would be part of the Paris Club that has long experience in procedures for how to restructure that. The common framework is kind of, I would say, a follow up attempt to bring China into some process, but it is not as elaborate as the Paris Club.

China is finding its way how to contribute to it. It is very reluctant for deep discounts, which makes it difficult to get countries to a sustainable debt level. There is a lot of progress still needed. That improvement is noteworthy, it has been for a few countries, but it needs to be sustained, and it needs to be accompanied by deeper willingness to do the restructuring.

Mrs. KIM. Can you tell us what are some of the hurdles, the biggest hurdles to ensure that the CCP agrees to collecting debt restructuring, and if you can tell us how debtor countries are affected when the CCP delays debt restructuring due to the bilateral actions?

Mr. MÜHLEISEN. My understanding is that Chinese officials that work for various State banks and other entities do not want to take a loss, a nominal loss on their loans. They are totally reluctant to do that, so they are trying to do all sorts of other things that are not as beneficial for the debtor countries to restructure their debt. It is really an internal Chinese issue that needs to be overcome.

Mrs. KIM. Thank you. My time is up. I yield back.

Mr. LUCAS. The gentlelady's time is expired.

The chair now recognizes the gentlewoman from Massachusetts, Ms. Pressley, for 5 minutes.

Ms. PRESSLEY. Thank you, Mr. Chair, and thank you to the witnesses for being here today, sharing your expertise on information technology, trade policy, international relations and more.

The threat the Chinese Communist Party poses to the United States is one that my colleagues and I take seriously, from egregious violations of human rights to manipulation of our global economy to supporting drug trafficking and stealing intellectual property. The United States must take action to confront these issues.

While many of these problems have been around for years or even decades, there is a new threat emerging, deeply intertwined with the Chinese Government that deserves our full attention, and that threat is Elon Musk.

Chair, I ask unanimous consent to enter into the record the following articles: Elon Musk's China Threat; China May Welcome Elon Musk's Cuts; How Elon Musk deep ties to—and admiration for—China could complicate Trump's Beijing policy; Elon Musk: A Chinese puppet; and Elon Musk, A National Security Threat.

Mr. LUCAS. Seeing no objection, so ordered.

[The information referred to can be found in the appendix.]

Ms. PRESSLEY. Witnesses, I am going to ask you to answer the following questions to the best of your ability. Please do not feel like you have to pretend that you know the answer but also do not pretend that you do not know the answer. You have taken an oath to be honest, and the American public is watching.

Dr. Doshi, who is the CEO of Tesla and makes the majority of its profits through manufacturing in China?

Dr. DOSHI. That would be Elon Musk, Congresswoman.

Ms. PRESSLEY. Elon Musk and not just the vehicles. Forty percent of his battery supply chain is with Chinese companies.

Mr. Miller, who worked with the Chinese Communist Party to receive $1.4 billion in loans to support his Tesla business? Mr. Miller?

Mr. MILLER. I—I am not—I do not have the information.

Ms. PRESSLEY. Reclaiming my time. Elon Musk.

Mr. MILLER. Okay, right.

Ms. PRESSLEY. OK?

Ms. Realuyo, who did Republican Senator Tom Cotton accuse of chasing Chinese dollars to help his businesses, Tesla and SpaceX?

Oh, Okay. It is Elon Musk.

In our global economy it is not uncommon that a rich CEO would do business in China. In this case, it is a five-alarm fire when that rich CEO doing business with China is also running the U.S. Federal Government.

Mr. Mühleisen, do you know what billionaire had a private meeting with China's Vice President literally the day before Trump's inauguration?

Mr. MÜHLEISEN. I do not know.

Ms. PRESSLEY. Elon Musk.

Then on inauguration day, who became the head of DOGE, a Federal agency created by Trump? Elon Musk.

Mr. Miller, as head of DOGE, who has accessed private, sensitive government data, including U.S. Treasury payment systems?

Reclaiming my time. Elon Musk.

Dr. Doshi, given all this information, who do you think should undergo a rigorous investigation?

Dr. DOSHI. I think anybody with conflicts potentially in China should be investigated if they are having a position of influencing government. I would say the CEO of Tesla, Elon Musk.

Ms. PRESSLEY. Elon Musk.

Unfortunately, Elon Musk has not even gone through a simple Federal background check. He is a citizen of three countries, has business dealings with adversarial governments, and is leading an assault on our Federal Government workers.

The Financial Services Committee is one of the most powerful committees in Congress. There should be an investigation into Elon Musk's conflicts of interest with China or at least, how about a Federal background check. This should not be a partisan issue. No billionaire, Republican or Democrat, should get a free pass.

If Republicans are serious about countering China's threat to the United States; you all will support this investigation of Elon Musk. Elon Musk has already bought the Presidency, and we should all be concerned, he will sell out that Presidency and our Nation to China.

I yield back.

Mr. LUCAS. The gentlelady yields back.

The chair now recognizes the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes.

Mr. FITZGERALD. Thank you, Mr. Chairman, and thank you, gentlemen, for being here. I know it is a long day.

U.S. Secret Service investigates a variety of cyber-related criminal activities, including the illicit use of digital assets through its global network of 44 cyber fraud task forces. Significant aspects of this illicit activity involve unlicensed money transferring businesses, the illicit structuring of transactions, and other criminal activity against organizations that are not federally insured financial institutions but are financial institutions as defined under the Bank Secrecy Act.

To address this problem, I was pleased to work last Congress and this Congress with colleagues to advance Combating Money Laundering in Cyber Crime Act out of both Financial Services and Judiciary Committee, of which I am a member of both.

This bill could harmonize kind of the criminal activity and the banking statutes to clarify kind of specifically where Secret Service has the ability to investigate authority over crimes related to illicit digital asset transactions.

Mr. Cassara, could you just briefly touch on the important role that the Secret Service plays in fighting these illicit transactions?

Mr. CASSARA. Congressman Fitzgerald, thank you for the question.

I actually started my career in Treasury as a special agent for the U.S. Secret Service back in the 1980s—mid 80s. I am very, very aware of the dual missions of the Secret Service; basically, enforcement and investigations. A lot of people do not recognize how important financial crimes investigations are to the U.S. Secret Service. It got its start right after the Civil War investigating counterfeit, and that has progressed over the years. The Secret Service has gotten involved with forgery of U.S. Treasury checks, credit card fraud, computer fraud, identity fraud.

More recently, I think it was started about 2004, 2005, they initiated the Cyber Investigative Section, one of the first U.S. law enforcement units dedicated to strategically tackling significant cyber crime actors and groups. This type of threat is becoming more and more important. Cyber currencies, for example, definitely involved with things like ransomware, all these types of payments.

Mr. FITZGERALD. Does the Department of Justice and law enforcement prioritize kind of the financing side of the relationship which we are exploring right now related to the fentanyl crisis, or is the emphasis right now placed on kind of the interdiction of drugs themselves? There is this kind of discussion that has been going on in Congress for the last couple of Congresses on that.

Mr. CASSARA. Yes, this is an issue that has been discussed within law enforcement many times. Per a kind of a previous answer of mine, law enforcement has been emphasizing the product, for example, drugs and people, instead of following the money trail. There are lots of different reasons for that. In my opinion, one of the primary reasons is because investigating the product, interdiction, for example, is much easier than going after the money trails.

These are long-term, complex investigations. Sometimes they do not bear any results. It takes extreme commitment to put the manpower and the resources into these investigations, but these are the investigations that actually pay dividends over time, taking the motivation away from the criminals.

Mr. FITZGERALD. There is a lot of discussion, obviously, about the border. Specifically, the most alarming thing that a lot of the border agents, when I have been there and other Members of Congress have been down there; one of the most alarming is the Chinese nationals that were being caught on a regular basis.

The fentanyl crisis is obviously something that we are all aware of. It is really Beijing and the flow of dollars that are coming across with the drug trade that, in my estimation, has really underscored the whole idea that this is in fact happening in a larger and larger kind of magnified area, specific to the San Diego sector, which we see a lot of that happening right now.

Any thoughts on that piece?

Mr. CASSARA. I think I would just like to pick up on one of your comments as far as the Chinese nationals of military age males primarily——

Mr. FITZGERALD. Right.

Mr. CASSARA [continuing]. are the largest ethnic group, if you will, we will use for lack of a better term, other than Latinos that are coming across our southern border. Once again, it frightens me because the CCP, China, Communist China, is skilled with asymmetric warfare. We do not know who these people are, we do not know where they are, we do not know what they are doing.

Any Chinese that come to this country, basically come with permission of the Chinese Government. Once they are here, they are obligated by Chinese intelligence law to answer to and take orders from Chinese intelligence services.

Mr. FITZGERALD. Very good. Thank you.

Mr. LUCAS. The gentleman's time is expired.

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

Mr. LUCAS. The chair now recognizes the gentlewoman from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman. Thank you to the witnesses.

One of the things that I am most concerned about, and I have watched over the years when it comes to China and, frankly, even other—even Russia, is the rise of its influence in Latin America. By 2021, China has become the second largest trading partner for the entire region, just behind the United States, by $150 million in imports and $399 billion in exports. China is also making foreign investments in Latin America within the infrastructure, energy, and military sectors.

Clearly, China's Belt and Road Initiative is working. China is slowly but surely expanding its influence throughout Latin America. It is only a matter of time before China surpasses the United States as the top trade partner in Latin America. In my view, tariffs on Mexico does not help one bit.

We must reprioritize investing and recommit to our partners in Latin America to stop China's growing influence.

Dr. Doshi, what can we do to better counter growing Chinese investments and influence in Latin America?

Dr. DOSHI. Thank you very much for the question, Congresswoman.

I will note a few things. First, a significant amount of Chinese investment in Africa—sorry, in Latin America involves a degree of corruption, not all of it but a lot of it. If you look at, for example, a significant dam project in Ecuador, the dam did not work, there were a lot of cracks, and there was also direct evidence of corruption.

One thing that we can do is bring some sunlight as a disinfectant. The more people know about what is happening in their backyard, the more that they see that there is sort of corruption behind some of this investment, the easier it is to push back.

The second thing we have to do is we cannot fight something with nothing. It is important for us to reauthorize the DFC and other institutions as well, EXIM Bank, to be players in this space, help our companies compete commercially, and make sure we provide aid where it is necessary.

Ms. GARCIA. You think we can do it?

Dr. DOSHI. I think that the United States can certainly outcompete the PRC for influence in Latin America. We are still the preferred partner of choice. I will note that, in addition to the problems that we have with the development financing that we need to offer or on the commercial side, China is a major goods exporter to Latin America. The fact that China is the world's biggest manufacturer and superpower with a $1 trillion global goods surplus gives them a lot that they can send to Latin America. We have to figure out how we are going to deal with their manufacturing heft if we want to retain our influence in that region.

Ms. GARCIA. Right. Of course, we have talked a lot this morning about fentanyl, and we know that the drug trade is global. Money laundering is a global issue. Despite the global reach that illicit finance has, our financial institutions have their hands tied and cannot share information or seamlessly track concerning actors.

The existing guidance from the Financial Crimes Enforcement Network and other Federal regulators prohibits U.S. financial institutions from sharing the SARs, the suspicious activity reports, with foreign branches, subsidiaries, and affiliates. It is a slow and hard process to counter illicit finance.

Mr. Cassara—where are you? There you are—would it not be useful to let financial institutions share information on a case-by-case basis via a pilot program established through the Anti-Money Laundering Act?

Mr. CASSARA. Yes, Congressman—Congresswoman, excuse me. I believe it would be very, very useful to share information on that pilot program, taking into consideration issues like privacy, third party, and this type of thing. Yes, I think it would be very useful to make SARs more effective for law enforcement.

Ms. GARCIA. More beneficial and helpful to law enforcement.

Mr. CASSARA. More beneficial and—yes.

Ms. GARCIA. All right. Would not you agree that this is a potential solution to helping financial institutions better detect intentionally opaque connections to foreign terrorist organizations——

Mr. CASSARA. I think it——

Ms. GARCIA [continuing]. and other illicit actors across national borders?

Mr. CASSARA. I think it could certainly help, yes.

Ms. GARCIA. Mr. Chairman, that is why I am excited to reintroduce my bill, the Foreign Affiliates Pilot Sharing Program Extension Act, very soon. The bill extends a pilot program that allows financial institutions to share information about suspicious activity reports with their foreign affiliates to combat illicit financial activity. The pilot program, which was authorized through the Anti-Money Laundering Act but was never executed, would only allow financial institutions to share that there is a concern about an illicit actor but not what the concern is.

I look forward to working with you, Mr. Chairman. This bill was passed under suspension last Congress, so I look forward to working with you and the Ranking Member to pass it again this Congress.

With that, I yield back.

Mr. MEUSER [presiding]. The gentlelady yields.

The gentlewoman from Michigan, Mrs. McClain, Conference Chair, is now recognized for 5 minutes.

Mrs. MCCLAIN. Thank you, Mr. Chair.

I think we all know China is a threat to our country, and every other country, educationally, militarily, and economically, yet we enable China by letting them benefit from these very institutions. For example, Xi Jinping's daughter went to Harvard. Countless other children of their elite seek education in this country, and high-ranking officials in the CCP have burrowed themselves into our financial institutions. While they brainwash their poverty-stricken citizens about the evils of the West, they themselves benefit from our institutions. If they move against our democratic ally Taiwan, their free ride, I believe, should come to an end.

Mr. Mühleisen—I hope I am saying that correctly—in your opinion, how would cutting off high-ranking CCP officials from our financial sector affect their behavior both individually and overreaching government policies?

Mr. MÜHLEISEN. Congresswoman, that is an answer I cannot respond to. This is really not in my expertise.

Mrs. MCCLAIN. You do not have an opinion on how we should deal with high-ranking officials——

Mr. MÜHLEISEN. To the extent that they are pursuing illegal or corrupt practices, I am sure the United States has enough tools to go against them. My expertise is in multilateral institutions, not so much in financial institutions. That is why I do not really—I am not really in a position to answer your question.

Mrs. MCCLAIN. Do you have an opinion on that?

Mr. MÜHLEISEN. I think it is—from a moral perspective, it is—I think if Chinese ordinary citizens would hear about that, they would certainly question what is going on. In that sense, it is something that conflicts between what you do and what you say, and I found that, of course, morally reprehensible.

Mrs. MCCLAIN. Is it safe to say, and I do not want to put words in your mouth, that actions should have consequences?

Mr. MÜHLEISEN. Certainly, Chinese citizens should see whether they could not——

Mrs. MCCLAIN. What about the high-ranking officials?

Mr. MÜHLEISEN. That is what I mean.

Mrs. MCCLAIN. Okay.

Mr. MÜHLEISEN. The consequences should be in China, because that is, in a way, where the disadvantages are for their citizens.

Mrs. MCCLAIN. I am looking as well to protect our citizens, our financial institutions, and really try to deter the Chinese and disincentivize them for taking advantage of our institutions, whether it be educationally, or our financial institutions, and try to hold them accountable. We know they are bad actors, so how do we hold them accountable, and what incentives or disincentives do we put in place for the CCP to get them to be good actors, which they have proven time and time again that they are not good actors?

What I have tried to do, and what I am doing, is I am proud to lead the Taiwan Conflict Deterrence Act along with my colleague Sherman in this Congress. I think it is very important. In the event that China moves against Taiwan, this bill would take effect and publish the financial institutions providing services to senior Chinese Government officials—we are all about transparency, right—and it would prevent them from being able to live here in the United States.

It will show the Chinese citizens who live under the repression and suffer daily that their hypocritical, tyrannical leaders live lavishly by gifting and grifting off of their U.S.' colleagues. This bill has an exemption, carveout, for those who cooperate—being the operative word—with the United States. I would love to see which members of the elite have more loyalty to the U.S. dollar than they do to Chairman Xi Jinping. I think that would be kind of interesting.

Is there more, in your opinion, that Congress or other countries can do to use financial tools to sway or incentivize or disincentivize the CCP, Mr.——

Mr. MÜHLEISEN. I cannot really answer your question, Congresswoman.

Mrs. MCCLAIN. Wonderful. Thank you.

I am out of time. I yield.

Mr. MEUSER. The gentlelady yields.

The gentlewoman from Georgia, Ms. Williams, is now recognized for 5 minutes.

Ms. WILLIAMS of Georgia. Thank you.

With today's hearing, my Republican colleagues are trying to find the most inflammatory way to say something that we all should agree on. You all, the United States' competitiveness in a global economy is a shared goal amongst Democrats and Republicans, Independents, people who do not even care about politics. Why do we get partisan hearing titles like "Examining Policies to Counter China?"

My Republican colleagues would rather demonize an entire country for the fact the United States is lagging behind in global competitiveness than talk about the real problem. The real problem, you might ask, is that my colleagues in the Republican Party have refused to invest in America for decades.

When Congress made historic investments in roads, bridges, ports, rail, you all, we were on the right track but just catching up. Unfortunately, President Trump and his Co-President Elon Musk refused to build on that progress. Instead, they are gearing up today for a budget resolution that would roll back Congress' historic investments over the last 4 years, and that is not to mention that they are crippling the very agencies that are making these investments by firing as many Federal employees as possible.

Let us really ask ourselves, how do we make America competitive in a global economy? Let us start by fixing this hearing title, "Examining Policies to Counter Elon Musk" because that is what really needs to happen. If we do not want our government and economy to become the laughingstock that Twitter became when Elon Musk took over, it is time for us to take back our power as Congress, Article I, Section 1 of the U.S. Constitution.

Elon Musk does not want a serious discussion in this hearing because, you all, he makes money when his Tesla stocks do well in China. Let us stop pretending that the whole country of China is the problem when Elon Musk is right here in our country and is a huge problem. Let us talk about policies to counter Musk and his agenda of destroying investments in America. You all, the way that I was raised, you take care of home first.

Let us talk about a few policies that hit right at the heart of what Musk is doing to my fighting Fifth District in Atlanta. Atlanta is home to the Centers for Disease Control and Prevention (CDC) and every dollar that we invest in public health yields up to $88 that benefits our society. Congress has been investing nearly $10 billion per year in the CDC, so we are talking about a potential value of $880 billion.

Dr. Doshi, what do you think? If we stop making those investments, who is going to step up and get access to that $880 billion in investments? The research that we are doing, how does that help our competitiveness with China? Does that benefit the United States or China?

Dr. DOSHI. Thank you for the question, Congresswoman.

I think over the last 8 to 10 years there has been a growing bipartisan consensus on the need to invest in American competitiveness, not just to focus on China, although that is a principal challenge for us, but also to make ourselves more prosperous, more secure, and quite frankly, more advanced when it comes to technology.

I think it is important for us to think about the CHIPS and Science Act as a critical way of strengthening American investment in the future of technology, along with the Inflation Reduction Act, which make the United States more competitive in everything from batteries to electronic vehicles (EVs). Batteries are relevant also for military advantage, also infrastructure, basic infrastructure. China invests enormous sums in infrastructure. We do not invest very much.

That is why right now, Congresswoman, our percentage share of manufacturing has fallen from 30 percent to 15 percent in two decades, while China's has gone from 6 percent to 30 percent. I think more investment across the board is a priority and maybe something that has bipartisan support.

Ms. WILLIAMS of Georgia. It absolutely should be bipartisan, and I look forward to working with my Republican colleagues on these very policies.

Also, Atlanta is home to the world's busiest and most efficient airport, providing countless contributions to the United States' position in the global economy.

Dr. Doshi, if we do not have the air traffic controllers and the Transportation Security Administration (TSA) agents that we need to keep travelers safe and coming into America, are people going to want to keep coming to the United States for global commerce or could that competitive edge also be taken by another country like China?

Dr. DOSHI. Thank you for the question, Congresswoman. I think American State capacity is one of those things that needs to be improved, and some significant cuts to it without thinking about how to retain capacity in areas we already have can cause competitive disadvantage across the board, including in the sector that you identified.

Ms. WILLIAMS of Georgia. I have many more questions, because I also went into the grocery store this weekend, and there were no eggs on the shelf, so my 9-year-old was quite upset when he could not get his cheese eggs for breakfast on Sunday morning. We have a lot of issues that we need to discuss——

Mr. MEUSER. The gentlelady's time has expired.

Ms. WILLIAMS of Georgia. My time has expired, and I yield back, Mr. Chairman.

Mr. MEUSER. The gentlelady yields.

The gentlewoman from Texas, Ms. De La Cruz, Vice Chair of Subcommittee on Housing and Insurance, is now recognized for 5 minutes.

Ms. DE LA CRUZ. Thank you so much, Chairman and thank you to all the witnesses for being here today.

This is an important topic when we discuss China and the United States and the competitiveness especially. There is so much going on in our country, but one of the things that has affected Americans from Deep South Texas, which is where I am from, to Chicago, Atlanta, California, is fentanyl and the rise of fentanyl that has happened under the Biden Administration. Under the Biden Administration we saw fentanyl pouring into our borders. We saw deaths due to the fentanyl crisis that happened under the Biden Administration.

That being said, fentanyl comes from China. It has destroyed our families. I sat with mothers over the holidays who had empty chairs at their holiday tables because they lost a child or a spouse. This is a very important and difficult topic.

Drug overdoses are the leading cause of deaths between 18 and 45-year-olds, with fentanyl being responsible for 70 percent of those overdoses. One gram of fentanyl can kill potentially 500 people.

In Deep South Texas, in the last Congress, one of our brave law enforcement officers found 3 gallons of fentanyl in South Texas. That was enough to kill two times the size of Houston, Texas. Can you imagine that just—thousands and thousands of people who would be affected had that drug successfully gotten to its destination.

Part of the solution is we need better border security, and part is that we can do work on this committee to stop the financing of fentanyl. I am proud to say that last year my bill, H.R. 1076, Preventing the Financing of Illegal Synthetic Drugs Act, was signed into law to start taking real steps to address the financing of these drugs.

To my question. Mr. Cassara, what role does Chinese money laundering organizations (CMLOs) play in laundering proceeds from drug trafficking, and how critical are CMLOs to the U.S. drug trade?

Mr. CASSARA. Thank you for the question. I have a perspective of decades going back, anti-money laundering work, and I have examined hemispheric laundering, for example, the Colombian black market peso exchange evolving into the Mexican black market peso exchange. Then maybe 10 years ago or so, the Chinese, Chinese presence, Chinese money laundering organizations started to become the money launderers of choice for the cartels, and they have pioneered innovative methods of laundering the proceeds.

Ms. DE LA CRUZ. Why do you think that is?

Mr. CASSARA. Why do I think that is?

Ms. DE LA CRUZ. Yes.

Mr. CASSARA. I think that the Chinese are very skilled in what they do. They are very, very good businesspeople, and they are incentivized to undercut their competitors. They also take advantage of the Chinese presence here in the United States. A lot of them are upstanding citizens, but nevertheless, some of these people wittingly or unwittingly get involved in taking some of this illicit money, putting it into their regular business activities, and laundering that money through underground financial systems and mobile phone apps, other techniques and enablers that I described in my testimony.

Ms. DE LA CRUZ. Excellent. What vulnerabilities in the United States are CMLOs most effectively exploiting, and where do gaps in regulatory oversight persist?

Mr. CASSARA. I think the biggest vulnerabilities that we have vis-á-vis Chinese money laundering organizations in the United States is their ability to bypass our most important anti-money laundering countermeasure, which is financial intelligence, Bank Secrecy Act information. The techniques they use pretty effectively go around these types of reporting requirements, whether it be trade-based money laundering, Fei-Chien, flying money, trade-based value transfer, this type of thing. We need to crack down in these areas. Once again, in my written testimony I gave some ideas on how that can be done.

Ms. DE LA CRUZ. Thank you. I yield back.

Mr. MEUSER. The gentlelady yields.

The gentleman from Texas, Mr. Green, the Ranking Member on the Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman, and thank you for your very kind and warm expression of an introduction.

I would like to associate myself with the comments of the Ranking Member as they relate to China. I think she spoke well and covered much of what I would say. I do agree that there is a prob-

lem with fentanyl, but I am also concerned about Russia. I am concerned about Russia because it seems that we have embarked upon a course of conduct that would allow us to reward Russian aggression. You cannot reward aggression and assume that you will have peace.

I am concerned about what is happening with Ukraine and this belief that somehow Ukraine is the aggressor and started this war. I think that we would have to suspend all of our common sense to agree with this premise, because we saw the tanks moving into Ukraine. It is very difficult to even consider the notion that one would now blame Ukraine for Russian aggression.

It seems that our President, unfortunately, has embarked upon a course of appeasement. Russia wants to surrender, no land taken, President agrees. That is appeasement. Russia is desiring that there be no security provided Ukraine. Looks like we are backing off, but as we back away, we will take precious minerals that Ukraine might have. Russia is of the opinion that Ukraine should not be a part of North Atlantic Treaty Organization (NATO), seems like our President agrees. That is appeasement.

I am really concerned about the President's approach to Russia. When on—just yesterday, we had a U.N. resolution blaming Russia for its encroachment, its invasion of Ukraine. We voted against that resolution, The United States of America. In 2023, a similar resolution was presented. We voted for it. Has so much changed in such a short period of time that we would now support Russian aggression?

I am concerned about China. My colleagues on both sides have made good points, but we cannot overlook the fact that China and Russia are in bed together. After China abstained yesterday on this resolution condemning Russia, President Xi Jinping called—called Putin, President—called him and explained, I am with you, we are neighbors.

There has to be some concern shown for what is happening with this country as it relates to Russia and the way we are turning our back on our allies.

What has Canada done to deserve this sort of treatment? Canada has been a loyal, faithful ally of the United States for years upon years, yet we find ourselves now cozying up to Putin directly. I am not sure that there is a lot of space between the efforts to cozy up to China with the President.

Here is my question, and I will ask the question of—I am hoping that I will pronounce your name correctly, sir. Let us see. I have it here. At the very end. Yes, sir, would you pronounce your name for me, sir?

Dr. DOSHI. Dr. Doshi, sir. Thank you.

Mr. GREEN. Okay. Thank you, sir. My question to you, sir. What signal did we send yesterday when we voted to oppose blaming Russia for the invasion of Ukraine?

Dr. DOSHI. Thank you, Congressman, for the question.

I think China was watching that very closely. They are interested in whether or not we will successfully pry Russia from China. I think, as you note, that is very hard to do, and we might be sending the signal that we would not necessarily stand with Taiwan if the question were called.

Thank you.

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

Mr. MEUSER. The gentleman yields.

The gentleman from Wisconsin, Mr. Steil, Chair of the Subcommittee on Digital Assets, Financial Technology and Artificial Intelligence, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Mr. Chairman.

Thank you all for being here. This is a really important hearing.

I want to start with you, Mr. Mühleisen, if I can. In your testimony today, you spoke about the importance of the U.S. dollar being the world reserve currency, how we maintain that position. We are seeing advancements in China in artificial intelligence, in AI, a position where the United States has really been a leader for some time. As we look at the development of Web 3.0, as we look at the need for the future in the financial services space, I think we have to focus on what is going to make sure that the United States maintains its dominant position.

If we look back to Web 1, Web 2.0, what you saw was a development that occurred inside the United States. Whatever your issue is with Big Tech, and I have plenty of them. One of them, with one exception really being TikTok, is that these tech companies are at least domiciled in the United States. Whether or not that is Google or Amazon, et cetera, they are domiciled here. If we do not have rules and regulations of the road, we risk allowing other countries to move forward to being—and to outcompete the United States. It needs to be a premise, I believe, for policymakers here to make sure that we are outcompeting other countries, and in particular China.

The question that I would have for you as it relates to China specifically is, what regulatory approaches are they taking that can impact their financial services markets or U.S. consumers?

Mr. MÜHLEISEN. I am not an expert on the Chinese financial system, but it would behoove China as a big player to make sure—also for the stability of its financial institutions—to make sure that the investments are sound and that they follow international standards. China's financial sector has many weaknesses, because of the crisis from the real estate sector, and the market for artificial intelligence, cryptocurrencies and the like is very volatile. From a prudential perspective that would also minimize the potential spillovers to the rest of the world, one would hope that China adopts very prudential regulations and enforces those.

Mr. STEIL. They are not today, right? I think that is one of the big distinctions is that they are not really enforcing in a manner that the U.S. markets are, which is a benefit to U.S. consumers and U.S. investors, right?

Mr. MÜHLEISEN. I do not know exactly what standards you mean that they are enforcing. Again, I do not know too much about the Chinese financial sector, per se.

Mr. STEIL. Okay. Let me shift and come to you, Mr. Cassara, if I can. You wrote an essay last year, "China's Digital Authoritarianism Is Coming Our Way." Can you just put a little meat on the bone on digital authoritarianism and what financial levers the CCP has at its disposal? There is a lot of discussion about

Central Bank digital currency, the concern of that. I share a lot of those concerns. Could you comment?

Mr. CASSARA. Thank you for the question. Yes, I am concerned as well about the Chinese development of the Central Bank digital currency. That is exactly why I wrote the article. There are various models, as you know, of Central Bank digital currencies. What concerns me the most is what I call the Chinese model, the authoritarian model, because they overlay it with social monitoring, social control, social scoring, intensive and intrusive surveillance.

Basically, they are doing this to control their population, and they can do this basically with the flip of a switch. They can demonetize a citizen. That individual is not able to get on a metro, not able to pay for their child's education, not able to buy groceries, this type of thing. It scares me from a civil libertarian perspective, and I do not want that model to be adopted here or anywhere else.

Mr. STEIL. I 100 percent share your concern. It is something that we are going to have to remain vigilant of to make sure that we do not allow our Federal Government in the United States to have that type of control.

In my final minute left, I want to come to you, Mr. Miller. AI is going to be critical for development of new technology here in the United States. A question that we are going to be looking at is how do we make sure that we are extending the Trump tax cuts in particular on the R&D or accelerated depreciation? In 20 seconds, could you explain the importance of that as it relates to financial services?

Mr. MILLER. Yes, absolutely. We should be doing everything we can to incentivize R&D, including through the Tax Code. Every dollar saved, quite frankly, through taxes is being plowed by American companies back into innovation.

Mr. STEIL. In the final 5 seconds, you would agree that it has a direct impact on the investment that is needed for AI and the technology——

Mr. MILLER. Yes, absolutely.

Mr. STEIL. Thank you very much, Mr. Chairman. I yield back.

Mr. MEUSER. The gentleman yields.

The gentleman from Nebraska, Mr. Flood, the Chairman of the Subcommittee on Housing and Insurance, is now recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman.

Maybe somebody has bugged the doors to this chamber. They seem to keep opening on their own today.

Mr. Cassara, in your testimony, I found it was interesting. You wrote at length on customs fraud, which is when an importer and exporter work together to misrepresent the value of goods transferred for illicit reasons. Now, given President Trump's interest in using tariffs on Chinese goods, I would imagine that customs fraud could become even more common the next 4 years.

Do you agree with that assessment? How would authorities work to combat that, and particularly, how would we combat that from Chinese vendors looking to avoid tariffs?

Mr. CASSARA. Thank you for the question. I believe that trade-based money laundering and value transfer is probably the largest, most pervasive money laundering methodology in the world today,

if you take into consideration all the various iterations of it and various models.

As far as countermeasures go, it is very hard, because what happens is the occasional illicit transaction gets intermingled with the overwhelming licit trade transactions. Because trade volume is so high, it is very, very difficult to pick out those isolated illicit transactions. Nevertheless, the volume of trade being so high, the amount of trade-based money laundering (TBML) is off the charts, and we do not have good countermeasures in place.

The best countermeasure, in my estimation, is something I came up with a number of years ago that was adopted by the U.S. Government, and that is the formulation of trade transparency units, or TTUs, looking at customs data between countries, spotting those anomalies between trade. It is going to be very, very problematic, particularly with countries like China, but it is something we have to look at.

Mr. FLOOD. Thank you. I appreciate that.

One of the things I find very interesting about China's extension of credit to these developing nations is that it has led to a serious default risk. Sixty percent of China's overseas lending was owed by countries experiencing debt distress in 2022, but yet they are all over the African Continent. They are expanding their reach.

Mr. Mühleisen, at some point inability to pay back hefty loans will start to become a problem for China, but they can also use their loans as leverage to obtain unrelated concessions from developing nations. Is seeking troubled customers for their loans a feature or a bug as it relates to China's global strategy?

Mr. MÜHLEISEN. I would say that looking for geopolitical allies in developing countries and emerging markets is a feature. Putting countries into debt distress, I do not want to say it is a feature. It is probably a bit more than a bug. It is maybe carelessness. It is certainly something that, as I said in my statement, China should be held responsible for. I have various proposals there, especially the IMF's Lending Into Official Arrears Policy.

Mr. FLOOD. Do you think that—how should that change our national strategy around international finance? Should we be more aggressive ourselves or is China's strategy unsustainable in the long term?

Mr. MÜHLEISEN. China will certainly take losses from its strategy, like many countries before it has already done over the last century. The growing demand or the demand for these loans also reflects a big need on the part of the recipient countries. The United States has a chance to leverage its own capital into international financial institutions by extending loans to these countries to compete, but also by using these institutions to provide not necessarily monetary incentives but other geopolitical incentives or trade incentives to get back into closer relations with low-income and developing countries. There is a need to compete, because right now there is one kid on the block with a lot of money in its pockets, and they are spending it like crazy.

Mr. FLOOD. I am going to stop you right there. I just want to say before my time is up, thank you for the discussion. On one hand, it is clear that many Americans are not interested in further extending our global reach and feel we need to be more focused on

what is happening here at home. I understand that sentiment, but China is not going to sit back. China will be aggressive in expanding their influence through whatever means they have available, and I am interested in working to figure out what we can do to project American power in a way that is cost effective and sensible without running afoul of legitimate sentiments of many that we need to remain focused on what is going on at home.

With that, Mr. Chairman, I yield back.

Mr. MEUSER. The gentleman yields.

The gentleman from Indiana, Mr. Stutzman, is now recognized for 5 minutes.

Mr. STUTZMAN. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here today. A very important topic and interesting topic, and one that obviously is going to affect not only us but future generations here in America.

Mr. McMurray, I would like to come to you and talk a little bit about how energy security is national security. My district in Northeast Indiana, we are a heavy manufacturing and agricultural (AG) district. We have a heavy footprint, and so we rely on an abundance of energy of all types. We just actually had a Google announcement. They are going to put in a data center in the district which consumes a lot of energy, and so there is concern about our ability to maintain and sustain strong energy supply and dependence and sustainability.

We have—generally, in Indiana, we rely on affordable energy, but lately we felt some pain after the previous Administration. I am really looking forward to working with my colleagues in Congress to make sure that we here in the United States dominate in the energy supply and production. As we saw, President Trump took significant steps to move us in that direction.

I would like to talk to you or ask a little bit about the IFIs like the World Bank. What disadvantages do U.S. energy companies currently face in their attempt to secure international energy financing projects?

Mr. McMurray. Yes. Thank you, Congressman. As you said, energy security is national security. Right now, we need to make it easier for U.S. companies to be able to build and compete abroad. Right now, that is very challenging when it comes to different state-owned enterprises that can offer very lucrative financing packages and leveraging either our institutions, such as EXIM Bank or DFC or entities like the World Bank can help put our companies on a level playing field.

Now, there is a big opportunity this Congress with both EXIM Bank and DFC needing to be reauthorized to give them more tools so U.S. companies can compete, which will also have direct benefits for U.S. jobs.

Mr. STUTZMAN. Do the Chinese firms or in the state-backed energy firms, do they face similar disadvantages?

Mr. MCMURRAY. In some cases, no. They do not comply by Organization for Economic Co-operation and Development (OECD) rules so they can offer financing packages that are more competitive than what other countries can offer. That is also where entities like CTEP, China Transformational Exports Program, part of EXIM

Bank, and the DFC are tailored to be able to try to compete with those financing packages.

Mr. STUTZMAN. I mean, we know China plays by their own set of rules. Any suggestions or any reforms that you would suggest needed here in the United States to maintain and to outpace China?

Mr. MCMURRAY. Yes. I think, first, domestically we have to make it easier for U.S. companies to be able to build. In many cases, countries are going to want to see projects built in the United States before they are sold abroad. That requires improving the permitting system. That require continued investments in support to innovative companies through the Department of Energy and the national labs, and then it requires predictability for these companies to be able to make investments in the long term.

Looking globally, that is where the upcoming reauthorization has the ability to kind of sharpen some of those tools to expand eligible technologies that EXIM Bank is able to support, also make it very clear of what is the right metric or outcome that EXIM Bank should be focused on, such as jobs. Taking that together can really help U.S. companies compete globally and ensure that the United States is a player when it is looking—when it is considered by other countries.

Mr. STUTZMAN. Yes. I know that in Indiana, of course, we used to be a coal-producing State, a lot of coal power, and now we are shifting more to natural gas. A lot of talk about nuclear. It seems like the permitting process is always the piece that hangs us up. Can that be streamlined? What can be done to make our permitting process better?

Mr. MCMURRAY. Yes. Indiana's Governor is making great strides in trying to attract nuclear to the State, and as well as working with other States, which I think is a really exciting opportunity to——

Mr. STUTZMAN. Yes.

Mr. MCMURRAY—deploy nuclear here in the United States.

As for the permitting process, I used to work at the Nuclear Regulatory Commission, so there have been a lot of prog-—there has been a lot of progress at the NRC, U.S. Nuclear Regulatory Commission. There has also been a lot of bipartisan support in Congress to improve the licensing process. Just last Congress, both the House and the Senate enacted, with overwhelming bipartisan support, the Accelerating Deployment of Versatile Advanced Nuclear for Clean Energy (ADVANCE) Act. The Energy and Commerce's bill, the Atomic Energy Advancement Act, really tried to tailor a couple of key provisions to improve the licensing and permitting process at the NRC so those companies can have better outcomes and better predictability.

Mr. STUTZMAN. Yes, thank you. I appreciate your comments. I just know that we have the ability, we have the know-how, we have everything in place. We just need to make sure government does not stand in the way of progress, and we need to continue to make sure our nuclear power is at the forefront of our minds, and we can outpace China.

Thank you. I yield back.

Mr. MEUSER. The gentleman yields.

The gentleman from Iowa, Mr. Nunn, Vice Chair of the Subcommittee on National Security, is now recognized for 5 minutes.

Mr. NUNN. Thank you, Mr. Chairman, and appreciate you all joining us for this very important conversation on China and its role in the world.

I am coming at it from a decade-plus as a counterintelligence officer working out of facilities, running operations in Guangzhou. I now serve on the China Select Committee.

We have all seen firsthand how dangerous China can be in its predatory lending practices. Here in the United States, we very much support an open opportunity for free trade for mercantilism for the opportunity for an entrepreneur to really take off. Obviously, China has a much more opaque, closed system, one that not only suppresses its own population, but one that will cannibalize its own industry and that of others to try and effectively take over countries and how they operate.

We have seen this since 2017 as China being the world's largest official creditor, and this is concerning to the global financial system, because it is cheap, it is predatory. Its infrastructural aids aim to buy up global influence, undercut other countries, export and distort international trade. I mean, if this was a used car company, it would have been shut down a long time ago.

The reality is here that they have been able to lead an entire initiative, the Belt and Road Initiative, that has targeted a number of areas specifically of interest to China and developed nations, now over 10 percent of their GDP to the Chinese State. Pakistan owes China $77 billion and climbing, Sri Lanka, $11 billion, and Kenya, $9 billion. The list goes on and on, all areas where China has purchased and now owns its way to controlling these countries and certainly their governments.

The time to combat China, I think we all agree, is not yesterday, but it is today. It is not in the next 10 years. The greatest threat from China is not its military. I would offer, Mr. Chairman, it is their economic tactics, including intellectual property theft to drain skills and inventions created right here in the United States, as well as pull our trade jobs and other profits outside of our country. It is one of the reasons I am so proud to be working with this committee on a bill that I led called the Neutralizing Unfair Chinese Subsidy Act of 2025. It is to counter China's predatory lending practices.

Now, Mr. Mühleisen, you are an expert on Chinese lending. Do you agree that we need a strategy here in the United States to combat these destabilizing tactics and ensure that China follows OECD's arrangement on officially supported export credits?

Mr. MÜHLEISEN. I agree with what you just said about what happens, and also, I agree with what you just proposed.

Mr. NUNN. Talk to us a little bit. When we talk about neutralizing unfair Chinese subsidies, how China has done this not just in the past but how it continues to be a predatory lender in this space.

Mr. MÜHLEISEN. China has pursued two objectives. First, it wanted to export its construction services to generate jobs at home; and second, it acquired strategic advantages in exchange for its loans from many countries. It has not, in my opinion, shrunk back

from all sorts of means to sway decisions into Chinese companies getting orders, but it also has affected the quality of the projects, and I think it is backfiring on China.

Countries would, I think, prefer not to have to pay a lot of money for projects that are either not really providing an economic return or have to be repaired and replaced within a short period.

Mr. NUNN. Absolutely right. In fact, it ends up costing everybody more in the long run.

Mr. Miller, you are a leader here when it comes to addressing what America does, I think, very well in the world, competitive bids, being able to grow, harnessing innovation in a way that really takes off. It is one of the reasons why nine of the top ten companies valued at over $1 trillion reside right here in the United States. How many reside in China? Zero. That is a direct result of a state-owned entity which capitalizes on everything.

I think that there is no accident here that the free market helps us foster our innovation. Could you explain the importance of strengthening our American markets on the international scene with the time that we have left?

Mr. MILLER. Sure, I would be happy to do that. I mean, you are absolutely right that—to say that we need to focus on economics and economic security and not just view China as a national security threat, again, not understating that at all. We really need a balanced and holistic approach to this entire set of issues. We released a paper today on economic security that offers 10 recommendations dealing with everything from sanctions and investment reviews to trade policy and other innovation-friendly policies, and we really need to double down on our strengths.

You were not here for the chair's opening statement, but he mentioned that beating China means doubling down on U.S. strengths, and I completely agree with that.

Mr. NUNN. Mr. Miller, I yield my time back just to say thank you for providing a playbook that this government can start using today.

With that, I yield my time. Thank you, Mr. Chair.

Mr. MEUSER. The gentleman yields.

We would like to thank all the witnesses for your testimony today.

Without objection, all members will have 5 legislative days to submit additional written questions for the witnesses to the chair. The questions will be forwarded to the witness for his response. Witnesses, please respond no later than March 31, 2025.

[The information referred to can be found in the appendix.]

This hearing is adjourned.

[Whereupon, at 1:46 p.m., the committee was adjourned.]

APPENDIX

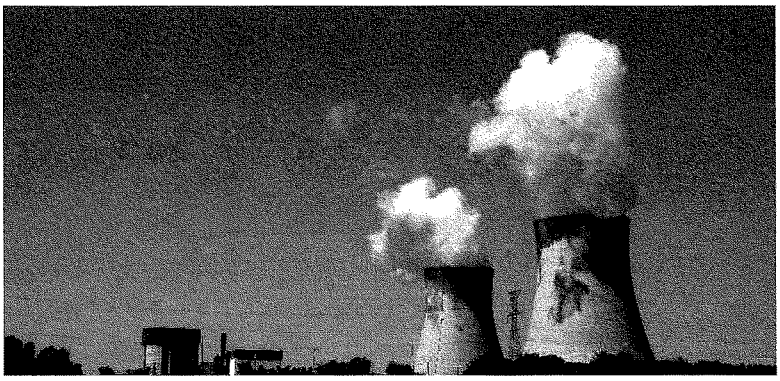
MATERIALS SUBMITTED FOR THE RECORD

TRENDING: ELON MUSK EMAIL OPM DAN BONGINO DEMOCRAT DONORS SPONSORED:

Build back nuclear

BY REP. FRENCH HILL (R-ARK.), OPINION CONTRIBUTOR - 03/01/21 1:00 PM ET

FOLLOW ON Google News



Getty Images

With the U.S. rejoining the Paris Agreement last Friday, it's puzzling to see what President Biden has actually announced he'll do to meet its goals. Mr. Biden seems to believe that adding boxes to a bureaucratic org chart and mingling with foreign officials at conferences may avert an environmental crisis: an executive order from his first week in office creates a White House envoy, a new Climate Policy Office, an international photo op branded as the Leaders' Climate Summit, and a heap of "draft action plans" for a government task force to review. This month also brought news that the Biden Treasury Department would set up a "climate hub" among its ranks. Draft actions plans don't write themselves, after all.

But hidden in this strategy, such as it is, lies one idea of consequence, and that is the president's goal to finance lower emissions in developing countries through organizations like the World Bank. While the Bank already seeks to do this, its hands have been tied in an area where it could make an enormous difference: nuclear energy. For the president's climate plan to be serious, it should prioritize nuclear support through the Bank and the other multilateral lenders where the U.S. is a top shareholder.

While rich countries' carbon output is largely flat, the developing world's emissions are only projected to grow unchecked. The U.S. and Europe, responsible for nearly all emissions at the turn of the 20th century, now only account for one third. Wealthy nations may be the

carbon electricity. The main risks connected with nuclear arise when retreating from it, not embracing it. For instance, after a 2011 tsunami hit Japan's Fukushima reactor, leading the country to temporarily take its nuclear power plants offline, fossil fuel usage and electricity prices surged, resulting in more deaths for the country than from the disaster itself. Researchers have shown that Germany overreacted to Fukushima too, shutting down some of its reactors and incurring $12 billion in social costs each year, mostly through increased mortality from higher levels of air pollution.

Not only does nuclear energy release no carbon emissions, innovations continue to minimize the waste it leaves behind. One recent breakthrough at the Argonne National Laboratory may permit up to 97 percent recycling of spent nuclear fuel. Other advances continue to strengthen power plants' safety, and in the case of modular reactors, they permit both smaller physical footprints and use with different energy sources.

Despite producing safe power with more reliability than solar or wind, nuclear hasn't benefitted from the same subsidies, and its financing is more complex since projects require massive upfront costs. This is why government-backed agencies are often called in to guarantee loans when building abroad. With Beijing and Moscow eyeing nuclear energy deals in South Asia, Africa, Eastern Europe, and even Latin America, it makes no sense for the U.S. to stay on the sidelines. For this very reason, Congress in 2019 eased restrictions at the Export-Import Bank when competing for nuclear deals against Chinese suppliers.

Yet the World Bank and its sister institutions across the globe can do even more. Not only is the Bank's lending more transparent than China's, it has the balance sheet and experience in developing countries to make an impact. It could also finance safer reactors based on U.S. and Japanese technologies.

Sign up for the Morning Report

The latest in politics and policy. Direct to your inbox.

Email address

SUBSCRIBE

By signing up, I agree to the Terms of Use, have reviewed the Privacy Policy, and to receive personalized offers and communications via email, on-site notifications, and targeted advertising using my email address from The Hill.

the Bank pursues a goal of universal access to electricity. This makes little sense. If the World Bank has to surrender its expertise in fossil fuel lending, surely it can restore its know-how in nuclear finance.

Breaking ground on new infrastructure is better than endless handwringing. Years of climate talks have emitted pledges to coordinate the vaguest of environmental efforts; the Paris Agreement itself attempts to "enable opportunities for coordination," whatever that means. These discussions are becoming nothing more than mileage runs for the frequent flyers who attend them, not progress reports on the building spree that the world will need to thrive with ample clean energy. It's time to go nuclear or go home.

Congressman French Hill is a Republican representing the 2nd District of Arkansas. He is a member of the House Financial Services Committee, which oversees U.S. policy at the World Bank and other international financial institutions.

Copyright 2024 Nexstar Media Inc. All rights reserved. This material may not be published, broadcast, rewritten, or redistributed.

FOLLOW ON Google News

SPONSORED CONTENT

Privacy Policy

Amazon's Worst Nightmare: Thousands Canceling Prime for This Clever Hack
Online Shopping Tools | Sponsored

All-Inclusive Luxury for Adults in Punta Cana
Palladium Hotel Group | Sponsored

The most relaxing Farm Game. No Install
Taonga: The Island Farm | Sponsored

Play Now

Arkansas Democrat Gazette

OPINION: Guest writer

OPINION | FRENCH HILL: Our energy future

Look to Russellville's Nuclear One

January 16, 2025 at 9:10 a.m.

by French Hill Special to the Democrat-Gazette

In December, Arkansas Nuclear One, Arkansas' only nuclear power plant, celebrated its 50th year of commercial operations. This milestone comes at a consequential moment for American energy. Across the country, energy demand is growing, fueled by data-center expansion, increased broad-based electrification, and the onshoring of American manufacturing.

By the end of the decade, the U.S. Energy Information Administration anticipates nationwide electricity use to increase by approximately 15 percent and necessary load growth to increase five-fold. Overall, the electricity intensity of the United States is expected to increase for the first time since the 1990s, up to 23 percent by 2040.

While the increase in electricity demand is an indicator of strong economic growth, working to meet that energy demand comes with challenges. Namely, how the United States can deliver electricity at an unprecedented scale, reliably, and affordably for everyday Americans, while also working toward lowering overall emissions.

Some key steps Congress can take are the greater use of safe, clean nuclear power plants around the country and the proper modernization of the grid.

Nuclear offers a reliable, carbon-free source of "base load" power that is both controllable and constant. While I believe in an all-of-the-above energy policy, renewable power, such as solar and wind, often runs into intermittency and land-use issues.

Nuclear, on the other hand, is incredibly efficient and operates on small amounts of land compared to wind or solar farms. Any serious conversation about the significant adoption of clean energy must include nuclear.

Currently, more than half of Arkansas' electricity comes from Arkansas Nuclear One and, nationwide, about 20 percent of electricity is generated by nuclear power. That share is only set to increase.

Last May, I supported the Accelerating Deployment of Versatile, Advanced Nuclear for Clear Energy (ADVANCE) Act, which overwhelmingly passed the House. This legislation is critical in helping develop and deploy new nuclear technologies, preserving existing nuclear-energy generation, providing the Nuclear Regulatory Commission with fewer regulatory burdens, and creating private-public partnerships in the development of new, advanced reactors.

Congress needs to continue to take up and advance legislation like the ADVANCE Act to ensure there are available reactors in the near future until more advanced reactors and small modular reactors (SMRs) can be scaled for commercial use in the decades to come.

Additionally, the United States should continue to promote the export of American small modular reactor technology and work to decrease the cost of reactors generally. SMRs offer the energy benefits of traditional nuclear reactors but with a smaller physical footprint, making them prime candidates for locations not large enough for traditional nuclear power plants.

As our adversaries like China and Russia offer energy solutions to the developing world, the United States should lead in providing these advanced, safe, and efficient nuclear technologies to nations looking to expand their power grids, as well as finding ways to decrease the cost of construction or extension of nuclear in the United States.

This leads to our domestic goal of effective modernization of the grid. It is no secret that our energy needs are fast outpacing infrastructure growth. No matter what the energy mix of the future looks like, Congress must continue to work with states and utility stakeholders to deliver on the projects needed to ensure more efficient transmission for America's electricity.

As electricity needs increase and the world's economically developed and developing nations transition away from coal, nuclear remains a key bipartisan solution to helping address the United States' growing energy demand.

None of America's strategic needs--bringing critical manufacturing back to the United States, strategic readiness amid an ever-changing global landscape, or anything in between--are possible without the abundant and affordable energy to power it.

To continue to put America first, Congress and President Trump must work to support nuclear energy and its development because, without this investment, we risk falling behind in the race for innovation, jobs, and economic growth.

U.S. Rep. French Hill represents Arkansas' 2nd District.

G:\M\19\HUIZEN\HUIZEN_011.XML

[~116H6086]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To hold China, Russia, and other major shareholders of the International Monetary Fund accountable to the principles of the Fund, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. HUIZENGA introduced the following bill; which was referred to the Committee on _____

A BILL

To hold China, Russia, and other major shareholders of the International Monetary Fund accountable to the principles of the Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "IMF Reform and Integrity Act of 2025".

SEC. 2. OPPOSITION TO QUOTA INCREASE FOR COUNTRIES THAT UNDERMINE IMF PRINCIPLES.

The Bretton Woods Agreements Act (22 U.S.C. 286–286zz) is amended—

(1) by redesignating the 2nd section 73 (as added by section 1901 of division P of Public Law 116–94) as section 74; and

(2) by adding at the end the following:

"SEC. 75. OPPOSITION TO QUOTA INCREASE FOR COUNTRIES THAT UNDERMINE FUND PRINCIPLES.

"(a) IN GENERAL.—Not less than 7 days before consideration of any proposal to increase the quota of a foreign member of the Fund that is one of the 10 largest shareholders in the Fund, the Secretary of the Treasury shall submit a report to the Committee on Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate that determines whether the foreign member meets the following criteria:

"(1) The member is in compliance with all obligations set forth in Articles IV and VIII of the Articles of Agreement of the Fund.

"(2) The member, in the preceding 12 months, was not found to have manipulated its currency, as determined in a report required by section 3005 of the Omnibus Trade and Competitiveness Act of

1988 or section 701 of the Trade Facilitation and Trade Enforcement Act of 2015.

"(3) The member is committed to the rules and principles of the Paris Club and the OECD Arrangement on Officially Supported Export Credits.

"(b) EFFECT OF DETERMINATION.—On determining that a member of the Fund has failed to meet any of the criteria set forth in subsection (a), the Secretary shall instruct the Governor of the Fund to use the voice and vote of the United States to oppose the proposal to increase the quota of the member in the Fund.

"(c) WAIVER.—The President may waive subsection (b) with respect to a member of the Fund on reporting to the Committee on Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate that the member is attempting to rectify the failure, with a description of the actions the member is taking to fulfill any unmet criteria.

"(d) PROHIBITION.—Notwithstanding subsection (c), the Governor of the Fund may not use the voice or vote of the United States to support a proposal to increase the quota of a member in the Fund if the President of the United States has determined that the government of the member has, at any time in the preceding 12 months—

"(1) committed acts of genocide; or

"(2) repeatedly provided support for acts of international terrorism. .

"(e) PROPOSAL CONSIDERATION.—For the purposes of this section, consideration of a proposal to increase the quota of a foreign member of the Fund does not include consent to an amendment to the Articles of Agreement of the Fund that has been authorized by law.

"(f) SUNSET.—This section shall cease to have force or effect 10 years after the date of the enactment of this Act.".

SEC. 3. OPPOSITION OF THE UNITED STATES TO INTERNATIONAL MONETARY FUND LOAN TO A COUNTRY WHOSE PUBLIC DEBT IS NOT LIKELY TO BE SUSTAINABLE IN THE MEDIUM TERM.

(a) IN GENERAL.—Section 68(a) of the Bretton Woods Agreements Act (22 U.S.C. 286tt(a)) is amended—

(1) in paragraph (2), by inserting after the comma the following: "or a staff analytical report of the Fund states that there is not a high probability that the public debt of the country is sustainable in the medium term,"; and

(2) by adding at the end the following:

"(3) WAIVER AUTHORITY.—The Secretary of the Treasury may waive paragraph (2) on a case-by-case basis if the Secretary provides a written certification to the Committee on Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate that the waiver is important to the national interest of the United States, and includes with the certification a written statement of the reasons therefor.".

(b) SUNSET.—This section shall cease to have force or effect 10 years after the date of the enactment of this Act.

SEC. 4. CONGRESSIONAL NOTIFICATION WITH RESPECT TO EXCEPTIONAL ACCESS LENDING.

(a) IN GENERAL.—The Bretton Woods Agreements Act (22 U.S.C. 286–286zz), as amended by section 2 of this Act, is amended by adding at the end the following:

"SEC. 76. CONGRESSIONAL NOTIFICATION WITH RESPECT TO EXCEPTIONAL ACCESS LENDING.

"(a) IN GENERAL.—The United States Executive Director at the International Monetary Fund may not support any proposal that would alter the criteria used by the Fund for exceptional access lending if the proposal would permit a country that is ineligible, before the proposed alteration, to receive exceptional access lending, un-

less, not later than 15 days before consideration of the proposal by the Board of Executive Directors of the Fund, the Secretary of the Treasury has submitted to the Committee on Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate a report on the justification for the proposal and the effects of the proposed alteration on moral hazard and repayment risk at the Fund.

"(b) WAIVER.—The President may reduce the applicable notice period required under subsection (a) to not less than 7 days on reporting to the Committee on Financial Services of the House of Representatives and Committee on Foreign Relations of the Senate that the reduction is important to the national interest of the United States, with an explanation of the reasons therefor.".

(b) SUNSET.—This section shall cease to have force or effect 10 years after the date of the enactment of this Act.

Congress of the United States
House of Representatives
Washington, DC 20515

February 4, 2025

The Honorable Scott Bessent
Secretary
U.S. Department of the Treasury
1800 F Street NW
Washington, DC 20405

Dear Secretary Bessent:

We write to you in your capacity as our nation's 79th Treasury Secretary and as Chairman of the Committee on Foreign Investment in the United States (CFIUS). As members of the House Financial Services Committee, we remain deeply concerned with recent reports that Chinese Communist Party (CCP) sponsored hackers infiltrated CFIUS office networks as a result of a broader attack targeting the Treasury Department. We cannot allow adversarial actors, like China, to erode U.S. national security advantages with breaches of our critical infrastructure. Now confirmed, we urge you to take a proactive approach to combat future attacks and ask for your firm commitment that CFIUS will continue to aggressively safeguard against foreign threats—particularly those posed by the CCP.

The rapid growth in CCP-backed hacking incidents highlight the importance of having robust cybersecurity protections within the Treasury Department. We are encouraged by your remarks that national security and economic security are inextricably linked—a sentiment shared widely by members on both sides of the aisle. Especially because it speaks to the view that Treasury is in fact a national security agency tasked with protecting critical infrastructure, sensitive information and intellectual property (IP), from espionage or other illicit activities.

The potential for CCP-backed hackers to exploit vulnerabilities in the CFIUS security framework has never been greater. Reports indicate a marked increase in efforts by Chinese hackers to infiltrate U.S. government networks and other classified systems—often with the backing of the Chinese government. These actions disadvantage CFIUS and undermine the integrity of the committee's work. They not only pose a threat to the hard-working personnel who fall victim to attacks but more importantly, to our national security and economic sovereignty. As Secretary, you will be responsible for ensuring CFIUS continues to play a leading role in reviewing transactions that could result in foreign control of U.S. businesses. Companies that are party to CFIUS transactions expect their IP, trade secrets, and investment data to be stored safely. We trust you will maintain this standard to ensure CFIUS is well-equipped to counter future security breaches.

The consequences of failing to address this issue are dire. The latest CCP-sponsored espionage breach led to the theft of valuable agency documents and stolen personnel information. As such we urge you to enhance cybersecurity measures, including by adopting the latest encryption technologies and robust network security protocols to secure communications and data related to

foreign investment reviews. Prioritizing regular security audits and penetration testing can help identify and address vulnerabilities before they can be exploited.

As chairman of the committee, you will also be uniquely positioned to advocate for new and innovative initiatives. We encourage you to foster increased collaboration between CFIUS and cybersecurity experts from both the public and private sectors. Building strong partnerships with leading cybersecurity firms and tech companies can provide CFIUS with advanced threat intelligence and cutting-edge technologies to defend against potential cyber intrusions. By leveraging the expertise of these organizations, CFIUS can stay ahead of evolving CCP-backed threats and reinforce its protective measures.

CFIUS must prioritize the training of personnel on cybersecurity awareness and protocols. It is vital that all employees understand the risks associated with cyber threats and are equipped with the knowledge to identify suspicious activities. Regular training sessions and simulations can prepare staff to respond faster and more effectively to potential breaches. Additionally, we urge you to improve the parameters and oversight standards over service providers and request your continued focus on preparing cybersecurity personnel to identify potential Chinese threats.

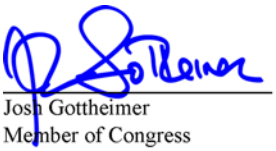
Moreover, we encourage you to advocate for any and all necessary support from Congress in the resources allocated to CFIUS. With the rising number of foreign investments and transactions requiring scrutiny, it is essential that CFIUS has the manpower and technological capabilities to effectively assess and address potential risks. As you know, the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 granted CFIUS new powers over particular foreign direct investments by Chinese investors. FIRRMA included new funding for CFIUS to gain additional staffing, longer review periods, and provided new enforcement authorities. In just six years, CFIUS has gained significant importance within the U.S. national security apparatus as an effective tool to combat Chinese espionage. Investing in advanced analytical tools and hiring additional experts in relevant fields will allow for a more thorough and timely review process—it will also guarantee that CCP-backed hackers have fewer avenues to succeed.

As we face an ever-evolving landscape of foreign threats, it is imperative that we strengthen Treasury Department defenses against Chinese espionage and CCP-sponsored cyber breaches. We respectfully urge you to lend your strong support to CFIUS and its critical mission. Thank you again for your attention to this important matter and we look forward to working alongside you and President Trump's Administration to protect our national security interests.

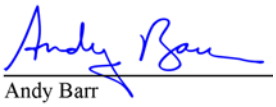
Sincerely,

David Scott
Member of Congress

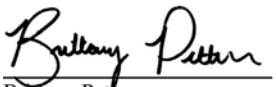
Frank D. Lucas
Member of Congress



Josh Gottheimer
Member of Congress



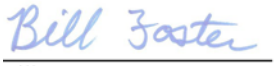
Andy Barr
Member of Congress



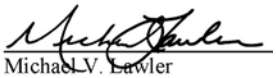
Brittany Pettersen
Member of Congress



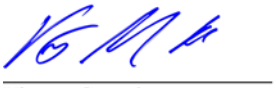
Dan Meuser
Chairman
Subcommittee on Oversight
and Investigations



Bill Foster
Member of Congress



Michael V. Lawler
Member of Congress



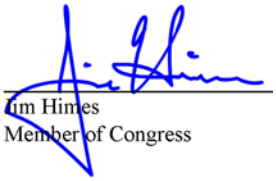
Vicente Gonzalez
Member of Congress



Pete Sessions
Member of Congress



Tim Moore
Member of Congress



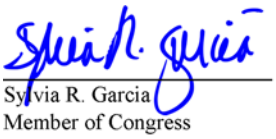
Jim Himes
Member of Congress



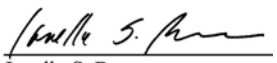
Maria Elvira Salazar
Member of Congress



Joyce Beatty
Member of Congress



Sylvia R. Garcia
Member of Congress



Janelle S. Bynum
Member of Congress



Al Green
Member of Congress



Emanuel Cleaver, II
Member of Congress



Sam T. Liccardo
Member of Congress

THE AMERICAN PROSPECT IDEAS, POLITICS & POWER

Elon Musk's China Threat

The shadow president has deep ties to the Chinese dictatorship, and it shows. The risk to national security is unimaginable.

BY RYAN COOPER FEBRUARY 10, 2025

1.4k
Shares



WANG YE/XINHUA VIA AP

Elon Musk meets with Chinese Premier Li Qiang in Beijing, April 28, 2024.

Listen to this article now 1.0x
Powered by **Trinity Audio**
00:00 07:45

Thus far in President Trump's second term, shadow president Elon Musk's rampage through America's basic constitutional structure has gotten extensive coverage in the press. It is becoming clear that Musk and his goon squad of tech bros in their early twenties are attempting to seize direct control of the system by which the federal government disburses more than $5 trillion in payments annually, apparently so they can pick and choose who and what gets funded. And they have rifled through personnel files, scientific data involving health care and the environment, and bunches of other government information, for purposes of either propaganda or opposition research.

But there is another aspect to Musk's rule in Washington that is partly flying under the radar: the national-security threat, particularly regarding China. Musk has huge and extensive connections to the Chinese dictatorship, both personally and through his businesses, and he has a long history of bending over backwards to appease its desires.

More from Ryan Cooper

Now, national security has often been the justification for terrible crimes in American history—illegal surveillance, toppling democratically elected governments, wars of aggression, and so on. But that doesn't mean the idea is meaningless. Nations like Russia, North Korea, and yes, China have carried out espionage attacks on the United States government and American citizens alike. It doesn't make one Paul Wolfowitz to think that a man subject to stupendous influence from a sinister foreign dictatorship should not

have unilateral control over the Treasury Department's payments system.

Musk's ties to China largely revolve around Tesla. The company's largest factory is in Shanghai, where it produces half—over 900,000—of its vehicles sold worldwide. One source estimated that nearly 40 percent of Tesla's battery supply chain relied on Chinese companies, and those relationships are growing. In 2022, Tesla opened a showroom in Xinjiang, where China is conducting a cultural genocide against its Uyghur minority. Tesla then built a large battery factory in 2024, also in Shanghai. It seems Musk likes the hyper-repressive Chinese labor system; he praised his Chinese employees for burning the "3 a.m. oil" in 2022.

Tesla has also received large government subsidies, both tacit and explicit, from the Chinese state. It was the first and so far only foreign car company allowed to operate by itself in the Chinese market, as opposed to others like Volkswagen that had to form a joint venture with a Chinese company. Tesla has also secured more than half a billion dollars in loans from state-owned banks there, as well as a 10 percentage point break on its corporate tax rate that lasted until 2023.

> "Tesla has received large government subsidies, both tacit and explicit, from the Chinese state.

It's not a coincidence that China is also Tesla's largest market, and indeed has become more important to the company of late. While sales fell in Europe and the U.S. last year, and appear to be falling faster since Trump was elected (which is surely driven in large part by Musk's

Nazi antics), Tesla sold 657,000 cars in China in 2024—an increase of about 9 percent.

Given Tesla's heavy dependence on its Chinese investments, Musk's support for Trump's attack on Joe Biden's climate policies makes more sense. While Tesla's U.S. sales will suffer if the EV tax credit in the Inflation Reduction Act is reduced, its competitors will likely suffer more, because their EV investments are still in the early stages. But more importantly, the IRA contains requirements that EV components be sourced in North America if they are to receive the EV tax credit, which tighten over time. EVs could not qualify if they had batteries sourced from China in 2024, which was to extend to minerals in 2025, and graphite and other materials in 2027.

Trump has illegally blocked IRA funding, and has promised to repeal the law entirely. Whether he could get that through the Republican majority in Congress is an open question, but it may not matter if Musk simply seizes control of the IRS. Should that happen, the benefits for Tesla would be substantial, as it would not have to reshore any of its production.

Musk was also seemingly responsible for removing a number of controls on investment in China in the most recent government funding bill. Back in December, he personally blew it up out of nowhere with dozens of frantic posts on Twitter/X, and when a new version came through, wouldn't you know it, the controls were gone.

It similarly comes as no surprise that Musk has repeatedly praised China, and even offered support for its foreign-policy objectives. He has personally met with top Chinese officials and businessmen on many occasions over the years, including Chinese Premier Li Qiang, who personally gave Musk a Chinese green card at

Tesla's Shanghai factory, and President Xi Jinping. In 2022, Musk said Taiwan should be deemed a Hong Kong–style "special administrative zone" of China, for which he was thanked by the Chinese ambassador. In 2023, he said on CNBC there is a "certain inevitability" about China's goal of annexing Taiwan, and later that year said on a podcast that the island is an "integral part" of China. In 2024, Vladimir Putin reportedly asked Musk to not activate Starlink internet over Taiwan as a favor to China, and later SpaceX told its Taiwanese suppliers to leave the island.

During the 2024 campaign, Trump promised harsh tariffs on China as high as 60 percent or even more. After the election, *The Wall Street Journal* reported that Chinese officials were hoping that Musk would "ward off" these policies. After taking office, Trump attacked Mexico and Canada instead with 25 percent tariffs (though these have been paused for the moment), while China got just 10 percent. He has also frozen all foreign aid, including to Taiwan. Coincidence? I think not.

It should also be mentioned that Chinese law states that any company operating in China must hand over any data the government wants without question.

Finally, aside from Musk's titanic conflicts of interest and close ties to hostile foreign powers—which would unquestionably disqualify any ordinary person from even the lowest security clearance—there is the vulnerability he and his adolescent goon squad are creating by making so many wild, abrupt changes.

A big reason that changes to U.S. government computer systems have always been done slowly and carefully is the need to avoid opening up holes in their security systems. Even a small change can let in hackers, from foreign governments to simple criminals. Indeed, the

Treasury Department announced in December that it had been hacked by Chinese spies. Letting some fascist tech bro who is convinced everyone but himself is an idiot thrash around in the code of key government systems is so insane that even China itself might think twice about doing so—they'd want to steal data and money, not risk breaking a fifth of the American economy. "This is the largest data breach and the largest IT security breach in our country's history—at least that's publicly known," one federal IT expert told *The Atlantic*.

America is getting a painful, bludgeoning lesson in why there are so many federal rules around ethics, foreign associations, and security. The government is supposed to be accountable to the people, not the personal plaything of one ultra-billionaire and whatever dictators might be able to twist his arm.



RYAN COOPER

Ryan Cooper is the Prospect's managing editor, and author of 'How Are You Going to Pay for That?: Smart Answers to the Dumbest Question in Politics.' He was previously a national correspondent for The Week.

About the Prospect
/ Contact Info
Careers
Newsletters
Browse Archive /
Back Issues
Subscription
Services
Privacy Policy

DONATE TO THE PROSPECT



Copyright 2025 | The American Prospect, Inc. | All Rights Reserved

Built with Metro Publisher™

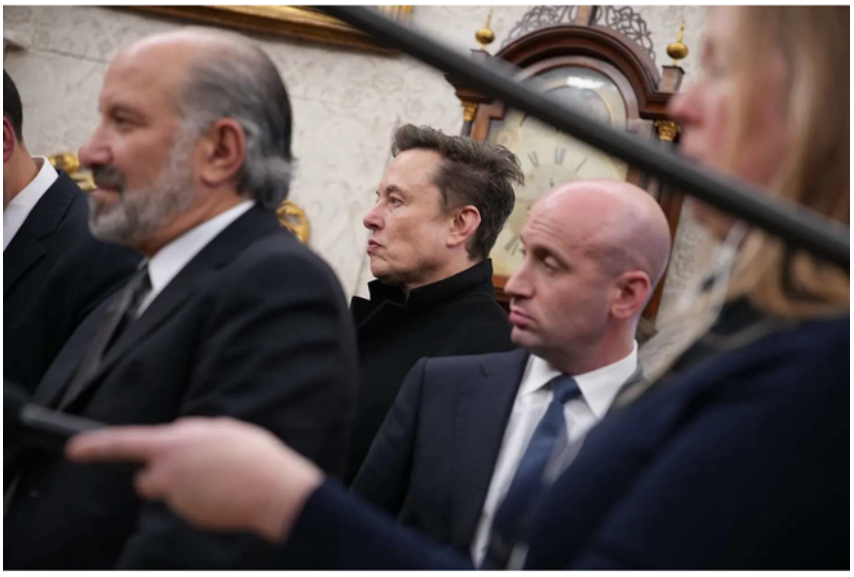
ANALYSIS

China May Welcome Elon Musk's Cuts

The tech mogul's Department of Government Efficiency has targeted some of Beijing's bugbears.



By James Palmer, a deputy editor at *Foreign Policy*.



FEBRUARY 18, 2025, 4:57 PM

View Comments (0)

Elon Musk's assault on U.S. federal government capabilities has been met with glee from Chinese nationalists and state media. Musk's Department of Government Efficiency has targeted some of Beijing's bugbears, such as the U.S. Agency for International Development (USAID) and the National Endowment for Democracy (NED).

Trump's Second Term

Ongoing reports and analysis

Multiple groups monitoring Chinese influence or human rights abuses have also been forced to freeze activities after losing federal funding. Musk, who has extensive business ties to China, has echoed conspiracy theories about USAID and NED that are also promoted by Beijing and Moscow.

This approach marks a stark contrast with Trump's first term, during which China hawks and aspiring cold warriors dominated. However, while the Trump administration freezes Chinese monitoring programs, closes down key cybersecurity programs, and purges the FBI, it is also throwing out moves that target Beijing.

Aside from fresh tariffs on Chinese goods and threats of more tariffs, U.S. intelligence is now promoting lab leak theories about the origins of COVID-19. But the major provocation is the U.S. State Department dropping language on its Taiwan fact sheet saying that Washington doesn't support Taiwanese independence, which has sparked a furious Chinese response.

Read more in today's China Brief: **Xi Sends Message to China's Private Sector**

James Palmer is a deputy editor at *Foreign Policy*. X: @BeijingPalmer

THE CONVERSATION
Academic rigor, journalistic flair



Elon Musk meets with Chinese Premier Li Qiang in Beijing on April 28, 2024. Wangye/Xinhua News

How Elon Musk's deep ties to – and admiration for – China could complicate Trump's Beijing policy

Published: February 24, 2025 8:41am EST

Linggong Kong
Ph.D. Student, Auburn University

Elon Musk holds an outsized influence in the new Trump administration.

As head of his Department of Government Efficiency, or DOGE, the world's wealthiest man has enjoyed nearly unfettered political power in slashing and refashioning the federal government as he sees fit. And it has quickly become clear that he has the president's ear on issues beyond that brief.

But on one topic, Musk stands somewhat apart from others in the coterie of aides and advisers around Trump: China. In contrast to the many hawks in the new Trump cabinet who call for a hard-line approach on China, Musk is a striking outlier.

As an expert on China-U.S. relations who has monitored Musk's views on China, I don't find his long history of espousing pro-Chinese sentiment surprising, given that he has sought throughout to get a business hold in the country.

But those entanglements are worth scrutiny, given Musk's role in the Trump administration at a time when one of America's biggest foreign policy challenges is how to manage its relationship with Beijing.

Musk's journey to the East

For years, Musk has had significant business interests in China, with Tesla's Shanghai factory, Tesla Giga Shanghai, playing a crucial role in the company's global operations.

Since its opening in 2019, the Shanghai plant has surpassed Tesla's Fremont, California, facility in both size and productivity, now accounting for more than half of the company's global deliveries and a majority of its profits. Moreover, nearly 40% of Tesla's battery supply chain relies on Chinese companies, and these partnerships continue to expand.



Elon Musk walks with Shanghai Mayor Ying Yong during the groundbreaking ceremony for a Tesla factory in Shanghai on Jan. 7, 2019. STR/AFP via Getty Images

Notably, Tesla was the first foreign automaker permitted to establish operations in China without a local partner, following a change in ownership regulations. The Shanghai factory was constructed with the support of US$1.4 billion in loans from Chinese state-owned banks, granted at favorable interest rates.

Between 2019 and 2023, the Shanghai government also provided Tesla with a reduced corporate tax rate of 15% – 10 percentage points lower than the standard rate.

The cost advantages of manufacturing in Shanghai, which include lower production and labor expenses, have further cemented Tesla's reliance on the Chinese market.

Given that Musk's wealth is largely tied to Tesla stock, his financial standing is increasingly dependent on the company's fortunes in China, making any potential disengagement from the country both economically and strategically challenging.

Tesla's continued investment in China underscores this dependency. On Feb. 11, 2025, the company opened its second factory in Shanghai — a $200 million plant that is set to produce 10,000 megapack batteries annually. It's the company's first megapack battery factory outside the U.S..

This investment deepens Tesla's presence in China amid a new wave of U.S.-China trade tensions. On Feb. 1, the Trump administration imposed a 10% tariff on Chinese imports, prompting Beijing's retaliation with tariffs on American coal, liquefied natural gas, agricultural equipment and crude oil.

A Chinese fan

It remains unclear to what extent Musk's financial interests in China will translate to real influence over the Trump administration's policy toward Beijing. But Musk's long history of pro-China remarks suggests the direction he wants the administration to move.

During his visit to Beijing in April 2024, Musk praised the country, noting also: "I also have a lot of fans in China – well, the feeling is mutual."

His admiration appears to hinge in part on how he views business and labor practices in China. In that vein, Musk has criticized American workers as lazy and has faced U.S. labor law disputes, while simultaneously praising Chinese workers for "burning the 3 a.m. oil" under an intensely repressive labor system.

In numerous posts on the social media platform X, formerly Twitter, which he owns, Musk has also praised China's infrastructure and high-speed rail system, lauded its space program, applauded its leadership in global green energy initiatives and urged his followers to visit the country.

Musk has also opposed U.S. efforts to decouple from China, describing the countries' economies as "conjoined twins," despite a sizable part of the foreign policy establishment in the West viewing decreased dependency on China as necessary for security interests amid rising geopolitical tensions.

On the issue of Taiwan, the most dangerous flashpoint in U.S.-China relations, Musk has compared Taiwan to Hawaii, arguing that it is an integral part of China and noting that the U.S. Pacific Fleet has prevented mainland China from achieving reunification by force.

Musk further suggested that the Taiwan dispute could be resolved by allowing China to establish Taiwan as a special administrative zone, similar to Hong Kong.

His remarks were shared and welcomed by China's then-ambassador to the U.S., who, in a post on X, emphasized China's so-called peaceful unification strategy and advocated for the "one country, two systems" model.

Trump's back-channel envoy?

The big question going forward is how Musk's financial stakes in, and stated admiration for, China will translate into attempts to influence the U.S. administration's China policy, particularly given Musk's unconventional advisory role and the strong faction of anti-China hawks in Trumpworld.

Given Musk's approach to China, it's hard to see him not trying to use his influence with the president to push for somewhat warmer relations with Beijing.

If such counsel were heeded, it's easy to envision Musk leveraging his deep ties to China, particularly his close personal relationship with China's current second-ranking official, Premier Li Qiang, who was the Shanghai party chief when Tesla's factory was built. In the scenario, Donald Trump could tap Musk as a back channel for diplomacy to ease U.S.-China tensions and facilitate bilateral cooperation when needed.

To this point, it was, perhaps, telling that it was Musk who met with China President Xi Jinping's envoy to Trump's inauguration, Vice President Han Zheng, on the eve of the event.

But it's far from certain that Trump wants that diplomatic role for Musk, or that other voices won't win out with regard to Beijing. In his first term, Trump launched an unprecedented trade war and tech blockade against China, fundamentally reshaping U.S.-China relations and pushing the U.S. toward something of a bipartisan consensus to counter Beijing that has existed for several years.

Trump's tariff moves and second-term picks for top trade and commerce roles, like Peter Navarro and Jamieson Greer — who played key roles in the trade war against China during the president's first term — suggest that Trump's commitment to further decoupling from China remains strong.

Furthermore, Musk's business interests and personal wealth tied to China could leave him vulnerable to Chinese influence. By leaning on Musk's close ties with Trump, China could use his dependence on the Chinese market as a bargaining chip to pressure Trump into making concessions on issues of major strategic importance to Beijing.

China has a history of coercing foreign companies reliant on its market into making compromises on matters concerning its national interests. For instance, Apple removed virtual private network apps from its app store in China at the government's request. Similarly, Tesla could face comparable pressure in the future if Beijing wants to use Musk as a cudgel to influence policy in the Trump administration. Notably, as the head of DOGE, with access to sensitive data from multiple agencies, Musk could find himself caught between U.S. security scrutiny and China's strategic targeting.

So long as Musk retains the influence with Trump that he holds now, it's conceivable that his pro-China sentiments will translate into attempts to influence government policy. Yet even if this is to be the case, whether those efforts succeed will depend on the president and his other advisers, many of whom are seeking an aggressive front against Beijing and are likely to view Musk as an impediment rather than ally in that fight to come.

the Globalist

Global Democracy

Elon Musk: A Chinese Puppet?

Pleasing the Chinese leadership is key to Musk's business fortunes. Tesla's stock price is key to his wealth and it faces daunting competition in China and beyond from BYD.

January 23, 2025

By George R. Tyler



Credit: Frederic Legrand - COMEO / Shutterstock.com

The most influential courtier around the Oval Office, Elon Musk, has compelling sway with Donald Trump.

Two highly transactional operators

Sign Up

The way how both men approach the China issue is a pivotal factor in determining the degree to which the U.S. national interest as well as U.S. national security interests may be compromised, if not hollowed out.

The principal reason for that is that Trump and Musk both base their own interests and benefits calculations on their very personal vantage point.

The grave deficiencies of a transactional presidency

As far as Donald Trump is concerned, his decision-making on TikTok shows that he lacks acumen, is willful and careless — grave deficiencies of a transactional presidency.

Trump's recent U-turn on TikTok demonstrates that lobbying, personal advantage and grifting outweigh genuine national security concerns — a recurring pattern with him.

While Trump pretends to rebel against "the deep state," in reality he seeks to be devoid of any institutional restraints.

Why Elon Musk is de facto a Chinese puppet

Musk has enormous business interests in China. Much of his wealth is tied up in Tesla stock which, in turn, is dependent on the good will of Chinese officials. After all, Chinese customers account for 40% of Tesla's global sales.

Indeed, pleasing the Chinese leadership is especially important to Musk at this moment with Tesla facing daunting competition from the Chinese EV favorite, BYD.

Subservient to Xi to keep Tesla stock up

To keep Tesla stock buoyant, Musk needs both Trump and Chinese President Xi Jinping's help. That, in effect, means preventing a Trump trade war.

No surprise then that Musk furthered his own business interests by pleasing Chinese officials when he convinced Trump to have prohibitions on outbound U.S. investment in key Chinese strategic sectors like AI removed from the December 19, 2024 U.S. budget bill.

Sign Up

Viewed in that context, nobody can be surprised that Elon Musk has even urged that Taiwan be surrendered to China. Unsurprisingly, important U.S. conservatives are now disputing his agenda.

Musk: Politically toxic in Europe

Pleasing Xi and China is especially important in light of Musk's increasing toxicity to prospective EV buyers in much of Europe.

Those well-to-do customers, who consider themselves upstanding and politically, socially as well as environmentally conscious citizens, must be disturbed by Musk's political recent declarations.

Whitewashing the right-wing extremist, pro-Putin AfD political party in Germany certainly flies in the face of many Tesla EV owners there.

Musk as a U.S. national security risk

That Musk's dependence on China makes him a significant national security risk is a fact that is even acknowledged by U.S. Republicans.

In May 2023, for instance, Vivek Ramaswamy — initially his partner in crime at the DOGE office — warned that "Tesla is increasingly beholden to China."

He added that "I have no reason to think Elon won't jump like a circus monkey when Xi Jinping calls in the hour of need."

Ramaswamy also referred to Musk as a Chinese puppet when posting on X that "the United States needs leaders who aren't in China's pocket." No real wonder then that the two men recently parted ways on the DOGE project.

Takeaways

- Trump and Musk both base their own interests and benefits calculations on their very personal vantage point.

Sign Up

- While Trump pretends to rebel against "the deep state," in reality he seeks to be devoid of any institutional restraints.

- Pleasing Xi and China is especially important in light of Musk's increasing toxicity to prospective EV buyers in much of Europe.

- Whitewashing the right-wing extremist, pro-Putin AfD political party in Germany certainly flies in the face of many Tesla EV owners there.

- That Musk's dependence on China makes him a significant national security risk is a fact that is even acknowledged by U.S. Republicans.

Author



George R. Tyler

Economist George R. Tyler is the author of "What Went Wrong" and "Billionaire Democracy: The Hijacking of the American Political System" and is a former Deputy Assistant Treasury Secretary. Follow him @georgertyler

---

CHINA | DEMOCRACY | DONALD TRUMP | ELON MUSK | TESLA | UNITED STATES

Sign Up

READ PREVIOUS



GLOBAL POLITICS

Trump's Threat to Freedom and Democracy

January 20, 2025

How the world hangs together

What countries, societies and economies can learn from each other

Follow us:

About Us
Privacy Policy
Terms of Use
Contact Us
Sign up to our newsletter
The Team

Copyright © 2025. The Globalist. All rights reserved.

Sign Up

The New York Times https://www.nytimes.com/2024/12/29/opinion/elon-musk-china-classified-secrets-national-security-russia-doge.html

GUEST ESSAY

Elon Musk Is a National Security Risk

Dec. 29, 2024

Listen to this article · 6:18 min Learn more

By Russel L. Honoré
Lt. Gen. Honoré retired from the U.S. Army in 2008.

It is now fair to ask the question: Is Elon Musk a national security risk?

According to numerous interviews and remarks, Mr. Musk's Department of Government Efficiency co-leader, Vivek Ramaswamy, once appeared to believe he

Enjoy unlimited access to all of The Times.
See subscription options

By Russel L. Honoré
Lt. Gen. Honoré retired from the U.S. Army in 2008.

It is now fair to ask the question: Is Elon Musk a national security risk?

According to numerous interviews and remarks, Mr. Musk's Department of Government Efficiency co-leader, Vivek Ramaswamy, once appeared to believe he was. In May 2023, Mr. Ramaswamy went so far as to publicly state, "I have no reason to think Elon won't jump like a circus monkey when Xi Jinping calls in the hour of need," a reference to China's leader. In a separate X post targeting Mr. Musk, he wrote, "the U.S. needs leaders who aren't in China's pocket."

Mr. Ramaswamy has since walked back his numerous public criticisms of Mr. Musk, but he was right to raise concerns. According to news reports, Mr. Musk and his rocket company, SpaceX, face federal reviews from the Air Force, the Defense Department's Office of Inspector General and the under secretary of defense for intelligence and security for failing to provide details of Mr. Musk's meetings with foreign leaders and other potential violations of national-security rules.

These alleged infractions are just the beginning of my worries. Mr. Musk's business ventures are heavily reliant on China. He borrowed at least $1.4 billion

USG

US Department of State
Networked Capacity-Building with Latin-American Journalists to Counter PRC Influence
September 29, 2023 – September 30, 2025
$741,887 (Currently subject to Stop Work Order per Executive Order #14169)

US Department of State – Bureau of International Organizations
To Analyze PRC initiatives to redesign the international system to serve China's interests
October 1, 2024 – March 30, 2026
$250,000 (Currently subject to Stop Work Order per Executive Order #14169)

US Embassy Kuwait
China in MENA Information Series
October 1, 2021 – March 31, 2023
$176,285

US Embassy Serbia
Promoting Responsible Trade and Foreign Direct Investment in the Western Balkans
January 1, 2025 – November 30, 2026
$499,970 (Currently subject to Stop Work Order per Executive Order #14169)

US Department of State Bureau of International Security and Nonproliferation
Building Coalitions of China Scholars in Europe and the Indo-Pacific to Stymie PRC Efforts to Obtain WMD-Enabling Technology
October 1, 2024 – December 31, 2025
$700,000 (Currently subject to Stop Work Order per Executive Order #14169)

Defense Threat Reduction Agency
Bridging Asian and European Perspectives on Deterrence: Establishing a Track 1.5 Strategic Dialogue Among US Allies on Extended Deterrence in Context of a Rising China
February 1, 2022 – January 31, 2023
$199,933

Defense Threat Reduction Agency
Integrated Deterrence of Limited Adversary Nuclear Use in Simultaneous East Asian Conflict
March 1, 2022 – November 31, 2022
$180,081

Defense Threat Reduction Agency
Tabletop Exercises on Integrated Deterrence on Adversary Limited Nuclear Use in East Asia

March 21, 2022 – March 21, 2023
$197,365

Defense Threat Reduction Agency
Building Coalitions to Counter WMD Threats in the Indo-Pacific
April 25, 2023 – August 16, 2024
$1,246,913

Defense Threat Reduction Agency
Adapting US Strategy to Account for China's Transformation into a Peer Nuclear Power
June 26, 2023 – June 27, 2024
$200,762

Defense Threat Reduction Agency
Limited Nuclear Attack in East Asia: Preparing and Responding with Allies and Partners
July 25, 2024 – July 25, 2025
$605,861

Defense Threat Reduction Agency
Aligning US, Indo-Pacific, and European Allies on Deterring and Defending Against WMD Threats in the Indo-Pacific: A Strategic Dialogue
September 23, 2024 – September 23, 2025
$263,013

Office of Net Assessment
Hyper-Globalization, Multi-Complexity, and the Evolving Global Order
August 6, 2024 – August 25, 2025
$199,942

European Command
A "No Limits Partnership": Sino-Russian Relations in an Era of Strategic Competition
July 30, 2024 – July 2025
$160,000

Foreign Funding

Taipei Economic and Cultural Representative Office
Cross-Strait Seminar Series and Strategy Report
January 1 2024 – December 31 2024
$130,000

Taipei Economic and Cultural Representative Office
Cross-Strait Seminar Series, Strategy Report, and Study Trip
January 1 2023 – December 31 2023
$210,000

Taipei Economic and Cultural Representative Office
Cross-Strait Seminar Series and Strategy Report
January 1 2022 – December 31 2022
$120,000


Policy Recommendations for U.S. Economic Security
February 2025
ITI
Promoting Innovation Worldwide

Contents

Introduction 3

What is economic security? 3

What is the ideal end state for U.S. economic security? 4

I. Economic Growth – Trade and Strategic Technology Investments 4

a. Reinvigorate U.S. trade leadership and open new markets to support economic security and competitiveness. 4

b. Driving innovation and economic growth through research and development for semiconductors, AI, quantum and beyond. 5

c. Building a resilient energy Infrastructure for AI innovation. 6

II. Growing U.S. Advantages in Global Technology and Competition with China 7

d. Export controls should be targeted, rendered multi or plurilateral, tied to a specific end-user and/or end-use, and aimed at the most sensitive technologies. 7

e. Increase speed, transparency, and predictability in export license determinations. 7

f. Target implementation of the final rule for EO 13873, securing the information and Communications Technology and Services Supply Chain (ICTS supply chain rule), ensuring that transaction reviews are linked to discrete national security risks. 8

g. Ensure the federal government has access to the best available and most cyber-secure technology products by recognizing the benefits of diverse, stable, and resilient supply chains. 8

III. Investment Reviews and Sanctions 9

h. Strengthen economic ties with allies by establishing clear and targeted national security criteria for reviewable investments. 9

i. Pursue prospective sanctions approach and prioritize coordination with allies. 10

j. Narrow and clarify criteria for outbound investment reviews 10

Introduction

Over the next decade, U.S. policymakers will wrestle over geopolitical challenges with implications for American technological innovation. Clear and specific direction from policymakers, transparent decision making, and the development of long-term strategies to invest in and support companies in the United States are foundational to promoting U.S. economic security. The technology sector represents around 10% of the U.S. Gross Domestic Product (GDP), directly employs nine million Americans, and accounts for roughly 32% of the market capitalization of the S&P 500. Developing, manufacturing, and delivering the technology goods and services that enable industries from energy to healthcare to financial services and support critical government missions requires U.S. companies to leverage global markets and supply chains.

The strength of the innovation economy bolsters the broader U.S. economy and drives the U.S.'s competitive advantage in tools and capabilities that underpin U.S. national security, such as semiconductors, artificial intelligence, quantum technologies, and advanced manufacturing. Both the technology sector and U.S. economic security depend on smart and stable government policy that supports American innovation and ingenuity. In this paper, ITI endeavors to define U.S. economic security, identify what U.S. economic security policy can and should achieve, and provide recommendations for policies that will foster U.S. economic security.

What is economic security?

Economic security encompasses elements of the economy that affect stability, technological competitiveness, and resilience – each enabling the U.S. government to better protect national security and assert international influence.

Sound economic security policies can help the U.S. prevent, mitigate, and recover from risks and shocks such as wars, cyberattacks, pandemics, and natural disasters.

To develop effective economic security measures, U.S. policymakers should collaborate closely with the private sector to develop a joint understanding of risks and shape appropriate solutions and strategies tailored to addressing those risks.

What is the ideal end state for U.S. economic security?

The ideal end state represents an environment in which the global success of American and multinational companies operating in the U.S. strengthens domestic manufacturing, job growth, technological development, and, by extension, national security. Specifically, sound U.S. economic security policy should create an environment that:

- Supports technological leadership and innovation, while working with the private sector to safeguard critical technologies.
- Fosters research and investment, while enabling U.S. companies to invest and expand into global markets and bring knowledge and talent to the United States.
- Promotes supply chain diversity, stability, and resilience, where the private and public sectors partner to understand and mitigate strategic supply chain vulnerabilities and identify areas that will have concrete national security benefits and limited adverse economic consequences.

ITI presents the following recommendations to policymakers for strengthening U.S. economic security by fostering a resilient and innovative information technology industry. The three pillars cover economic growth through trade and strategic technology investments; growing U.S. advantages in global technology and competition with China; and investment reviews and sanctions.

I. Economic Growth – Trade and Strategic Technology Investments

America's most innovative technologies develop from a stable, robust, diverse, and interconnected global landscape of markets, innovators, and suppliers. Successful economic security policies will revitalize and strengthen supply chains and allow businesses operating in the United States to leverage the global landscape to enhance the competitiveness of their products, services, and the American workforce.

a Reinvigorate U.S. trade leadership and open new markets to support economic security and competitiveness.

Pursuing trade opportunities secures U.S. exporters' access to foreign markets and encourages investment and manufacturing in the United States, contributing to reductions in the trade deficit and growing the U.S. economy. ITI encourages the U.S. government to negotiate robust, binding commitments that facilitate trade through new strategic and targeted bilateral and multilateral market access agreements to enable U.S. companies to compete on an even playing field. During President Trump's first term, the United States Trade Representative (USTR) set the gold standard for digital trade commitments through negotiation of the United States-Mexico-Canada Agreement (USMCA) and the U.S.-Japan Digital Trade Agreement.

Securing market access allows U.S. exports to reach a global marketplace, further strengthens supply chains by making them more resilient, and increases U.S. exports. Trade commitments should aim to reduce tariffs, secure non-discriminatory treatment of goods and services, promote acceptance of international certification and conformity assessments (instead of requiring country-unique reviews), and counter local content requirements.

The government should carefully consider any new tariffs or other restrictions on trade to avoid actions that would harm the domestic economy or undermine global competitiveness of firms operating in the U.S., such as tariffs on manufacturing inputs and components, or technology products and services that are essential for companies and workers across the economy. Policymakers should also develop a comprehensive, fair, transparent, and consistent review and exclusion process to regularly consider the real-world effects of any tariffs and to adjust policies as needed.

b Driving innovation and economic growth through research and development for semiconductors, AI, quantum, and beyond.

The U.S. should bolster companies and academic institutions that discover and build the technologies of the future, including artificial intelligence (AI) and quantum information science. One near-term priority should be restoring the immediate tax deduction of research and development expenses to drive innovation and create high-wage jobs in the United States. Since 2022, the U.S. has become a less attractive place to innovate, because companies must now amortize R&D expenses over five or fifteen years rather than expense them in the year they occur. ITI also encourages the U.S. government to continue, if not increase, federal funding for research and development, particularly into key basic, foundational, and applied research areas such as quantum/atomic -scale semiconductor manufacturing, explainability and interpretable AI systems, and exploring alternatives to critical minerals such as gallium nitride and silicon carbide.

Semiconductors are the building blocks of the modern digital economy and a strategic asset for any country's economic and national security. Since the enactment of the bipartisan CHIPS and Science Act in 2022– which was itself a product of the discussions during the first Trump Administration – total public and private investment in the U.S. has exceeded $300 billion, supporting over 115,000 jobs in direct manufacturing and construction. As markets vie to develop cutting-edge chip technology, U.S. policymakers must continue to prioritize investing in domestic semiconductor leadership. The investments made today by the private sector and government are sowing the seeds for a robust semiconductor manufacturing and R&D ecosystem, one example being the successes of the SMART USA (Semiconductor Manufacturing and Advanced Research with Twins USA) Institute for Digital Twins at NIST. Policymakers should also consider investments in other foundational components of the information communications ecosystem, such as printed circuit boards and critical minerals.

To this end, President Trump and his team should work with Congress to improve the CHIPS program by pursuing meaningful permitting reform and streamlining reporting requirements to help facilitate these multi-billion-dollar investments. Policymakers should also pursue the extension of the 25% investment tax credit beyond December 31, 2026, expanding it to include research and design.

These strategic efforts will help unleash American innovation, make the United States a more competitive investment destination for multi-year, multi-billion dollar projects, and ultimately help sustain U.S. AI leadership.

U.S. leadership in quantum technologies is vital given their potential to enable groundbreaking capabilities in health, sciences, and cybersecurity. Development of these technologies requires up-front investment with benefits that may not be immediately apparent. Congress must support the development of these crucial technologies because of their strategic economic and security value. Congress should reauthorize federal research and development activities under the National Quantum Initiative Act and require the National Quantum Initiative Advisory Committee to assess continued United States advancement in quantum technologies. Simultaneously, the U.S. must prepare to defend against quantum-enabled risks by advancing the adoption of post-quantum cryptography.

Federal research and development efforts for Artificial Intelligence (AI) such as the National Artificial Intelligence Research Resource (NAIRR) allow a wide variety of U.S. stakeholders to leverage shared resources to advance AI research, fueling American innovation by opening advanced tools and compute power to America's best and brightest and maximizing their impact. The creation and uptake of guidance and metrics, such as the NIST AI Risk Management Framework, are also vital to maintaining U.S. leadership in establishing global rules for the development and deployment of innovative AI systems.

c Building a resilient energy infrastructure for AI innovation.

As both the public and private sector develop and adopt emerging technologies, including AI and high-performance computing, the demand for energy to power these solutions will increase. Existing infrastructure will not support this increased demand long term. To meet this surge in demand and maintain the U.S. position as the global leader in AI development, governments at all levels must plan for and invest in solutions that support the data centers responsible for powering the modern technologies needed to bolster U.S. economic security. This includes increasing access to a diverse and resilient energy supply, as well as building out the robust and reliable energy infrastructure underpinning the development of next-generation American innovation.

Federal, state and local permitting processes are unnecessarily burdensome and have blocked or delayed new energy projects across the United States. The Administration should work with Congress to streamline permitting processes to accelerate critically needed upgrades to American energy infrastructure, especially for projects that modernize the aging U.S. electric grid and facilitate the deployment of advanced nuclear, including small modular reactors.

The Administration should expedite the processes that enable energy development and interregional transmission line siting, facilitate critical mineral access, and reform the laws that allow projects to be derailed or delayed by potentially frivolous lawsuits. The Administration should adopt a long-term strategy for ensuring a sufficient energy supply to meet the government's growing power needs.

II. Growing U.S. Advantages in Global Technology and Competition with China

American companies leverage global markets for developing and selling their products. Export controls are an essential tool for promoting economic security but should not be deployed in a way that undermines U.S. technological competitiveness, supply chain resiliency and stability, or the government's access to leading edge technologies.

It is important to ensure that export controls, and other review authorities, realize economic security objectives through a process of robust stakeholder engagement during development and implementation, provide sufficient transition periods, and are based on clearly identified national security objectives.

d Export controls should be targeted, rendered multi- or plurilateral, tied to a specific end-user and/or end-use, and aimed at the most sensitive technologies.

Export controls should focus on non-commercial technologies, with considerations for dual-use technologies that have direct military or intelligence applications. Overly broad controls on technology, particularly products with broad commercial applications, undermine the ability of the U.S. to remain competitive in the global marketplace, and failure to multilateralize controls leaves market openings for non-U.S. competitors to fill. History has shown that when technology of comparable quality, quantity, and cost is available outside the U.S., even bilateral controls are not effective in preventing "end users of concern" from acquiring or developing the capabilities enabled by controlled technology. The consequence of such overly broad controls is thus to limit U.S. companies' global competitiveness and their ability to lead in the development of core technologies without effectively addressing the underlying security concern.

Recognizing the inherent harm to U.S. companies, unilateral controls should only be used in the most extreme of national security circumstances – and must take into account foreign availability. The Bureau of Industry and Security (BIS) should revise existing unilateral controls until the Administration can reach multilateral or plurilateral agreements so as to more effectively address the underlying security concerns without putting U.S. companies at a competitive disadvantage.

e Increase speed, transparency, and predictability in export license determinations and consistency in license requirements.

While a 1996 Executive Order sets the timelines for the license process at nine days for the referral decision and 30 days for the approval decision, ITI recommends that Congress codify the process to bring greater certainty to the licensing determinations. Large electronics manufacturers plan their production cycles months or years in advance, making delays in export license determinations a significant issue.

When partners and customers doubt the reliability of U.S. suppliers, or the conditions placed on licenses by the U.S. government are overly burdensome so as to not be economically viable, they take their business to foreign suppliers, which not only harms companies in the U.S. but also affects the U.S.' position as the world's leading innovation economy.

Further, ITI encourages the government to report on license determinations, consistent with business confidential rules, that take longer than the stated timeline in order to help inform future applicants of factors which may delay a license determination. ITI also supports appropriate resourcing for federal agencies handling any increased volume of license applications as a result of expanded export control regimes. The effective administration of technology controls and export controls will be critical to ensuring accurate outcomes and protecting against undue delays in reviews and licensing.

f Target implementation of the final rule for EO 13873, Securing the Information and Communications Technology and Services Supply Chain (ICTS supply chain rule), ensuring that transaction reviews are linked to discrete national security risks.

The Commerce Department should implement the final ICTS supply chain rule, which stems from President Trump's Executive Order 13873 and grants the Secretary of Commerce the authority to review and/or unwind specific ICTS transactions that present a risk to national security. Although the final rule offers some clarity of terms, the breadth of the rule coupled with the discretion granted to the Secretary casts uncertainty over almost all ICTS transactions and could undermine the stated national security objectives by severely hindering U.S. competitiveness. Successful implementation of the rule should be risk-based and evidence-driven, and address identifiable, material, and concrete national security risks directly tied to actionable threats articulated in U.S. government intelligence or vulnerability assessments. It is noteworthy that the ICT Supply Chain Risk Management Task Force working group on Threat Assessment catalogued a total of 188 supplier-related threats, with country of origin being just one.

g Ensure the federal government has access to the best available and most cyber-secure technology products by recognizing the benefits of diverse, stable, and resilient supply chains.

ITI recommends avoiding overly restrictive domestic sourcing requirements that increase costs and inhibit the government's access to innovative, cyber-secure technologies, which are often produced through global supply chains. Leveraging diverse sources of supply mitigates risks related to single points of failure. In contrast, the blanket application of restrictive domestic sourcing requirements (such as "Buy American" requirements) to commercial technology works against America by increasing overall costs as much as 25 percent while jeopardizing acquisition of commercial IT for government use, including cutting edge cybersecurity products and services. The U.S. government should have access to innovative and best-in-class technologies, which can be achieved by leveraging global supply chains while employing risk-based approaches that are not based solely on country of origin.

Established during the first Trump presidency, the Federal Acquisition Security Council (FASC) addresses targeted supply chain risks posed throughout the government acquisition process. The FASC review process appropriately relies on supply chain risk assessments to identify products of potential concern. When necessary, the FASC is authorized to issue a recommendation for excluding or removing the source of the concern from government networks. To reduce inefficiencies and duplicative authorities throughout the government, ITI recommends realigning government procurement-related supply chain risk management (SCRM) policy under the FASC. The FASC should be held accountable for mission delivery and should serve as the sole entity responsible for maintaining a list of problematic or banned ICT equipment for the purpose of government procurement.

III. Investment Reviews and Sanctions

Capital investments, both inbound and outbound, are foundational to promoting U.S. economic security, as they help companies in the United States diversify the supply chain, engage the research and development ecosystem, and gather intelligence on global market conditions. The global technology market remains highly competitive and continued U.S. leadership in innovation will require the careful scoping of national security tools to effectively address identifiable risks.

h Strengthen economic ties with allies by establishing clear and targeted national security criteria for reviewable investments.

Clarity in regulatory liability and security exposure is a critical element of a competitive global supply chain and helping stakeholders understand risks and threats is essential. If a transaction does not implicate a specific, identifiable threat or vulnerability to U.S. national security equities, it should not be the subject of additional regulatory reviews. Overly broad investment restrictions, whether through the Committee on Foreign Investment in the United States (CFIUS) or the Outbound Investment Security Program will impede domestic and overseas investment in and by U.S. companies and consequently decrease U.S. economic security.

Policymakers should be mindful of the economic security value of outbound investments, such as knowledge acquisition of the current state of the technology, insights into competitor activities, strengthened economic ties with allies, and access to global talent. As such, joint partnerships and research collaboration should be assessed through the lens of both risk and benefits. U.S. tech leadership is the product of knowledge exchange and industry collaboration, which is gained through partnerships and access to peers and competitors globally. These business relationships – often in the form of venture capital, investment, and joint ventures – can provide invaluable access to the state of emerging technologies, transfer of knowledge to a U.S. firm, and access to global talent. Without these mechanisms, U.S. companies will be forced to compete in a vacuum, threatening U.S. innovation leadership.

i Pursue a prospective sanctions approach and prioritize coordination with allies.

As the Administration and Congress consider how to administer and impose sanctions, ITI encourages the prospective imposition of sanctions to facilitate company compliance. The U.S. government should also prioritize close coordination with allies to ensure that sanctions meet their intended objectives and do not inadvertently open market opportunities for competitors. Further, ITI sees value in fostering greater trust between industry and the Office of Foreign Assets Control (OFAC), so that future dialogue can help companies comply with the various U.S. sanctions regimes and support OFAC's administration of economic sanctions.

j Narrow and clarify criteria for outbound investment reviews.

While regulations prohibiting or requiring notifications for certain outbound transactions took effect January 2, 2025, ITI understands there continues to be interest in taking actions related to outbound investments. One approach could be codifying – with tweaks to provide greater clarity and more targeted scoping – the final regulations implementing EO 14105, which directed Treasury to develop regulations for reviewing and prohibiting certain outbound transactions. For example, policymakers should focus investment reviews on decision makers' (i.e., those with 50 percent investment or board voting power) plans and knowledge when setting specific, timely and reasonable investment scrutiny requirements.

Effective transaction review programs should include de minimis thresholds and clear lines of coverage to create clarity for U.S. business activity and carve out ordinary business activities (e.g., intellectual property licensing, sales activities, etc.) as well as university-to-university and university-to-company research collaborations. ITI cautions policymakers against establishing a parallel regime to Treasury's Outbound Investment Security Program, as that would significantly increase uncertainty in the U.S. business community and have a chilling effect on investments that would otherwise benefit U.S. technological leadership.



THE
WASHINGTON INSTITUTE
for Near East Policy

February 27, 2025

Dear Ranking Member Waters,

We at The Washington Institute for Near East Policy thank you for the opportunity to submit a statement for the record related to the hearing entitled, "Examining Policies to Counter China" on Tuesday, February 25, 2025. Our Institute's program on Great Power Competition and the Middle East tracks China's actions in the region closely in order to put forward policy recommendations that will help the U.S. maintain its competitiveness in this important region.

Please see the following reports attached to this letter.

1. "Beijing's Passive-Aggressive Middle East Policy," Michael Singh, *The Wall Street Journal,* January 2024.

2. "China's Security Presence in the Middle East: Redlines and Guidelines for the United States," Grant Rumley, *The Washington Institute for Near East Policy,* October 2022.

3. "North Africa in an Era of Great Power Competition: Challenges and Opportunities for the United States," Anna Borshchevskaya, Louis Dugit-Gros, Ben Fishman, Sabina Henneberg, Grant Rumley, *The Washington Institute for Near East Policy,* May 2024.

4. "G42 and the China-UAE-U.S. Triangle," Andrew Clemmensen, Rebecca Redlich, Grant Rumley, *The Washington Institute for Near East Policy,* April 2024.

5. "How Russia's Invasion of Ukraine is Reshaping the Global Arms Market: Implications for the Middle East and Beyond," Grant Rumley, Louis Dugit-Gros, *The Washington Institute for Near East Policy,* July 2023.

Thank you again for the opportunity to contribute to this important hearing.

Sincerely,

Grant Rumley

Meisel Goldberger Senior Fellow
Director, Glazer Foundation Program on Great Power Competition and the Middle East
The Washington Institute for Near East Policy

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.

https://www.wsj.com/articles/beijings-passive-aggressive-middle-east-policy-china-isnt-brokering-peace-israel-gaza-0bc445d7

OPINION COMMENTARY Follow

Beijing's Passive-Aggressive Middle East Policy

China doesn't aspire to lead the world, much less to establish peace, but only to undermine the U.S.

By Michael Singh

Jan. 28, 2024 4:58 pm ET



Xi Jinping and Palestinian Authority President Mahmoud Abbas in Beijing, June 14, 2023. PHOTO: HUANG JINGWEN/ZUMA PRESS

Will China broker a resolution to the Israeli-Palestinian conflict? It is a question nobody is asking, because the answer is obvious—not a chance. Yet after Beijing hosted Iran-Saudi talks that led those two rivals to re-establish diplomatic relations in March 2023, some observers wondered if China had supplanted the U.S. as the Middle East's diplomatic broker. Since Hamas's Oct. 7 massacre, China has put such illusions to rest: Beijing seeks not to be a leader, much less to establish peace and stability, but merely to undermine the U.S.

During Mao Zedong's rule (1949-76), China was a prime sponsor of Yasser Arafat's Palestine Liberation Organization. But under Deng Xiaoping, Beijing made a priority of economic growth and identified Israel as a partner that could provide essential military and general technology. The resulting courtship culminated in China naming Israel its "innovative comprehensive partner" in

2017, a distinctive status amid Beijing's mere strategic partners, including the Palestinian Authority and Iran.

As Beijing realized the benefits of wooing the Mideast's most dynamic economy, it recognized that supporting the PLO was a liability. While Chinese policy didn't exactly become pro-Israel, it sought the safe ground of inoffensive diplomatic pablum. China's 2021 four-point proposal on the Israeli-Palestinian conflict reads like a ChatGPT summary of every think-tank piece on the subject. Beijing revealed its true goals, however, with its checkbook. In 2021 Beijing announced a donation of only $1 million in humanitarian aid for Gaza—less than many Western businesses gave in the name of corporate social responsibility. That same year, China invested more than $2 billion in Israel.

Yet with the rise of U.S.-China hostilities in recent years, Beijing's tune on Israel has shifted—and vice versa. After initially touting its economic partnership with China, the Israeli government—prodded in part by Washington—began to install guardrails against Chinese investment in sensitive Israeli infrastructure projects as well as on the transfer of dual-use technology. Trade and investment between the countries has fallen as Jerusalem has come to see Beijing less as a backup great-power patron and more as a security threat.

At the same time, China began to regard Israel as collateral damage in its rivalry with the U.S. During the 2021 Gaza conflict, Beijing used its chairmanship of the United Nations Security Council to blast the U.S. for "standing on the opposite side of mankind's conscience and morality" by supporting the Jewish state. Israel subsequently joined a statement to the U.N. Human Rights Council that condemned China's treatment of its Uyghur Muslim minority.

China has since doubled down on such actions. Beijing has allowed antisemitism to flourish in Chinese media, especially social media, while declining to condemn Hamas outright or allow information on the Oct. 7 attacks to be freely disseminated within its borders. Meanwhile the Yemen-based Houthis have mounted attacks on commercial shipping through the Gulf of Aden and Red Sea —which one might hope Beijing would see as a threat to its economic interests. Yet China's naval vessels, present in the region as an "antipiracy" task force, sit idle. Its diplomats abstained from a U.N. Security Council resolution condemning the strikes, and Beijing has paired its belated calls for the attacks' cessation with criticism of the U.S.-led response.

A China that aimed to replace the U.S.-led international order with one of its own devising might see the Gaza conflict as an opportunity to act. The Brics bloc of emerging economies—Brazil, Russia, India, China and South Africa—or the

Shanghai Cooperation Organization could organize a peace effort. China's navy could escort container ships through the Bab el-Mandeb Strait after, say, a stern phone call from Beijing to Tehran. A China interested in being the region's go-to diplomatic broker would be cultivating Benjamin Netanyahu's government, which is ideologically at odds with the Biden White House, in hopes that Jerusalem might turn to Beijing as an alternative patron.

But China is doing none of that. Its conduct shows that it is less interested in the success of its own initiatives than in the failure of Washington's. The real threat to U.S. interests in the Mideast isn't rising Chinese influence but the erosion of our own. What Beijing wants isn't a world led by China, but simply one not led by the U.S. Washington shouldn't accept that.

Mr. Singh is director of the Glazer Program on Great Power Competition and the Middle East at the Washington Institute for Near East Policy.

Appeared in the January 29, 2024, print edition as 'Beijing's Passive-Aggressive Middle East Policy'.

THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
POLICY NOTES
OCTOBER 2022
NO. 123

China's Security Presence in the Middle East

Redlines and Guidelines for the United States

Grant Rumley



A Wing Loong II UAV on display at the Dubai Airshow in 2019. Shutterstock

As the United States has increasingly emphasized the global nature of its competition with China, conventional wisdom in America has concluded that when it comes to the Middle East, China benefits greatly from the vast U.S. security architecture."[1] Yet while China most certainly benefits from the stability the U.S. architecture provides, its security posture in the region more and more suggests an unwillingness to rely exclusively on this architecture. Indeed, as scholars of China have noted, Chinese military leaders view their "dependence on U.S. military power to ensure their country's maritime transport, energy supplies, and overseas market access as a profound strategic vulnerability."[2]

*This project owes a great deal to Carol Silber and her incredible research and feedback. Any errors or inaccuracies, however, are the author's alone.

A year after the U.S. Department of Defense described long-term strategic competition with China as a "principal" priority for the U.S. military, China released its 2019 paper "National Defense in the New Era."[3] The document notes that "international strategic competition is on the rise," and blames the United States for provoking "intensified competition among major countries." Spotlighting the need for the Chinese military to protect its overseas interests, the paper describes efforts to build "far seas forces" and develop "overseas logistical facilities" as key to its strategic goals.[4] Since the release of the paper, Chinese officials have repeatedly emphasized the need to defend the country's interests abroad. In June 2022, Chinese president Xi Jinping approved a broad set of "trial outlines" that China claims provide the legal basis for an expanded overseas military presence. This expansion is meant, in part, to allow "Chinese troops [to] prevent spillover effects of regional instabilities from affecting China."[5]

This increased overseas military presence is already apparent in the Middle East, long key to China's economic interests abroad. Given China's economic power and the depth of its overseas commercial interests, it was almost inevitable that its military would adopt a more robust presence in the region to secure these interests. A majority of China's exports to the Middle East, Europe, and Africa flow through the region's waterways, and the Middle East supplies significant energy resources to the Chinese mainland.[6] To protect these interests, China has gradually expanded its security presence in the region through a combination of military deployments, investments in critical infrastructure, and arms sales.

China's first military deployment beyond its near seas was to the Middle East, when it dispatched a three-ship anti-piracy task force to the Gulf of Aden in 2008. The task force, which still operates today, figured in China's calculation to establish its first overseas military base, in Djibouti in 2017. China's network of critical infrastructure investments across the region—ports in particular—boosts Chinese commercial shipping while also reportedly providing, in one case, cover for a Chinese security presence.[7] While China's arms sales to the region remain modest in comparison to U.S. and Russian sales, it is increasingly positioning itself as a viable alternative supplier. China has a long history as a regional arms supplier: arms sales by Beijing to both Iraq and Iran during the 1980–88 war reinforced China's defense industry, elevating it from the seventh largest global arms exporter in 1978 to the fourth ten years later.[8]

This paper explores China's efforts to overcome its self-perceived strategic vulnerability by augmenting its Middle East security presence. The analysis examines how this security presence equates to a military footprint, investments in critical infrastructure, and efforts to increase arms sales. Finally, the paper describes how this presence challenges U.S. interests in the region, and makes suggestions for how Washington can respond.

The United States, China, and the Middle East

Since U.S. Central Command was established in 1983, America's relations with the Middle East—and specifically with the Gulf states—have operated under a straightforward unwritten arrangement: Washington would provide the security architecture necessary for stable markets, and the Middle East would keep oil flowing outward at reasonable prices. This arrangement worked for all parties. The United States secured a steady stream of a crucial resource, and the Gulf states could rely on the U.S. security umbrella. This security architecture was invoked when Iraq invaded oil-rich Kuwait in 1991, and again far more expansively following the 2003 U.S. invasion of Iraq. While Washington has historically articulated other priorities for the region, with counterterrorism and democratization among them, ensuring the free flow of oil and freedom of maritime navigation remained consistent priorities.

In recent years, this calculus has begun to change. The United States is no longer as reliant on Middle

East oil as it once was. In late 2013, domestic U.S. production of crude oil surpassed imports. By 2020, the United States had become a net exporter of petroleum.[9] At the same time, two decades of war in Iraq and Afghanistan complicated the American people's appetite for entanglements abroad. President Trump's administration pledged to end "endless wars" abroad, while one of the Biden administration's first policy directives called for "right-sizing" the U.S. presence in the Middle East.[10] Israel, for whose sake America occasionally justified its large regional military investment, has never been stronger or as integrated in the region. The Abraham Accords—the 2020 deals signed by Israel with the United Arab Emirates, Bahrain, Sudan, and Morocco—and the absorption of Israel within the CENTCOM area of responsibility from U.S. European Command have opened new possibilities for Israel-Arab cooperation.

As the Middle East has diminished somewhat as a strategic priority for the United States, emerging threats are demanding more of Washington's attention. Russia's invasion of Ukraine has threatened Eastern European security in a way that will demand U.S. focus for the foreseeable future. China's rapid military modernization, aggressive activities in the South China Sea, and intermittently hostile foreign policy has energized successive American administrations to attempt to prioritize Asia. A new era of great power competition, enshrined first by the Trump administration's National Security Strategy and National Defense Strategy, and then by the Biden administration's Interim National Security Strategy, has become the central organizing principle in the U.S. foreign policy community.

In the Middle East, the U.S.-China competition is already playing out. While perhaps not the primary theater of contest with the United States and the West, Chinese officials view the region as key to establishing a world order more favorable to Beijing. In 2016, one week before Chinese president Xi Jinping visited the Middle East for the first time since taking office, China issued its Arab Policy Paper, which noted that "Arab countries as a whole have become China's biggest supplier of crude oil and the 7th biggest trading partner," and described the Arab world as "China's important partners in...establishing a new type of international relations with win-win cooperation at its core."[11] China's consumption of oil and gas exceeded its domestic production in 1993, and since then China has increasingly been forced to rely on overseas sources to meet demand.[12] China surpassed the United States in crude oil imports globally in 2017, and today is the world's largest importer of oil and gas.[13] While not exclusively dependent on the region for energy, upwards of 40 percent of China's crude oil imports in 2019 came from the Middle East, more than any other single region.[14]

Over the last decade, China has deepened its trade and investment ties to the Middle East, demonstrating the strategic importance of the region to Beijing. Under the Belt and Road Initiative, Chinese lending to the Middle East has increased significantly, jumping from $300 million in 2014 to $8.8 billion in 2017.[15] From 2014 to 2019, Chinese state-owned companies invested $21.6 billion in the region. During that same period, construction contracts awarded to Chinese companies in the region totaled $92.4 billion.[16] Since 2005, Chinese construction contracts in the Middle East have surpassed $180 billion in value.[17] Today, China is the region's number-one trading partner and a top-three supplier of imports to each of its countries, except Lebanon, where it ranks fourth.[18] Among other infrastructure projects, Chinese companies have invested in ports and industrial parks across the Middle East, including in Egypt, the United Arab Emirates, and Oman. Chinese multinational telecommunications company Huawei has officially partnered with firms in the UAE, Saudi Arabia, and Qatar to provide 5G infrastructure.[19]

These commercial ties have led to enhanced cultural affiliations. Confucius Institutes, which help the Chinese government advance its public image around the world, have branches across the region, including in Egypt, Saudi Arabia, the UAE, and Jordan.[20] In China, Arabic is taught at more than forty universities, and as many as 50,000 Chinese and foreign students in the country study Arabic and Islamic culture, according to one professor at the Beijing Foreign Studies University.[21] A 2018 Shanghai

International Studies University report found the rate of Chinese students studying in the Middle East had increased by 21 percent between 2004 and 2016.[22] Another study by the university in 2016 found more than 14,000 students from the Middle East currently enrolled in Chinese universities.[23] In Egypt and Saudi Arabia, officials have announced plans to begin offering Chinese-language courses in preparatory schools.[24]

China's interests in the Middle East and North Africa lie in preserving its economic access, maintaining the free flow of commerce, preventing violent extremism from affecting its equities, and advancing its image as a global power. Some of these goals are compatible with U.S. interests in the region. China values stability, often positioning itself as an independent arbiter helping all parties to advance economic interests in accordance with Beijing's model of "win-win cooperation."[25] Like the United States, China seeks stable and secure markets to ensure the free flow of commerce. For instance, China's anti-piracy naval task force, while not operating in conjunction with U.S. or Western naval forces, contributes to the overall security of maritime shipping in the Bab al-Mandab maritime chokepoint.

China's pursuit of other goals in the region often does not comport with longstanding U.S. interests. Most troublingly, China's blending of state-controlled commercial enterprises with military development, commonly referred to as "military-civil fusion," presents unique risks to countries engaging in significant economic transactions with the country. Military-civil fusion involves, broadly, synchronizing China's civilian research and commercial sectors with its military and defense industrial sectors so that "innovations simultaneously advance economic and military development."[26] Further, China requires that state-controlled enterprises in specific sectors be prepared to host and service Chinese military assets.[27] This effectively blurs the line between its commercial and military presence abroad, and puts countries with commercial agreements with China in the awkward position of potentially supporting the Chinese military. In the Middle East, this conundrum is most visible in Chinese investment in ports and industrial parks, which—though designed to grow commerce—can also enhance Chinese naval assets and aid China in building out a future military presence. As one Biden administration official testified in August 2021, "The current assessment is that China has a global strategy of pursuing military installations all over, including the Middle East...we warn and discuss with our partners in the Middle East that ultimately Chinese engagement in certain categories will violate their sovereignty."[28]

The growing Chinese security presence in the Middle East concerns U.S. policymakers for several reasons, the first involving the risk that China could collect information on U.S. troops and equipment in the region. This concern is most pronounced in Djibouti, where China's first overseas base is located mere miles from the U.S. naval base, Camp Lemonnier, and where China has already interfered with U.S. military activity.[29] As one Biden administration official put it: "What we discuss with our partners is the expectation that [while] there will be an economic or trade relationship with China, just like the United States has, but there are certain categories of activities or engagement that our partners may be considering with China that if they do will pose a risk to U.S. defense technology, other kinds of technology, and ultimately force protection."[30]

Another concern for Washington is that through its investment tactics, Beijing may ultimately create enough leverage with U.S. partners in the region to sway them against American interests. This could lead to a decrease in U.S.-partner coordination, an increase in partner cooperation with China, or broader instability stemming from Chinese economic conditions. This is already occurring in parts of Africa, where China has used its investment tactics to gain leverage over host countries, get access to rare minerals, and expand its security influence.[31] As one U.S. general described it: "I had an African leader tell me a drowning man will reach for any hand."[32] This leads to an additional level of risk for the United States: that Chinese debt-trap lending—which has led to turbulence in countries like Sri Lanka—may destabilize weakened economies in the Middle East and trigger broader instability.[33]

Overall, China's pursuit of its interests in the Middle East presents both a direct and an indirect challenge to U.S. interests. China's military presence and its arms sales represent a direct challenge. Chinese military deployments to the region have led to the establishment of the Djibouti overseas base and a broader willingness from Beijing to flow in forces abroad, and its arms sales have captured customers in niche markets, forcing direct competition with the United States and other sellers. Indirectly, China's deep economic ties to the region and subsequent investment in critical infrastructure have given it an opportunity to translate its commercial influence into military power projection, potentially threatening regional countries' overall relationship with the United States.

China's Security Presence in the Middle East

China's security presence in the region comprises a traditional military footprint of naval deployments and exercises, arms sales, and critical infrastructure agreements.

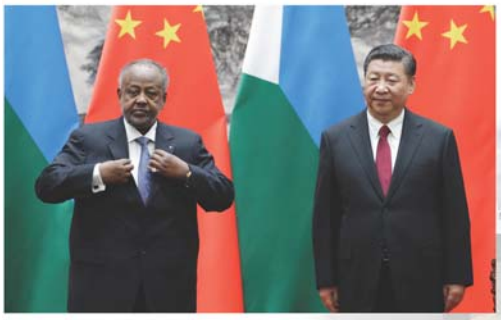
Traditional Military Footprint

In December 2008, China sent two guided missile destroyers and a support ship to the Gulf of Aden as part of the first wave of its anti-piracy naval task force, marking the first time China's People's Liberation Army Navy (PLAN) had participated in operations outside its near seas.[34] The previous year, pirates staged more than a hundred attacks against commercial vessels transiting the Gulf. Chinese officials claimed at least seven of those attacks were against Chinese merchant ships.[35] In Beijing, repercussions of the global financial crisis, coupled with threats to China's overseas economic interests, led many to argue in favor of a more assertive military posture abroad.[36] In its initial deployments, the PLAN task force escorted only Chinese merchant vessels, according to one French naval official, and did not participate in operations with any other navy in the region.[37]

China has kept this deployment active, and it now represents China's longest continuous overseas deployment of naval forces.[38] Since its initial launch, the composition of PLAN's task force has rarely deviated from two combat ships, typically a destroyer and a frigate, along with one refueling vessel.[39] In June 2022, Chinese state media claimed that since the deployment began, PLAN had deployed more than 100 ships and 30,000 service members to escort over 7,000 "merchant ships of China and foreign countries."[40] At times, the task force has also supported additional missions in the region. Over less than two weeks in 2011, Chinese forces in the region coordinated with civilian entities to evacuate more than 35,000 of its citizens from Libya in a massive air, land, and sea operation that coordinated military assets with civilian aircraft.[41] In 2013, China sent a PLAN ship to support the removal of chemical weapons from Syria, and in 2015 China evacuated more than 200 foreign nationals and 600 Chinese citizens from Yemen's Port of Aden amid heavy fighting.[42]

Beijing views the task force as a resounding success, in large part due to an overall decrease in piracy throughout the Gulf. From 2012 to 2016, NATO claimed that as a result of its own anti-piracy task force, no successful piracy attacks had been conducted in the Gulf.[43] As piracy dropped in the region, so too did China's escort missions. In 2020, China's task force escorted just forty-nine ships, according to a Defense Department report.[44] The decreased piracy levels and the Chinese perception of task force success presented Beijing with an opportunity to use its continued deployment to project more traditional military power overseas, enhance the prestige of the Chinese military, and support its other economic interests in the Middle East and the African continent.

Given that China's surface fleets in the task force rely on oil tankers for refueling, replenishment became a priority for sustaining the task force's continued deployment. In 2014, China and Djibouti signed



Djibouti's President Ismail Omar Guelleh and China's President Xi Jinping take part in a signing ceremony in Beijing, November 23, 2017. REUTERS/Jason Lee



an agreement to allow the Chinese navy to use the Djibouti port for replenishment. A year later, the two countries began negotiating an arrangement to allow China to expand the nearby Doraleh port to include the construction of an adjacent Chinese naval facility.[45] This is China's first overseas base, as discussed earlier, and China has taken full advantage of it. Since its construction, China has expanded the naval facility's capabilities to potentially dock an aircraft carrier or nuclear submarine, according to U.S. military officials.[46]

China's base in Djibouti and its naval task force are the most prominent features of its military presence in the Middle East and Africa, but China has augmented these features with other military operations, including joint exercises and port calls. In 2014, two PLAN warships made a port call to Iran's Bandar Abbas and conducted joint exercises with the Iranian navy.[47] In 2016, Chinese special forces hosted their Saudi counterparts for two weeks of exercises, and in 2019 China and Saudi Arabia conducted a three-week joint counter-piracy exercise.[48] Later that year, a Chinese guided missile destroyer participated in a joint counter-piracy exercise with the Egyptian navy.[49] In 2020, Chinese forces participated in a Russian military exercise that included Iran and Pakistan, and in 2019 and 2022 the Chinese navy took part in joint exercises with Iran and Russia in the Gulf of Oman and the Indian Ocean.[50] Since 2010, Chinese ships have made port calls to every Gulf Cooperation Council country as well as to Iran, Egypt, and Israel.[51]

The effects of piracy and the massive evacuation from Libya demonstrated both the vulnerability of China's overseas economic interests and the inadequacy of the Chinese military to protect these interests. China's subsequent investment in military operations in the region, along with its establishment of a base, demonstrates its commitment to sustain operations over the long term. China's success in ensuring the security of its commercial shipping in the region has likely reinforced Beijing's willingness to project further power abroad. While modest in comparison to the U.S. military footprint in the Middle East, China has used its military presence to support its primary objectives in the region: advancing its economic interests, boosting its reputation, and increasing its prestige as a military power. Moreover, China's military presence has provided a foundation for increased security cooperation with regional countries—a dynamic that will likely continue as China expands its engagement in the Middle East.

Critical Infrastructure Agreements

In 2018, Israel awarded the Shanghai International Port Group a twenty-five-year contract to operate the Haifa Bayport. Under the agreement, the terminal operations company, majority-controlled by the Chinese government, is allowed to manage the Bayport terminal through an Israeli company.[52] The agreement set off alarms in Washington: here was the closest U.S. partner in the region signing a major infrastructure agreement with a key U.S. global adversary, at a location frequented by the U.S. Navy. In 2020, Israel rejected a U.S. offer to conduct a security review of the port.[53] During a visit to Israel in 2021, Central Intelligence Agency director William Burns reportedly raised U.S. concerns about major Chinese investment in Israel, such as the Haifa port.[54] Later that year, Israeli defense sources sounded a more conciliatory tone, noting the Israeli navy would take action to keep its platforms in the Haifa port protected against "suspected foreign eyes and ears."[55]

The concern over what appeared, on paper at least, to be an innocuous agreement between a company and a country reflects deeper distrust of China's overseas investment strategy. China's blending of private companies with government control, as discussed earlier, allows it to use overseas projects as a potential bridge to hard power. Chinese regulations—in particular, the 2010 National Defense Mobilization Law and the 2016 National Defense Transportation Law—require Chinese companies abroad be prepared to provide support to Chinese forces globally.[56] These regulations stipulate that "the military, if necessary, can station military representatives in relative transportation enterprises," essentially meaning that China can choose to embed military personnel in civilian firms overseas in order to coordinate military operations.[57]

Chinese military strategists see overseas civilian investment in ports as a cost-effective way to support military operations without building large bases and risking geopolitical backlash (see figure 1).[58] China can claim that because it has not built a network of global bases, it lacks the same global military aspirations as the United States, even though by increasing its network of modernized ports, it effectively achieves the same outcome. Some Chinese officials have been candid about their goals, describing overseas investments as "opportunities for firms to participate in or service military operations."[59] For instance, initial drafts of China's negotiations with Sri Lanka over operating the Hambantota port left open the possibility of China placing military assets at the port. Only after Indian officials intervened did Sri Lanka insert a clause barring China from using the port for military purposes without permission from Sri Lankan authorities.[60]

A review of Chinese sources reveals that Beijing has depicted several overseas ports as potential "strategic strongpoints" it might use to provide future support to military forces abroad.[61] China's 2013 "Science of Military Strategy" document called for building "strategic strongpoints that rely on mainland, radiate out into the periphery, and go into the two oceans, providing support for military operations of serving as a forward base for the deployment of military forces overseas, as well as exerting political and military influence in relevant regions."[62] A Biden administration official has said that China's investments in ports "are made cautiously and with an eye toward their future potential for military access," and "top Chinese officials have privately told foreign delegations that these port projects are built as dual-use because China expects it will use them in the future for military purposes."[63] In 2022, the *Economist* noted that Chinese firms either "partly or wholly" own more than ninety ports worldwide.[64]

In the Middle East, Chinese government–backed entities have invested in several critical ports along the "Maritime Silk Road" connecting China to Europe. Chinese firms have also financed industrial parks in Egypt along the Suez Canal and in Oman at the Port of Duqm.[65] In 2020, Egypt signed a memorandum of understanding with the Hong Kong–based firm Hutchison Ports—which already operates Egyptian ports in Alexandria and El Dekheila—to operate a container terminal at the Abu

Figure 1. **Notable Chinese Investments in Middle East and North Africa Ports and Industrial Parks**



*PLAN refers to People's Liberation Army Navy
**TEDA refers to Tianjin Economic-Technological Development Area, an industrial zone in China with a branch in Egypt

Qir Naval Base along Egypt's Mediterranean coast.[66] More than 1,500 Chinese companies are currently active in Egypt, and China is the largest user of the Suez Canal.[67] In the UAE, a transit hub for almost two-thirds of Chinese exports to Europe, the Middle East, and Africa, the China Ocean Shipping Company was awarded a thirty-five-year concession in 2018 to operate and develop a new container terminal at the al-Khalifa port.[68] In 2021, Hutchison Ports secured a deal with Saudi Arabia to operate the Jazan port along the Red Sea.[69] In Turkey, a consortium of Chinese firms purchased a controlling stake in 2015 in the Kumport Terminal within the Ambarli port outside Istanbul.[70] In Algeria, Chinese firms have financed the construction of the port of El Hamdania in exchange for twenty-five years of operating rights.[71]

In spring of 2021, amid talks to sell the most advanced U.S. military aircraft—the F-35—to the UAE, American officials reportedly learned that China was using its presence at the Emirates' al-Khalifa port industrial park to construct a suspected military facility.[72] The U.S. Defense Department had consistently warned that China was eyeing the UAE as a potential location for its next overseas base, given ties between the countries and the strategic importance al-Khalifa served to advance China's economic interests in the region and beyond.[73] The discovery disrupted negotiations over the F-35 sale. Despite the UAE's halting of Chinese construction later that year, talks nevertheless collapsed shortly afterward. Soon after, the UAE announced it would purchase Chinese L-15 light attack advanced jet trainers.[74] The secret facility manifested Washington's darkest suspicions about Chinese port investments abroad, which by their very nature can be used as quasi-bases for the Chinese military.

Ports represent the nearest-term realization of China's ability to blend civilian investment with military presence, but they are not the only critical infrastructure Chinese investment is shaping in the region. Over the past seventeen years, China has invested billions of dollars in infrastructure projects throughout the Middle East. Since 2005, Chinese firms have signed $36.8 billion in construction contracts in Saudi Arabia, $29.1 billion in the UAE, $21.8 billion in Iran, $18.8 billion in Egypt, $18.1 billion in Iraq, $4.5 billion in Jordan, and $2.75 billion in Israel.[75] While these projects are not always directly linked to China's so-called military-civilian fusion, they further entrench the country's interests in hard infrastructure in the region. Further, they could potentially allow cover for a future security presence, as China may invoke the need to protect these investments through private security companies or even a traditional military deployment.



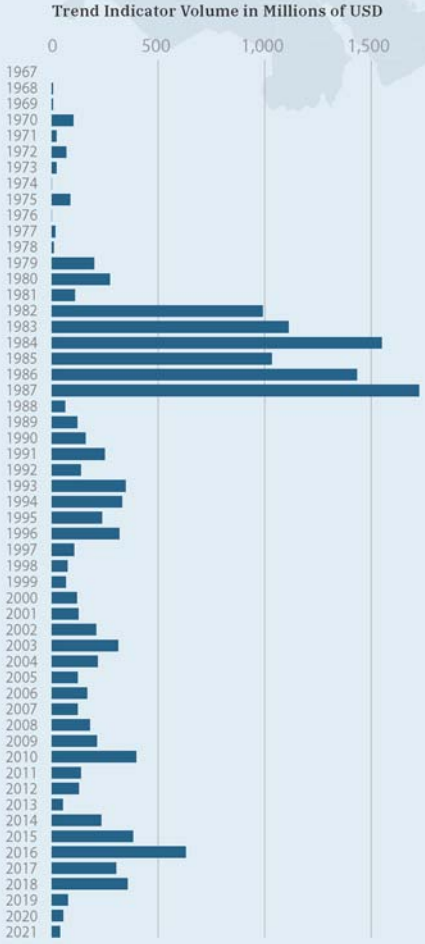
UAE minister of state Sultan Ahmed al-Jaber meets with Chinese official Huang Lixin to sign a cooperation deal in Abu Dhabi, UAE, July 31, 2017. REUTERS/Stringer

Arms Sales

Like the United States and other arms exporters, China advances both its commercial and security interests through weapons sales. In the Middle East, arms sales support China's efforts to protect its overseas interests in several ways. They advance China's own defense industrial base, boost the prestige of Chinese materiel, serve as an inroad for potential military cooperation, and provide an alternative supply of arms to longstanding U.S. partners. For countries that have grown weary of long waiting times, U.S. restrictions, and oversight, Chinese military equipment and arms systems are increasingly attractive.

Historically, the Middle East has proven a lucrative market for Chinese arms (see figure 2). During the Iran-Iraq War, China sold both countries the same fighter jets, the F-6 and F-7, as well as tanks, armored personnel carriers, and a range of missile systems.[76] China also found a willing customer in Saudi Arabia in the 1980s, selling the kingdom fifty Dong Feng-3 intermediate-range ballistic missiles.[77] By the end of the Cold War, China was the fourth largest global exporter of arms, with a sizable portion headed to the Middle East.[78] However, the collapse of the Soviet Union coupled with the swift defeat of the heavily Soviet-equipped Iraqi military in the 1991 Gulf War diminished the availability and appeal of Soviet materiel in the global arms market, and China's arms exports—which also relied on Soviet supply—decreased as well. (See figures 3 and 4 for China's arms sales compared with other powers, and for the breakdown of China's clients.)

Figure 2.
China's Arms Exports to the Middle East and North Africa, 1967–2021

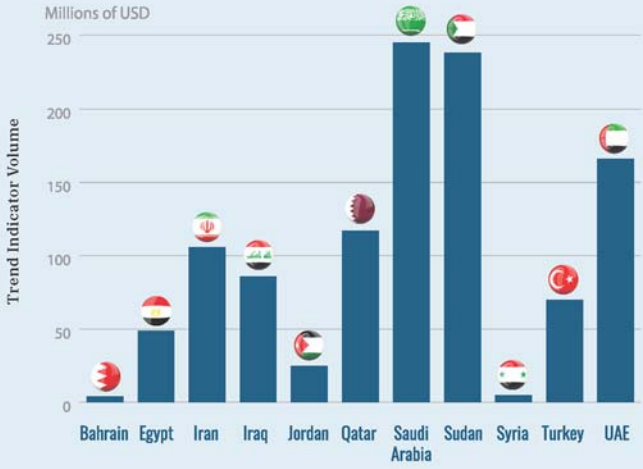


Source: Stockholm International Peace and Research Institute, accessed August 2022

Figure 3.
Top Arms Exporters to the Middle East and North Africa, 2011–21



Figure 4.
Purchases of Chinese Arms, 2011–21



Source: Stockholm International Peace and Research Institute, accessed August 2022

As China's own defense industry has developed and as its global aspirations have grown, Beijing has made a concerted effort to further vary its arms exports. The U.S. Defense Department noted in 2019 that China had become "the world's fastest-growing arms supplier during the past 15 years."[79] In the 1980s and 1990s, China typically exported missiles and land-based systems.[80] In recent years, however, China has increasingly exported aircraft, ships, and advanced missile systems. In the Middle East, China has targeted a small niche market: armed unmanned aerial vehicles (UAVs). The United States has traditionally been reticent to supply armed UAVs to customers in the region, and Russia does not have a popular armed UAV it markets successfully to the region. China has met the demand among Middle East customers for such systems, supplying them to U.S. adversaries and partners alike.

Among the first Chinese armed UAVs to appear in the region was the Cai Hong–4, a medium-altitude, long-endurance UAV that comes in two primary models, one focused on reconnaissance (CH-4A) and one capable of conducting airstrikes (CH-4B).[81] China's exports of the CH-4 were prolific at first. Between 2014 and 2016, Iraq, Jordan, and Saudi Arabia purchased the CH-4B; in 2017, Algeria purchased the CH-4A.[82] The UAV demonstrated mixed performance, however. According to the U.S. Defense Department, Iraq had to sideline its fleet of twenty CH-4Bs in the middle of its anti–Islamic State campaign after eight crashed and China was tardy in providing parts for the twelve others.[83] Algeria's CH-4 fleet was likewise prone to crashing.[84] Jordan, which purchased the CH-4 after the Obama administration denied the kingdom's requests to buy the U.S. Predator UAV, almost immediately put its squadron of CH-4s up for sale.[85] A 2020 report indicated that they may have sold to the Libyan National Army faction under Khalifa Haftar.[86]

China has also had success selling the more advanced Wing Loong series of UAVs to the region. Like the CH-4, the Wing Loong I and II series are medium-altitude, long-endurance platforms that can be armed to support long-range precision strike missions.[87] In the region to date, Egypt, Saudi Arabia, and the UAE have purchased the Wing Loong.[88] This drone's long-range precision strike capability has made it particularly useful to countries engaged in expeditionary warfare. The UAE has purchased the Wing Loong I and II and has reportedly fielded them in Yemen, Libya, and Eritrea.[89] Egypt, which has bought dozens of the Wing Loong I, has reportedly deployed the UAV along its border with Libya.[90] Nearly all these UAV sales have come with associated sales of Chinese precision missiles. Egypt's purchase of the Wing Loongs came with hundreds of Blue Arrow-7 antitank missiles and TL-2 antiship missiles.[91] The UAE's purchase of the Wing Loong II was accompanied by an order for approximately five hundred Blue Arrow–7 missiles. Iraq's purchase of the Ch-4B was joined by an order for approximately one hundred FT-9 precision-guided munitions.[92]

China has used the success of UAV sales to expand its defense relationships with countries around the world. Serbia, which purchased nearly $20 million worth of Chinese UAVs in 2020, recently received a battery of the Chinese HQ-22 medium-to-long-range air defense system.[93] Serbia's purchase of Chinese UAVs represented China's first export of military aircraft to Europe.[94] Saudi Arabia, which has purchased both the CH-4 and Wing Loong, recently showcased the Chinese HQ-17 air defense system in its arsenal, and the two countries have announced plans to jointly manufacture UAVs.[95] Additionally, reports emerged in 2021 that Saudi Arabia was domestically producing ballistic missiles with China's technological support.[96] The UAE, likewise, announced in early 2022 that it would be complementing its Chinese UAVs by purchasing the aforementioned Chinese L-15 trainer jet.[97] Emirati and Chinese firms have also set up a joint UAV research and development project in Abu Dhabi.[98] And as drones have proliferated on Middle East battlefields, China has also marketed its own mobile, counter-UAV system, the Silent Hunter, which it exhibited at the Dubai air show in 2021.[99] Here, too, the United States is at a disadvantage, as it lacks a comparable platform to export to the region, despite the demand.



A Wing Loong model presented at the Egypt Defence Expo, Cairo, November 30, 2021. REUTERS/Mohamed Abd El Ghany

The United States continues to hold the advantage in post-sale maintenance and sustainment of its military platforms. As demonstrated by the moribund fleet of CH-4s sold by China to Iraq, many recipients of Chinese arms regularly complain about not only their quality but also about the bloated costs and complications involved in maintaining them. Thailand's 2017 purchase of a Chinese Yuan-class submarine has repeatedly stalled due to China's inability to source German engines for the boat.[100] Bangladesh took delivery of two Chinese frigates in 2019 with defective navigation and weapon systems, which China reportedly offered to fix—for a price.[101] Analysts have noted that China's arms sales tactics rely in part on marketing at a lower initial price with hidden post-sale costs.[102]

Despite these complications, the market for Chinese arms and technology in the Middle East is likely to grow in the coming years. China is increasingly willing to provide critical military support to key partners in the region. Russia's invasion of Ukraine, and the subsequent sanctions on the Russian defense industry, will likely diminish Moscow's ability to continue to export arms globally. This will create an opportunity for China's arms exports around the world, but in particular in the Middle East, which trails only Asia in arms purchases.[103] China can offer potential customers a less expensive product that arrives faster and with minimal political interference, a feature of China's supposed "win-win cooperation." Traditional U.S. partners will likely turn to China for the same reasons they turned to Russia for arms in the past: faster deliveries, fewer obligations regarding their use, and cheaper prices. Additionally, some are likely to use the prospect of Chinese arms deals as leverage with Washington. China sees arms as a straightforward way to enhance security cooperation with countries around the world; the 2015 white paper on Chinese strategy calls on the military to conduct dialogues with foreign militaries on "services and arms building" while strengthening "material assistance" and cooperation in "equipment and technology" with the goal of deepening these ties.[104]

Redlines for the United States

Not all of China's relationships in the region will look the same. To craft a response that both meets the China challenge and preserves strong ties with partners in the region, the United States must accurately assess the type of Chinese security presence and its associated risks to U.S. security interests. China's security presence in the Middle East generally covers five levels of risk to U.S. security interests, each associated with China's varying levels of engagement with particular countries, both in its security presence as well as in its future relationship with the countries and the region (see figure 5 for a graphic representation).

The first level of risk—the standard level associated with any country in which both the United States and China have some type of presence—is characterized by modest Chinese investment in the country's economy and minor arms sales. At this level, embodied, for example, by Jordan, the relationship with China tends to be innocuous. China has invested in Jordanian infrastructure projects such as the Attarat Power Plant, and has even sold the kingdom UAVs. But Jordan almost immediately put those UAVs up for sale, and Jordanian officials regularly complain about the terms of the Attarat deal. Even today, some officials note that the king has an informal ban on major Chinese investment in the country. Jordan, then, has largely calibrated its commercial relationship with China to serve its economic interests without jeopardizing its national security and, by extension, its defense relationship with Washington. The United States can therefore continue to deepen its defense relationship with Jordan without serious concern about Chinese interference. While Jordan may be an outlier, the United States can assume that most countries in the Middle East will have at least this level of relationship with China.

More enhanced cooperation with China leads to the second level of risk the United States must navigate in competing with its rival: one focused on information protection, or the worry that China's economic relationship with the host country will allow it to collect information on U.S. military platforms and personnel. Nowhere is this concern more tangible than in Huawei's role in supplying regional cell phone networks. In 2019, the United States banned American companies from using federal subsidies to purchase components from Huawei, and in 2021 the U.S. Department of Commerce opened a probe into Huawei assets near U.S. bases stateside.[105] Fears center on the prospect that these Huawei assets may be used to collect information on the United States, which in turn might be handed over to the Chinese government, as dictated by Chinese law. The United States likewise pressured Britain to divest from Huawei in its 5G networks, in part to protect U.S. personnel and proprietary defense information in future F-35 deployments to British bases.[106] Several countries in the Middle East with a Huawei presence also host U.S. forces, including Saudi Arabia and the UAE. This level of risk drove the July 2022 agreement with Saudi Arabia to collaborate with U.S. firms on 5G and 6G research, a potential avenue to box out Huawei in Saudi Arabia's 5G (and later 6G) networks.[107] While this level of risk is broadly assumed whenever the United States stages forces around the world, it is heightened in places where China has an increased technological presence owing to the dual-use nature of its commercial entities.

A third level of risk involves the likelihood that a country's economic relationship with China might lead to an enhanced security relationship, and that China might leverage this relationship at the expense of the country's defense relationship with the United States. This could manifest itself in several ways, including a potential decrease in security cooperation with America. Such a level of risk applies to the U.S.-UAE defense relationship. The F-35 negotiations collapsed over two issues: the presence of Huawei in the UAE's cell phone networks and the reported construction of the secret Chinese military installation at al-Khalifa port. In this instance, China's long-standing economic ties to the UAE led to a deepened

Figure 5.
Levels of Risk to U.S. Security Interests from China's Presence in the Middle East and North Africa

Risk Level	Characteristics	Examples
First	Moderate Chinese economic investment and potentially some security coordination/arms sales	Jordan
Second	Chinese economic presence and security coordination/arms sales, creating risk to proprietary U.S. defense information	Saudi Arabia
Third	Chinese economic and military relationship with a country deepens, potentially precluding closer security coordination with U.S.	UAE
Fourth	China's economic and military relationship becomes country's top priority, pushing U.S. out of country's security orbit	–
Fifth	China becomes the security partner of choice for multiple countries in the region	–

security relationship, and this relationship ultimately torpedoed the F-35 sale. Shortly after these negotiations failed, as discussed before, the UAE announced that it would purchase the Chinese L-15 trainer jet, a platform specifically designed to acquaint pilots with Chinese avionics for future fighter jet purchases. Here was a nascent Chinese military installation nested within an economic relationship that was directly contributing to a crisis in a country's defense relationship with the United States.

In a fourth level of risk, a country's deepening economic and security ties with China causes it to gradually drift out of the U.S. security orbit. This could emerge in several different ways, likely starting with a robust economic relationship with China that evolves into purchasing Chinese arms and potentially hosting Chinese security forces. The purchases may follow the emerging Chinese model of starting with sales of UAVs and missiles before evolving into air defense systems and aircraft. China may be granted access to military installations in the country or be able to flow in its own assets to local ports. The country, in turn, may look to China first for its procurements, joint exercises, and military cooperation. At this stage in a country's security relationship with China, the United States could reasonably conclude that it is no longer the "preferred partner of choice."

Finally, in a fifth level of risk, should China sway traditional partners from the U.S. security orbit, the People's Republic may be able to marshal the countries of the Middle East against American interests. This level is the most remote possibility in the region, but it is still worth considering. A scenario in which the United States disengages diplomatically from the region, coupled with any potential drawdown of U.S. forces and an overall weakening of U.S. reliance on Middle East oil—as well as with growing Chinese relationships with both U.S. partners and adversaries alike—creates a hypothetical future in which China's voice in the region could match or even exceed that of the United States. Such a scenario, while unlikely in the near term, poses great risk with regard to U.S. global competition with China.

Guidelines for the United States

Ultimately, many countries will view this era of great power competition as an opportunity to play the United States and China against each other to maximize their own gains. They will view relationships with both the United States and China as a "hedge" should either power emerge stronger. Defense relationships in the Middle East and North Africa—home to some of the world's largest arms importers—will become complicated as some countries decide to procure weapons from both parties. Yet weapons sales demonstrate a degree of bilateral cooperation and trust that reverberates in the diplomatic realm; a country's defense purchases are often the first signs of a potential change in its geopolitical orientation. In order to compete diplomatically with China in the region, the United States must also compete in the field of security cooperation. To do so, U.S. officials should consider the following:

Expeditiously identify and convey the risks a relationship with China may have on security cooperation with the United States. Without doubt, some countries in the region will seek to balance between security cooperation with the United States—in the form of security commitments, procurement, joint exercises, and intelligence sharing—and a closer relationship with China. As the UAE example shows, however, there are limits to this balancing act. Countries that partner with Huawei in their 5G networks, purchase advanced Chinese platforms, and allow secret Chinese military installations likely present too much risk to acquire the most advanced U.S. weaponry. Washington should make that point repeatedly to partners in the region looking to deepen their ties to China.

Reverse the decision to downgrade general officer/flag officer defense-attaché billets. The 2017 U.S. National Defense Authorization Act mandated the Defense Department to reduce its corps of generals and admirals from 963 to 852 starting in 2023.[108] Reports over the 2022 summer indicated the chairman of the Joint Chiefs of Staff was recommending fulfilling this requirement by downgrading senior defense official/defense attaché (SDO/DATT) positions around the world, many of whom are one- or two-star generals.[109] This is an inexplicable decision in an era of great power competition, where the global U.S. network of security relationships is a clear, but not guaranteed, advantage. SDO/DATTs are the frontline in maintaining this network of global military partnerships. Replacing a brigadier general with a colonel in a country where China might have a brigadier general, for example, risks sending an unintentional message of U.S. withdrawal, especially in a Middle East environment already skeptical of American commitment. Instead, the Defense Department should look to the services or combatant commands to reduce the requisite number of billets.

Identify and dual-track platforms to export to the region. In the region today, most U.S. partners seek advanced air defense platforms to address the threat of UAVs and missile strikes. U.S. partners also complain that American arms transfers take too long, burdened by a byzantine export process. The United States has an effective counter-UAV platform in the region, the counter-rocket, artillery, and mortar system (C-RAM), but does not export it widely. Instead, the United States has provided Patriot batteries to select countries. But given that a single Patriot interceptor runs into the millions of dollars, the cost of shooting down UAVs can quickly become disproportionate.[110] The United States lacks a mobile, cost-effective counter-UAV platform ready for export—the closest is perhaps a prototype currently being developed by the U.S. Army.[111] China and Russia, however, do have counter-UAV platforms that, though of dubious quality, are aggressively marketed to the Middle East.[112] To better compete in this space, the United States needs to identify critical platforms designed for partners around the world—specifically defensive platforms—and dual-track their development for potential export.

Increase senior-level visits to the Middle East. One way to counter the narrative of U.S. withdrawal from the region is by increasing senior-level visits, making them more comparable with officials' stays in other regions. Visits demonstrate principal-level commitment and attention and create opportunities for deepened cooperation. As of July 2022, President Biden has visited Europe four times and the Middle East only once. Secretary of State Antony Blinken has visited Europe almost twenty times, but the Middle East six, while Secretary of Defense Lloyd Austin has visited Europe seven times and the Middle East three. Undoubtedly, the war in Ukraine is at least partially to blame for this imbalance. Yet high-level visits are an important barometer of Washington's investment in a relationship. If the administration wants to convince its partners in the region that its presence involves more than boots on the ground, it needs to show up in other ways.

Explore possibilities of coproduction with select partners. Many countries around the world seek to develop their own defense industrial base in order to diminish their reliance on foreign suppliers. But this process requires technological sharing and cooperation from an arms exporting supplier. The United States has long been reticent to share its technology in the region out of concern for losing proprietary information. Yet it has at times partnered with countries in the region to manufacture arms: Israel has produced airframe and wing components and conformal fuel tanks for F-16, F-15, and F-35 aircraft, and the United States and Egypt previously coproduced the M1A1 Abrams tank. Other U.S. partners in the region seek these types of arrangements. Saudi Arabia and China have agreed to jointly manufacture UAVs, and the UAE and Russia have agreed in the past to jointly develop advanced fighters.[113] The uneven U.S. willingness to coproduce platforms is a sore spot for regional U.S. partners looking to advance their own economies. The United States and its defense industry have ample means to counter China in this space, but will require strict conditions and protections in order to prevent any information leaking. U.S. officials should explore the possibilities of potential arrangements while also advising potential recipients of the specific agreements necessary in order to proceed.

Conclusion

China's presence in the region has mirrored its rise as a global power. What began as a strategy to advance its economic interests has gradually evolved to include an increasingly expansive array of military-security interactions with Middle East and North Africa countries. Today, China has put in place the infrastructure for deeper security ties in the region. As competition between the United States and China ramps up, the region will again be a key arena. As Gen. Michael E. Kurilla of U.S. Central Command remarked in July 2022: "This region is at the center of America's strategic competition with Russia and China."[114] To avoid turbulence with longstanding U.S. partners in the region, the United States must establish and communicate to them what it sees as the acceptable parameters of their security relationships with China. In doing so, Washington can avoid unnecessary escalation with China, maintain its regional network of defense partnerships, and find a way toward a sustainable long-term presence in the Middle East and North Africa. ❖

NOTES

1 Becca Wasser et al., *Crossroads of Competition: China, Russia, and the United States in the Middle East* (Santa Monica: RAND Corporation, 2022), https://www.rand.org/pubs/research_reports/RRA325-1.html.

2 Isaac Kardon and Wendy Leutert, "Pier Competitor: China's Power Position in Global Ports," *International Security* 46, no. 4 (Spring 2022): 9–47.

3 "In Their Own Words: China's National Defense in the New Era," white paper, China Aerospace Studies Institute, July 2019, available at https://www.airuniversity.af.edu/CASI/Display/Article/2538677/in-their-own-words-2019-chinas-national-defense-in-the-new-era/.

4 Ibid.

5 Liu Zuanzun, "Xi Signs Outlines That Direct China's Military Operations Other Than War," *Global Times*, June 13, 2022, https://www.globaltimes.cn/page/202206/1268037.shtml.

6 "Chinese Money Is Behind Some of the Arab World's Biggest Projects," *Economist*, April 20, 2019, https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects.

7 Gordon Lubold, "Secret Chinese Port Project in Persian Gulf Rattles U.S. Relations with UAE," *Wall Street Journal*, November 19, 2021, https://www.wsj.com/articles/us-china-uae-military-11637274224.

8 Stockholm International Peace Research Institute: *SIPRI Yearbook 1979: World Armaments and Disarmament* (London: Taylor & Francis, 1979), https://bit.ly/3D689gy; and *SIPRI Yearbook 1992: World Armaments and Disarmament* (Oxford: Oxford University Press, 1992), https://bit.ly/3eilcjp.

9 U.S. Department of Energy, "U.S. Crude Oil Production Surpasses Net Imports," https://www.energy.gov/maps/us-crude-oil-production-surpasses-net-imports; and U.S. Energy Information Administration, "Oil and Petroleum Products Explained: Oil Imports and Exports," https://www.eia.gov/energyexplained/oil-and-petroleum-products/imports-and-exports.php/.

10 White House, "Interim National Security Strategic Guidance," March 2021, https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf.

11 Jane Perlez, "President Xi Jinping of China Is All Business in Middle East Visit," *New York Times*, January 30, 2016, https://www.nytimes.com/2016/01/31/world/asia/xi-jinping-visits-saudi-iran.html; Xinhua News Agency, "Full Text of China's Arab Policy Paper," January 13, 2016, available at http://english.www.gov.cn/archive/publications/2016/01/13/content_281475271412746.htm.

12 Afshin Molavi, *Enter the Dragon: China's Growing Influence in the Middle East and North Africa* (Stanford, CA: Hoover Institution, 2020), https://www.hoover.org/sites/default/files/research/docs/molavi_webready_revised.pdf.

13 U.S. Energy Information Administration, "China: Overview," August 8, 2022, https://www.eia.gov/international/analysis/country/CHN.

14 Ibid.

15 Yun Sun, "Retrenchment from Africa Has China Eyeing the Middle East," *Arab Weekly*, February 2, 2022, https://thearabweekly.com/retrenchment-africa-has-china-eyeing-middle-east.

16 Katarzyna W. Sidlo, "The Chinese Belt and Road Project in the Middle East and North Africa," European Institute of the Mediterranean, 2020, https://www.iemed.org/publication/the-chinese-belt-and-road-project-in-the-middle-east-and-north-africa/.

17 "China Global Investment Tracker," American Enterprise Institute, accessed August 2022, https://www.aei.org/china-global-investment-tracker/.

18 "Middle East & North Africa Trade," World Integrated Trade Solution (World Bank), accessed September 2, 2022, https://wits.worldbank.org/CountrySnapshot/en/MEA; Jonathan Fulton and Li-Chen Sim, "Great Power Projection in the Middle East: The China-Russia Relationship as a Force Multiplier," Atlantic Council, March 16, 2022, https://www.atlanticcouncil.org/in-depth-research-reports/report/great-power-projection-in-the-middle-east-the-china-russia-relationship-as-a-force-multiplier/.

19 Mohammed Soliman, "The Gulf Has a 5G Conundrum and Open RAN Is the Key to Its Tech Sovereignty," Middle East Institute, January 12, 2022. https://www.mei.edu/publications/gulf-has-5g-conundrum-and-open-ran-key-its-tech-sovereignty.

20 Ibid.

21 Abdul Hannan Tago, "Over 40 Universities in China Teach Arabic," *Arab News*, February 23, 2014, https://www.arabnews.com/news/529946.

22 Wagdy Sawahel, "Arab-Chinese HE Cooperation on the Rise," *University World News*, September 8, 2018, https://www.universityworldnews.com/post.php?story=20180908065944431.

23 Amr El-Tohamy, "Arab Students Trapped in China by Coronavirus Outbreak," al-Fanar Media, February 6, 2020, https://www.al-fanarmedia.org/2020/02/arab-students-trapped-in-china-by-coronavirus-outbreak/.

24 "Egypt to Introduce Chinese as Second Language for Preparatory School Students," *Egypt Today*, July 4, 2022, https://www.egypttoday.com/Article/1/117402/Egypt-to-introduce-Chinese-as-second-language-for-preparatory-school; Sakina Fatima, "Saudi Arabia Includes Chinese Language in Its Educational System," *Siasat Daily*, October 7, 2021, https://www.siasat.com/saudi-arabia-includes-chinese-language-in-its-educational-system-2203817/.

25 "Full Text of Foreign Minister Wang Yi's Speech on China's Diplomacy in 2014," Consulate General of the People's Republic of China in New York, December 27, 2014, https://www.mfa.gov.cn/ce/cgny/eng/xw/t1223262.htm.

26 U.S. Department of State, "Military-Civil Fusion and the People's Republic of China," https://www.state.gov/wp-content/uploads/2020/05/What-is-MCF-One-Pager.pdf.

27 Isaac Kardon, "Research & Debate—Pier Competitor: Testimony on China's Global Ports," *U.S. Naval War College Review* 74, no. 1 (Winter 2021), available at https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=8168&context=nwc-review; Kathrin Hille, Demetri Sevastopulo, and John Paul Rathbone, "China Denies Building Naval Bases but Fear of Its Military Reach Grows," *Financial Times*, June 19, 2022, https://www.ft.com/content/f3687d1d-6cff-407a-917f-994dbd3da120.

28 U.S. Senate Committee on Foreign Relations, "U.S. Security Assistance in the Middle East," subcommittee hearing, August 10, 2021, https://www.foreign.senate.gov/hearings/us-security-assistance-in-the-middle-east-081021.

29 Aaron Mehta, "Two U.S. Airmen Injured by Chinese Lasers in Djibouti, DoD Says," *Defense News*, May 3, 2018, https://www.defensenews.com/air/2018/05/03/two-us-airmen-injured-by-chinese-lasers-in-djibouti/.

30 "U.S. Security Assistance in the Middle East," https://www.foreign.senate.gov/hearings/us-security-assistance-in-the-middle-east-081021.

31 "Ace of Bases," *Economist*, May 20, 2022, https://www.economist.com/special-report/2022/05/20/ace-of-bases.

32 Jim Garamone, "Commander Says Africa Is Too Important for Americans to Ignore," U.S. Department of Defense, April 21, 2021, https://www.defense.gov/News/News-Stories/Article/Article/2580930/commander-says-africa-is-too-important-for-americans-to-ignore/.

33 Ishaan Tharoor, "China Has a Hand in Sri Lanka's Economic Calamity," *Washington Post*, July 20, 2022, https://www.washingtonpost.com/world/2022/07/20/sri-lanka-china-debt-trap/.

34 Alison A. Kaufman, "China's Participation in Anti-Piracy Operations off the Horn of Africa: Drivers and Implications," Center for Naval Analysis, July 2009, https://www.cna.org/reports/2009/D0020834.A1.pdf.

35 Mark McDonald, "China Confirms Naval Role in Gulf of Aden," *New York Times*, December 18, 2008, https://www.nytimes.com/2008/12/19/world/asia/19patrols.html.

36 Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2021), 204–5. Additionally, China had become a net importer of natural gas the year before deploying the task force; see "China: Overview," https://www.eia.gov/international/analysis/country/CHN.

37 Jerome Henry, *China's Military Deployments in the Gulf of Aden: Anti-Piracy and Beyond* (Paris: Institut Francais des Relations Internationales, 2016), https://www.ifri.org/sites/default/files/atoms/files/chinas_military_deployments_in_the_gulf_of_aden_anti-piracy_and_beyond_0.pdf.

38 U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China*, annual report to Congress (2021), https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF.

39 Henry, *China's Gulf of Aden Deployments*, https://www.ifri.org/sites/default/files/atoms/files/chinas_military_deployments_in_the_gulf_of_aden_anti-piracy_and_beyond_0.pdf; Dzirhan Mahadzir, "Chinese Navy Piracy Patrol Shepherds Fishing Fleet Through Gulf of Aden," USNI News, January 6, 2022, https://news.usni.org/2022/01/06/chinese-navy-piracy-patrol-shepherds-fishing-fleet-through-gulf-of-aden.

40 Chen Zhuo, "Chinese Naval Escort Task Forces Conduct Mission Handover at Gulf of Aden," *PLA Daily*, June 13, 2022, http://english.pladaily.com.cn/view/2022-06/13/content_10162772.htm.

41 Shi Jiangtao, "Lessons to Learn from Libyan Evacuation," *South China Morning Post*, March 5, 2011, https://www.scmp.com/article/739925/lessons-learn-libyan-evacuation.

42 Reuters, "China Military Ship to Help Guard Syria Chemical Weapons Destruction," December 19, 2013, https://www.reuters.com/article/us-syria-crisis-china/china-military-ship-to-help-guard-syria-chemical-weapons-destruction-idUSBRE9BI0A620131219; "Yemen Crisis: China Evacuates Citizens and Foreigners from Aden," BBC, April 3, 2015, https://www.bbc.com/news/world-middle-east-32173811.

43 "Counter-Piracy Operations (2008–2016)," NATO, May 19, 2022, https://www.nato.int/cps/en/natohq/topics_48815.htm.

44 U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China*, annual report to Congress (2020), https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF.

45 "China 'Negotiates Military Base' in Djibouti," Al Jazeera, May 9, 2015, https://www.aljazeera.com/news/2015/5/9/china-negotiates-military-base-in-djibouti; Max Bearak, "In Strategic Djibouti, a Microcosm of China's Growing Foothold in Africa," *Washington Post*, December 30, 2019, https://www.washingtonpost.com/world/africa/in-strategic-djibouti-a-microcosm-of-chinas-growing-foothold-in-africa/2019/12/29/a6e664ea-beab-11e9-a8b0-7ed8a0d5dc5d_story.html.

46 Michael M. Phillips, "China Seeks First Military Base on Africa's Atlantic Coast, U.S. Intelligence Finds," *Wall Street Journal*, December 5, 2021, https://www.wsj.com/articles/china-seeks-first-military-base-on-africas-atlantic-coast-u-s-intelligence-finds-11638726327.

47 Sam LaGrone, "China and Iran Deepening Naval Ties, Iran Calls for Bilateral Blue Water Exercise," USNI News, October 27, 2014, https://news.usni.org/2014/10/27/china-iran-deepening-naval-ties-iran-calls-bilateral-blue-water-exercise.

48 Reuters, "China Holds First Anti-Terror Drills with Saudi Arabia," October 27, 2016, https://www.reuters.com/article/us-china-saudi-security/china-holds-first-anti-terror-drills-with-saudi-arabia-idUSKCN12R0FD; Reuters, "China, Saudi Arabia Launch Joint Naval Exercise—Media," November 19, 2019, https://www.reuters.com/article/china-saudi-military/china-saudi-arabia-launch-joint-naval-exercise-media-idUSL3N28010M.

49 "Egypt, China Naval Forces Carry Out Joint Military Drills off Egypt's Mediterranean," *Ahram Online*, August 21, 2019, https://english.ahram.org.eg/NewsContent/1/64/344171/Egypt/Politics-/Egypt,-China-naval-forces-carry-out-joint-military.aspx.

50 "China and Iran Embark on Joint Military Drills in Russia," *Sydney Morning Herald*, September 10, 2020, https://www.smh.com.au/world/asia/china-and-iran-embark-on-joint-military-drills-in-russia-20200910-p55ueq.html; Ben Westcott and Hamdi Alkhshali, "China, Russia and Iran Hold Joint Naval Drills in Gulf of Oman," CNN, December 27, 2019, https://www.cnn.com/2019/12/27/asia/china-russia-iran-military-drills-intl-hnk/index.html; "Iran, Russia, China Hold Joint Naval Drill amid Growing Ties," Radio Free Europe/Radio Liberty, January 21, 2022, https://www.rferl.org/a/iran-russia-china-exercises/31663080.html.

51 Daniel Kliman and Abigail Grace, "China Smells Opportunity in the Middle East's Crisis," *Foreign Policy*, June 14, 2018, https://foreignpolicy.com/2018/06/14/china-smells-opportunity-in-the-middle-easts-crisis/.

52 Galia Lavi and Assaf Orion, "The Launch of the Haifa Bayport Terminal: Economic and Security Considerations," *Insight 1516* (Institute for National Security Studies, September 12, 2021), https://www.inss.org.il/publication/haifa-new-port/.

53 Amos Harel, "Israel Rejected U.S. Inspection of Haifa Port over Fear of Chinese Surveillance," *Haaretz*, February 1, 2021, https://www.haaretz.com/israel-news/2021-02-01/ty-article/.highlight/u-s-offered-to-inspect-israels-haifa-port-due-to-chinas-involvement/0000017f-dbbc-d3ff-a7ff-fbbcc45c0000.

54 Barak Ravid, "Scoop: CIA Director Raised China Concerns with Israeli Prime Minister," Axios, August 18, 2021, https://www.axios.com/2021/08/18/cia-israel-china-investments.

55 Arie Egozi, "U.S. Presses Israel on Haifa Port amid China Espionage Concerns: Sources," *Breaking Defense*, October 5, 2021, https://breakingdefense.com/2021/10/us-presses-israel-on-haifa-port-amid-china-espionage-concerns-sources/.

56 Conor M. Kennedy, "Civil Transport in PLA Power Projection," *CMSI China Maritime Reports* 4 (2019), available at https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1003&context=cmsi-maritime-reports.

57 Kardon and Leutert, "Pier Competitor."

58 Ibid.

59 Ibid.

60 Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *New York Times*, June 25, 2018, https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html.

61 Peter Dutton, Isaac Kardon, and Conor Kennedy, "Djibouti: China's First Overseas Strategic Strongpoint," *CMSI China Maritime Reports* 6 (2020), available at https://apps.dtic.mil/sti/pdfs/AD1099642.pdf.

62 Doshi, *The Long Game*, 206.

63 Ibid., 207, 245.

64 "China Wants to Increase Its Military Presence Abroad," *Economist*, May 5, 2022, https://www.economist.com/china/2022/05/05/china-wants-to-increase-its-military-presence-abroad.

65 John Calabrese, "Towering Ambitions: Egypt and China Building for the Future," Middle East Institute, October 6, 2020, https://www.mei.edu/publications/towering-ambitions-egypt-and-china-building-future; "Oman's Duqm Emerging as New Arena for China-U.S. Competition," *Arab Weekly*, September 9, 2021, https://thearabweekly.com/omans-duqm-emerging-new-arena-china-us-competition.

66 "Towering Ambitions," https://www.mei.edu/publications/towering-ambitions-egypt-and-china-building-future; Hutchison's ties to the Chinese leadership were documented in a 1999 congressional hearing on its involvement with the Panama Canal; see http://commdocs.house.gov/committees/bank/hba61331.000/hba61331_0f.htm.

67 Scott Foster, "Belt & Road Reaching Far and Wide in Middle East," *Asia Times*, March 7, 2022, https://asiatimes.com/2022/03/belt-road-reaching-far-and-wide-in-middle-east/.

68 "Chinese Money Is Behind Some of the Arab World's Biggest Projects," *Economist*, April 20, 2019, https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects; Karen Gilchrist, "China's Cosco and Abu Dhabi Ports Develop Khalifa to Support Belt and Road Initiative," CNBC, December 9, 2018, https://www.cnbc.com/2018/12/10/belt-and-road-abu-dhabi-ports-sees-huge-trade-boost-from-cosco-deal.html.

69 "Hutchison Ports and JCPDI Sign Investment Agreement for JCPDI Port," *Ship Technology*, February 16, 2021, https://www.ship-technology.com/news/hutchison-ports-jcpdi-sign-investment/.

70 Greg Knowler, "China Port Giants Pour $1 Billion into Turkish Terminal," *Journal of Commerce Online*, September 17, 2015, https://www.joc.com/port-news/china-port-giants-pour-1-billion-turkish-terminal_20150917.html.

71 Scott Foster, "Belt & Road Reaching Far and Wide in Middle East," *Asia Times*, March 7, 2022, https://asiatimes.com/2022/03/belt-road-reaching-far-and-wide-in-middle-east/; U.S. International Trade Administration, "Algeria's El Hamdania Port," March 29, 2020, https://www.trade.gov/market-intelligence/algerias-el-hamdania-port.

72 Lubold, "Chinese Port Project Rattles U.S. Relations with UAE," https://www.wsj.com/articles/us-china-uae-military-11637274224.

73 Defense Department, *Military and Security Developments Involving China* (2020), https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF.

74 Agnes Helou, "UAE to Buy a Dozen Chinese L-15 Trainer Aircraft," *Defense News*, February 25, 2022, https://www.defensenews.com/air/2022/02/25/uae-to-buy-a-dozen-chinese-l-15-trainer-aircraft/.

75 "China Global Investment Tracker," https://www.aei.org/china-global-investment-tracker/.

76 "Transfers of Major Weapons," SIPRI Arms Transfers Database, accessed August 2, 2022, https://sipri.org/databases/armstransfers.

77 Bruce Riedel, "Saudi Arabia's Relations with China: Functional, but Not Strategic," Brookings Institution, July 20, 2020, https://www.brookings.edu/articles/saudi-arabias-relations-with-china-functional-but-not-strategic/.

78 Daniel L. Byman and Roger Cliff, *China's Arms Sales: Motivations and Implications* (Santa Monica, CA: RAND Corporation, 1999), https://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1119/RAND_MR1119.pdf.

79 U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China*, annual report to Congress (2019), https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019_CHINA_MILITARY_POWER_REPORT.pdf.

80 "Transfers of Major Weapons" SIPRI Arms Transfers Database; April Herlevi, "China as a Niche Arms Exporter," *InDepth*, Center for Naval Analyses, August 31, 2021, https://www.cna.org/our-media/indepth/2021/08/china-as-a-niche-arms-exporter/.

81 Gabriel Dominguez, "Pakistan Receives Five CH-4 UAVs from China," *Janes*, January 27, 2021, https://www.janes.com/defence-news/news-detail/pakistan-receives-five-ch-4-uavs-from-china.

82 "Transfers of Major Weapons," SIPRI Arms Transfers Database.

83 Operation Inherent Resolve, "Lead Inspector General Report to the United States Congress," January 1, 2021–March 31, 2021, https://bit.ly/3eomGd3.

84 "Chinese CH-4B Drones Keep Crashing in Algeria for Technical Fault," Global Defense Corp, March 11, 2021, https://www.globaldefensecorp.com/2021/03/11/chinese-ch-4b-drones-keep-crashing-in-algeria-for-technical-fault/.

85 Kate Brannen, "U.S. Firm Denied Request to Market Drones to Jordan," *Foreign Policy*, February 5, 2015, https://foreignpolicy.com/2015/02/05/u-s-firm-denied-request-to-market-drones-to-jordan/; David Axe, "One Nation Is Selling Off Its Chinese Combat Drones," *National Interest*, June 5, 2019, https://nationalinterest.org/blog/buzz/one-nation-selling-its-chinese-combat-drones-61092.

86 Jeremy Binnie, "Update: Libya's GNA Says Jordan Sold UAVs to Its Enemy," *Janes*, April 7, 2020, https://www.janes.com/defence-news/news-detail/update-libyas-gna-says-jordan-sold-uavs-to-its-enemy.

87 "Wing Loong Unmanned Aerial Vehicle (UAV)," *Airforce Technology*, February 2, 2021, https://www.airforce-technology.com/projects/wing-loong-unmanned-aerial-vehicle-uav/.

88 "Transfers of Major Weapons," SIPRI Arms Transfers Database.

89 Wim Zwijnenburg, "Are Emirati Armed Drones Supporting Ethiopia from an Eritrean Air Base?" Bellingcat, November 19, 2020, https://www.bellingcat.com/news/rest-of-world/2020/11/19/are-emirati-armed-drones-supporting-ethiopia-from-an-eritrean-air-base/.

90 Stijn Mitzer and Joost Oliemans, "The Middle East's Game of Drones: Egypt's UAV Arsenal," *Oryx*, December 28, 2021, https://www.oryxspioenkop.com/2021/12/the-middle-easts-game-of-drones-egypts.html.

91 "Transfers of Major Weapons," SIPRI Arms Transfers Database.

92 Ibid.

93 "Military Secret Revealed: Serbia Spent Almost $20 Million on Chinese Drones," Radio Free Europe/Radio Liberty, May 26, 2021, https://www.rferl.org/a/military-secret-revealed-serbia-spent-almost-20-million-on-chinese-drones/31275027.html; Igor Bozinovski, "Serbia Unveils Chinese-Made FK-3 Air Defence System," *Janes*, May 6, 2022, https://www.janes.com/defence-news/news-detail/serbia-unveils-chinese-made-fk-3-air-defence-system.

94 Vuk Vuksanovic, "Chinese Drones in Serbian Skies," Royal United Services Institute, January 5, 2021, https://rusi.org/explore-our-research/publications/commentary/chinese-drones-serbian-skies.

95 "Saudi Arabia Parades Chinese HQ-17AE Air Defense Systems," Global Defense Corp, August 21, 2021, https://www.globaldefensecorp.com/2021/08/21/saudi-arabia-parades-hq-17ae-air-defense-systems/; Agnes Helou, "Chinese and Saudi Firms Create Joint Venture to Make Military Drones in the Kingdom," *Defense News*, March 9, 2022, https://www.defensenews.com/unmanned/2022/03/09/chinese-and-saudi-firms-create-joint-venture-to-make-military-drones-in-the-kingdom/.

96 Zachary Cohen, "CNN Exclusive: U.S. Intel and Satellite Images Show Saudi Arabia Is Now Building Its Own Ballistic Missiles with Help of China," CNN, December 23, 2021, https://www.cnn.com/2021/12/23/politics/saudi-ballistic-missiles-china/index.html.

97 Agnes Helou, "UAE to Buy a Dozen Chinese L-15 Trainer Aircraft," *Defense News*, February 25, 2022, https://www.defensenews.com/air/2022/02/25/uae-to-buy-a-dozen-chinese-l-15-trainer-aircraft/.

98 Chyrine Mezher, "China, UAE Forge New Deals; Joint R&D Plan & New Drone Sales," *Breaking Defense*, February 24, 2021, https://breakingdefense.com/2021/02/china-uae-forge-new-deals-joint-rd-plan-new-drone-sales/.

99 Jeffrey Lin and P. W. Singer, "Drones, Lasers, and Tanks: China Shows Off Its Latest Weapons," *Popular Science*, February 27, 2017, https://www.popsci.com/china-new-weapons-lasers-drones-tanks/.

100 Sakshi Tiwari, "No Chinese Engines Please! Thailand 'Rejects' to Buy [sic] Yuan-Class Submarines from Beijing Sans German Tech," *Eurasian Times*, June 3, 2022, https://eurasiantimes.com/thailand-rejects-to-buy-yuan-class-subs-china-german-tech/.

101 Dipanjan Roy Chaudhury, "Chinese Arms to Dhaka Fail Quality and Longevity Tests, One After the Other," *Economic Times*, November 4, 2021, https://economictimes.indiatimes.com/news/defence/chinese-arms-to-dhaka-fail-quality-and-longevity-tests-one-after-the-other/articleshow/87516127.cms.

102 Ralph Jennings, "Why Chinese Weapons Exports Are Declining Despite Loyal Clientele," Voice of America, October 5, 2021, https://www.voanews.com/a/chinese-weapons-exports-decline/6258163.html.

103 Peter D. Wezeman, Alexandra Kuimova, and Siemon T. Wezeman, "Trends in International Arms Transfers, 2021," fact sheet, Stockholm International Peace Research Institute, March 2022, https://sipri.org/publications/2022/sipri-fact-sheets/trends-international-arms-transfers-2021.

104 State Council, People's Republic of China, "China's Military Strategy," white paper, May 2015, http://english.www.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm.

105 Alexandra Alper, "Exclusive: U.S. Probes China's Huawei over Equipment near Missile Silos," Reuters, July 21, 2022, https://www.reuters.com/world/us/exclusive-us-probes-chinas-huawei-over-equipment-near-missile-silos-2022-07-21/.

106 Harry Lye, "Huawei 5G Could Block U.S. F-35 Deployments to UK: U.S. Senator Tom Cotton," *Airforce Technology*, June 4, 2020, https://www.airforce-technology.com/analysis/huawei-5g-could-block-us-f-35-deployments-to-uk-us-senator-tom-cotton/.

107 White House, "Results of Bilateral Meeting Between the United States and the Kingdom of Saudi Arabia," fact sheet, July 15, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/07/15/fact-sheet-results-of-bilateral-meeting-between-the-united-states-and-the-kingdom-of-saudi-arabia/.

108 "General and Flag Officers in the U.S. Armed Forces: Background and Considerations for Congress," Congressional Research Service, updated February 1, 2019, https://crsreports.congress.gov/product/pdf/R/R44389/7.

109 Barak Ravid, "Scoop: Pentagon Weighs Downgrading Rank of U.S. Palestinian Security Post," Axios, June 1, 2022, https://www.axios.com/2022/06/01/pentagon-security-coordinator-rank-palestinians; Jonathan Lord, "Want More Capable Military Partners? Empower and Promote Foreign Area Officers," *Breaking Defense*, July 25, 2022, https://breakingdefense.com/2022/07/want-more-capable-military-partners-empower-and-promote-foreign-area-officers/.

110 Derek Hawkins, "A U.S. 'Ally' Fired a $3 Million Patriot Missile at a $200 Drone. Spoiler: The Missile Won," *Washington Post*, March 17, 2017, https://www.washingtonpost.com/news/morning-mix/wp/2017/03/17/a-u-s-ally-fired-a-3-million-patriot-missile-at-a-200-drone-spoiler-the-missile-won/.

111 Jordan Allen, "M-SHORAD System Bolsters Army's Air Defense Capabilities," U.S. Army, April 23, 2021, https://www.army.mil/article/245530/m_shorad_system_bolsters_armys_air_defense_capabilities.

112 Lin and Singer, "Drones, Lasers, and Tanks," https://www.popsci.com/china-new-weapons-lasers-drones-tanks/.

113 Jill Aitoro, "Russia's Rostec to Co-Develop 5th-Gen Fighter with UAE," *Defense News*, February 20, 2017, https://www.defensenews.com/digital-show-dailies/idex/2017/02/20/russia-s-rostec-to-co-develop-5th-gen-fighter-with-uae/.

114 Barak Ravid, "CENTCOM Chief: Middle East Integrated Defense with Israeli Involvement Is a 'Priority,'" Axios, July 20, 2022, https://www.axios.com/2022/07/20/central-command-middle-east-israel-saudi-defense.

The Author



GRANT RUMLEY is the Goldberger Fellow with The Washington Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East, specializing in military and security affairs. He served from 2018 to 2021 as an advisor for Middle East policy in the Office of the Secretary of Defense.

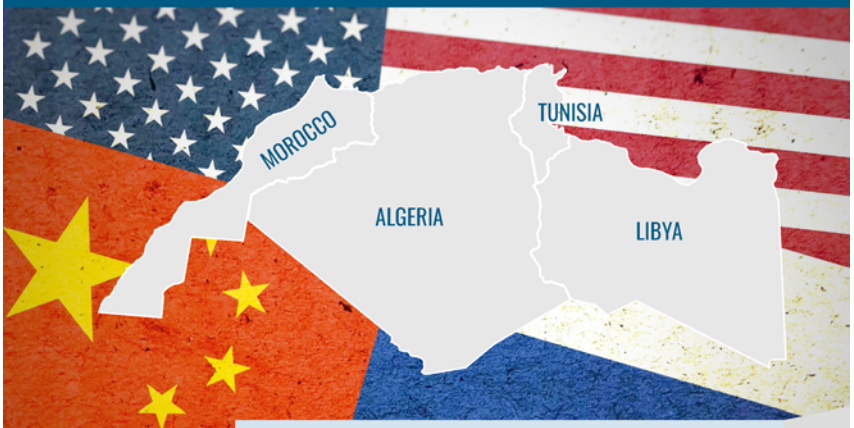
THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
1111 19TH STREET NW, SUITE 500 | WASHINGTON, DC 20036
WWW.WASHINGTONINSTITUTE.ORG
©2022 THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY. ALL RIGHTS RESERVED.

THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
POLICY NOTES
MAY 2024
NO. 147

North Africa in an Era of Great Power Competition

Challenges and Opportunities for the United States

Anna Borshchevskaya, Louis Dugit-Gros, Ben Fishman, Sabina Henneberg, and Grant Rumley



EXECUTIVE SUMMARY

North Africa is among the many world regions overshadowed by crises in Europe, the Middle East, and the Asia Pacific.* Yet the countries of North Africa—Morocco, Algeria, Tunisia, and Libya—are strategically significant to U.S. defense and economic interests, both in their own right and even more strikingly in the context of current geopolitical competition with Russia and China.

*The authors are grateful to several colleagues who provided valuable feedback on earlier drafts of this Policy Note, including Patrick Clawson, Catherine Cleveland, Geoff Porter, Robert Satloff, David Schenker, Michael Singh, and Dana Stroul. Several Washington Institute research assistants, especially Kyle Robertson, as well as Ana Estrada Hamm, Frances McDonough, and Ahmad Sharawi, made important research contributions. Finally, the authors would like to thank Miriam Himmelfarb, Maria Radacsi, and Jason Warshof for their superb production work.

The United States has many reasons to focus on the region, including:

- Its location, which is critical to the security of NATO and European allies
- Vast energy resources, notably in Libya (home to Africa's largest proven oil reserves) and Algeria (home to the world's tenth-largest gas reserves)
- Russian inroads, especially in Libya, where Moscow is actively transitioning the Wagner Group—now also known as the Africa Corps—to a formal presence and possibly securing basing rights
- The prospect of migrant crises, stoked by Russia, that threaten European stability
- Jihadist threats, especially in the ungoverned spaces of Libya and the Sahel, and in the context of Tunisia's failing political-economic system, which could reignite dangers to U.S. personnel and citizens in the region
- Growing Chinese influence that could expand Beijing's continental stake and access to the Mediterranean Sea and Atlantic Ocean

The Russian and Chinese presence in North Africa varies substantially by country and in form. Russia's military involvement, for example, ranges from fairly deeply embedded in Libya to almost completely absent in Morocco. Similarly, both Russian and Chinese economic activity—particularly trade—is high in some countries, such as Algeria and Morocco, but relatively low elsewhere, such as in Tunisia. Against a disjointed but increasingly active Russian and Chinese presence in North Africa, the United States has an opportunity to blunt or reverse the advances of these competitors. The perennial challenge for America has been to elevate North Africa to a policy priority. Yet when viewed through the lens of great power competition, the region presents opportunities for Washington to address important areas.

The following recommendations—divided into regional and country-specific issues—represent areas to improve U.S. policy in North Africa and simultaneously counter Russian and Chinese inroads.

RECOMMENDATIONS FOR THE BROADER REGION

The following policy ideas apply to the whole North Africa region:

Encourage cooperation to address natural disasters and climate change. In the second half of 2023 alone, Algeria, Morocco, and Libya suffered extensive damage from wildfires, earthquakes, and flooding. As such incidents become more frequent, North African states can benefit from exchanging information and best practices and preparing coordination mechanisms for future incidents that cross national borders. Washington can encourage cooperation in the face of accelerating climate change by facilitating regional dialogues among civil society and other relevant actors that deal with challenges facing North Africa.

Focus on economic and livelihood issues. Democracy promotion remains an important part of U.S. foreign policy, and America should remain true to its values. That said, when it comes to North Africa, a more effective approach would be to prioritize the needs of the population—particularly through protection against economic instability and climate shocks—and build closer relationships based on those interests. Indeed, this is where Russia and China tend to make headway. The United States should therefore review practical programs that it can provide, especially in the commercial, business, energy,

and trade sectors, and seek to extend public-private initiatives that would assist North African populations where they need the most help.

Coordinate with the private sector to offer commercial alternatives to China and Russia. China, in particular, has the ability to direct state-associated companies to make deals in resource-stricken countries, often at a more competitive price point than Western alternatives. When Western companies have successfully outbid their Chinese competitors, they have often done so after coordination between Western countries and China's potential customers. For instance, Jordanian telecommunications companies recently selected European firms over Chinese firms for their 5G networks after years of concerted U.S. and Western discussions with Amman. A similar opportunity exists in North Africa, where Morocco and Tunisia have yet to select their own 5G provider.

Convey to regional countries the risks of security ties with China. A close security partnership with China poses risks to the sovereignty of host nations, an issue of particular sensitivity in North Africa. Even seemingly commercial projects, such as those involving critical infrastructure, can open the door to Chinese interference that can affect relationships with other states. For U.S. partners in the region—particularly Morocco and Tunisia—America should consult closely on establishing clear baseline parameters for relations with China that safeguard security cooperation with Washington.

Emphasize the poor track record of Russia and China as security partners. Although Russian officials have acknowledged the importance of countering terrorism emanating from North Africa, they often do so as a pretext to establish influence. Extremist activity is a major concern for North African governments given the region's history, and terrorism threats will likely worsen as Libyan authorities struggle to contain militias and Sahel governments reel from instability. Beijing, for its part, has done little to engage in counter terrorism-related issues beyond those that directly touch its own interests abroad. Such weakness offers Washington an opportunity to highlight its advantages over Beijing and Moscow in areas of transparency, technology, knowledge, and experience and to increase security cooperation where appropriate.

Work more closely with European and other allies where interests align. A rolling migration crisis is among the reasons Europe's southern neighborhood deserves close attention. As in the past, the Kremlin will likely use migration as a cudgel against Europe, underscoring why the United States should increase its attention to North Africa now, including by supporting European initiatives (e.g., on migration management and renewable energy) that lay the groundwork for future cooperation.

Project an alternative narrative. Russia and China have been sending a clear message in North Africa that they will support development and security with "no strings attached"—i.e., no expectation of steps toward democracy—although such support is undoubtedly associated with other "strings" such as debt traps. Rather than simply play defense and counter disinformation, Western governments must unapologetically project their own narrative, whether about Russia's invasion of Ukraine, China's mistreatment of its Muslim Uyghur population, or any other issue. Ultimately, the West needs to make clear that the arrangements advanced by Moscow and Beijing will not allow North African countries to develop economically while also retaining their sovereignty. In addition to focusing on local and regional media, the United States can enhance its influence by devoting more resources to cultural exchanges—e.g., study tours, English-language courses and clubs, and scholarships—that help reorient participants' worldviews toward a liberal model.

COUNTRY-SPECIFIC RECOMMENDATIONS

These recommendations apply to the individual North African states:

Shore up Morocco as the strategic anchor for U.S. engagement in North Africa. Morocco is the most stable American partner in North Africa, and Washington must reinforce the countries' strong security partnership and sustain existing economic and security assistance with the goal of blunting Chinese and Russian advances. The United States should also monitor areas such as Morocco's energy imports from Russia and reiterate its support for Morocco in areas beyond security, including through technical assistance to manage water scarcity. The United States can expand programs through the Development Finance Corporation and show its commitment to resolving the Western Sahara conflict by reiterating its support for the UN special envoy and urging "concerned parties," including Algeria, to resume roundtable talks.

Deepen defense and business relations with Algeria. The United States should continue to warn Algiers of the perils of a close security relationship with China and be prepared to address Algeria's concerns if Beijing's actions jeopardize the relationship. Washington likewise needs a closer defense dialogue with Algiers on U.S. end-user agreements and their perceived risks to Algerian sovereignty, as well as on the risks of purchasing communications and surveillance technology from China.

Reinforce Tunisia against long-term vulnerabilities such as climate change. The United States has rightly decided to continue investing in its military partnership with Tunisia despite concerns about President Kais Saied's authoritarian measures. Washington should additionally support Tunisia against Russian and Chinese encroachment by helping the country mitigate the effects of climate change and boosting private-sector development of advanced technological industries. It could begin doing so by reinvigorating the Tunisian American Enterprise Fund and exploring new projects through the Development Finance Corporation.

Pressure Haftar to stop cooperating with Russia. Russia's military presence in Libya remains especially concerning for reasons connected to stability, security, and control of natural resources, and Moscow's acquisition of a naval base or even docking rights would pose an acute threat to NATO. The planned reopening of the U.S. embassy in Tripoli will be useful for freeing up resources and coordinating with like-minded partners in countering Russian encroachment.[1] Yet eastern-based warlord Khalifa Haftar provides Russia with a gateway to the Sahel as well as East Africa, potentially facilitating power projection and mineral extraction activities. If UN initiatives to produce elections fail and if Haftar does not adhere to U.S. warnings to stop obstructing peace efforts, Washington should sanction him and his family under authorities including the Global Magnitsky Act. Washington should also work with Egypt and the UAE especially to convey to Haftar's clique the serious consequences of deepening his relationship with the Kremlin.

NORTH AFRICA IN AN ERA OF GREAT POWER COMPETITION

North Africa is among the many world regions overshadowed by crises in Europe, the Middle East, and the Asia Pacific. Yet the countries of North Africa—Morocco, Algeria, Tunisia, and Libya, referred to collectively as the Maghreb—are strategically significant to U.S. defense and economic interests, both in their own right and even more strikingly in the context of current geopolitical competition with Russia and China.

The United States should care about North Africa for the following reasons:

- Its location is critical to the security of NATO and European allies.
- The region holds vast energy resources. Libya has the largest proven oil reserves in Africa, and Algeria has the world's tenth-largest gas reserves. The region also hosts important mineral and other resources critical for renewable energy.
- Russia is making steady military inroads in North Africa, especially Libya, where it is actively transitioning the Wagner Group—now semiofficially rebranded as the Africa Corps—to a formal presence and possibly securing basing rights that threaten U.S. and NATO interests.
- Instability in North Africa can spawn migrant crises, stoked by Russia, that threaten the political-economic stability of European countries.
- The region is likewise vulnerable to jihadist threats, especially in the ungoverned spaces of Libya, Sahel areas to the west, and in the context of Tunisia's failing political-economic system, which could reignite dangers to U.S. citizens and personnel stationed there.
- Growing Chinese influence in the region could strengthen Beijing's position on the African continent, while expanding its access to the Mediterranean Sea and Atlantic Ocean.

This paper examines the Russian and Chinese presence in North Africa across four dimensions—political, economic, security, and cultural—treating the cases of Morocco, Algeria, Tunisia, and Libya discretely (see figure 1 for Russian and Chinese levels of influence by country). The content focuses on roughly the Arab Spring period to the present, or a little more than a decade, and emphasizes the perspectives of regional countries rather than those of the two great powers in question. The study does not address Egypt because, while technically in North Africa, it is distinct from the other countries in several ways. Not only is it more intricately tied to Levantine and Gulf Arab politics as a result of its location and eastward orientation, it is also significantly larger in population and GDP. Cairo is moreover one of Washington's most important security partners in the region, suggesting that it would warrant its own separate study on these questions.

For each of the four North African countries under discussion, this paper attempts to tell the story of current Russian and Chinese influence. Morocco, for example, has seen strong Chinese economic activity but little from Russia. The longstanding Algerian relationship with Russia has allowed Moscow to exert significant influence, but not enough to undermine Algeria's fierce insistence on political independence. Both Russia and China have shown interest in developing closer ties with Tunisia, but these have so far remained limited due to a variety of internal factors. In Libya, Russian military intervention has been strong, versus virtually nothing from China. The paper concludes with a summary of major trends and several policy recommendations for the U.S. government.

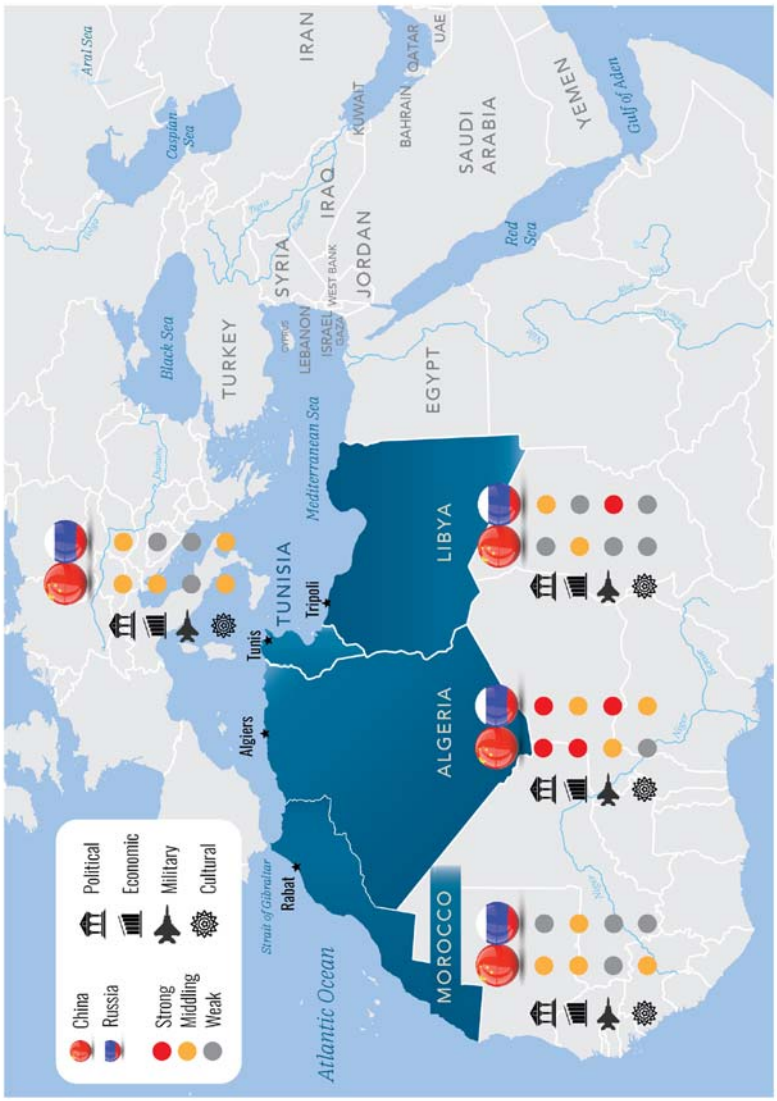


Figure 1. Russian and Chinese Strength in North Africa by Sector

Background: The United States in North Africa

North Africa is rich in energy resources, including oil and gas as well as wind, solar, and critical minerals.[2] It is also located at a strategic continental crossroads, with the northern tip of Morocco a mere nine miles from Spain and Tunisia's coast roughly two hundred miles from Italy.

The countries of North Africa are distinct in being integral to the Arab world and Africa alike. For example, although all four countries belong to the Arab League, they were also represented at the 2022 Africa Summit in Washington. Morocco and Algeria have two of the largest economies on the continent and serve as important counterterrorism partners to the West.[3] Finally, each of the four countries is closely linked to Europe, notably when it comes to energy dynamics and the perennial challenges posed by migration. Europe also hosts large diasporas from these countries who send home significant remittances.

Despite these features, North Africa has never been a top priority for the United States.[4] Furthermore, aware of the great diversity in the region and lack of integration among its states, the United States has mostly dealt with countries on a bilateral basis.[5] The four nations treated here vary in governance and economic structure, as well as in size, ideological makeup, and even demographics. The only historical attempt to form a regional bloc, the Arab Maghreb Union, has been defunct for years.[6]

Broadly, U.S. goals in these four North African countries center on preserving stability. Although Libya is the only country currently experiencing violent internal conflict, the situation elsewhere has often been precarious: Algeria experienced its own decade of civil war from around 1992 to 2002, and the region as a whole was shaken by the Arab uprisings of 2011. In general terms, the United States has engaged most in the region when facing an immediate crisis or when asked to do so by allies. There is little sense of an overarching U.S.-initiated strategy to address the long-term risks of climate change and lack of economic opportunity, especially among youth, as well as poor governance, factors that prime the region for extremism and mass migration. Great power competition, in addition to the risks just outlined, should compel the United States to take North Africa more seriously.

The next section reviews how the United States has broadly engaged with each country.

Morocco

Morocco is a constitutional monarchy where power is meant to be shared between the hereditary monarch and an elected legislature. In 1777, Morocco became one of the first states to recognize American independence, and the two countries have long maintained a close partnership, reinforced after Morocco attained independence from France in 1956. Today, defense is at the core of that relationship: strong defense ties date to the Cold War, when the kingdom purchased arms from the United States and hosted American forces at naval stations in the country.[7] Morocco today hosts African Lion, the largest U.S.-led multinational exercise on the continent, and remains a key arms purchaser and counterterrorism partner. In 2004, the United States designated Morocco as a major non-NATO ally, and since 2018 Rabat has received roughly $70–80 million annually from Washington.

Morocco and the United States have also enjoyed a fair amount of economic and cultural exchange. Although Morocco's strongest trading partners have traditionally been in Europe—notably, France and Spain—its free trade agreement with America dates back to 2004;[8] bilateral trade is now roughly at $6.8 billion per year. American-funded educational exchange programs are also relatively popular with Moroccans. For example, the Fulbright Program offers eight English teaching assistant awards and eight open study/research awards for Moroccans, more than any other Maghreb country and on par with other close American partners in the Middle East such as Jordan and Egypt. Morocco has hosted more than five thousand Peace Corps volunteers since the program began there in 1963—more than any other Arab country. Hundreds of thousands of American tourists also visit Morocco every year.

Algeria

Algeria's experience with colonization was the most intense of all the Maghreb countries, and ended following a protracted, brutal war. This legacy shaped Algeria's fierce insistence on nonalignment and noninterference, as well as the military's close involvement in governing. Economically, Algeria has socialist orientations, and the country demonstrated a marked commitment to self-sufficiency in its early decades of independence.

Thus, although Algeria-U.S. ties have always been cordial, Algiers has kept at a distinct distance from Washington since independence in 1962. In recent years, the United States has engaged more actively with Algeria, likely at least in part to avoid alienating the country following the 2020 recognition of Moroccan sovereignty over Western Sahara (see box, "The Issue of Western Sahara"). Although the Biden administration has not reversed the policy realized under its predecessor, it has sent several high-level visitors to Algiers, such as the deputy secretary of state in March 2022 and the National Security Council Middle East coordinator that December.[9]

Nor are economic ties particularly robust, although Algeria is an important supplier of gas for several European U.S. allies, and American gas majors such as Chevron have been pursuing potential deals for years. In the defense arena, military-to-military cooperation has been a key focus, including in counterterrorism as well as security in the regional, maritime, and cyber realms.[10] Russia, however, provides the vast majority of arms to Algeria, and U.S. assistance is minimal with the exception of humanitarian aid to the Sahrawi refugee camps in the southwest.[11] Algeria notably has among the highest Human Development Index levels across North Africa.[12] The United States mainly engages the Algerian military through International Military Education and Training funds, and generally appears poised to continue its current level of engagement in the country—although Algeria's aversion to U.S. end-user restrictions could limit its purchases of American weapons.

The Issue of Western Sahara

The approximately 100,000-square-mile territory known as the Western Sahara, which is considered by the United Nations to be "non–self-governing," has precipitated intractable bilateral Morocco-Algeria tensions since the mid-1970s, when the Spanish left Western Sahara. Algeria backs the independence movement known as the Polisario Front, which contests Morocco's claim to sovereignty over the territory. Attempts to achieve a resolution in a UN framework have not succeeded, and negotiations have not taken place since about 2019. Instead, Morocco has sought to persuade countries to recognize its sovereignty claim in exchange for stronger bilateral relations.

The United States has been heavily involved in international mediation efforts over the territory and holds the pen for the mandate text of the peacekeeping mission, known as the UN Mission for the Referendum in Western Sahara (MINURSO). Morocco's 2007 autonomy proposal was presented after strong urging from Washington, although the Polisario—which did not want the option of independence taken off the table—continued to insist on holding a referendum to decide the status of the territory. For the next thirteen years, U.S. policy recognized the proposal as "serious, credible, and realistic" while calling on both sides to negotiate "a mutually acceptable political solution."[13] In 2020, the policy changed abruptly when the United States extended diplomatic recognition to Moroccan Sahara in the context of the Israel-Morocco aspect of normalization of diplomatic relations.


Strait of Gibraltar
SPAIN
Gibraltar (UK)
Tangier
Ceuta (E)
Mediterranean Sea
Melilla (Spain)
RABAT
Casablanca
Fez
Madeira
(Portugal)
Marrakesh
Atlantic Ocean
Agadir
Sous
Canary Islands
(Spain)
MOROCCO
Draa
ALGERIA
Laayoune
Western
Sahara
Dakhla
MAURITANIA
MALI
In 2020, the United States recognized Moroccan sovereignty
over the internationally disputed territory of Western Sahara.
Polisario Front–controlled area
Morocco-controlled area

Tunisia

When the eighty-year French protectorate ended in 1956, Tunisia formed a republic, adopting its first constitution in 1959. Like Morocco, Tunisia has since independence been generally Western-oriented and has retained close ties with its former colonizer. Given geographic proximity, Italy has also long held a strong influence in Tunisia. Ties with the United States date back to the late eighteenth century, when the two countries signed a Friendship Treaty, and have remained firm since. The last two decades have seen discussion of a free trade agreement, with Tunisia having had a deal with Europe (known as an association agreement) since 1998.[14] In 1962, Tunisia distinguished itself as the first Arab country to open a Peace Corps program, and hosted roughly two thousand volunteers before the program closed in 1996.[15]

Tunisia rose as a U.S. priority after popular uprisings led to the overthrow of autocrat Zine al-Abidine Ben Ali in 2011, and it later emerged as the most likely Arab Spring country to become a democracy, bolstered by the creation of democratic intuitions. Meanwhile, growing extremist activity in the region prompted Washington to also focus on strengthening Tunisia's security sector and to develop a security partnership. Since 2011, the United States has allocated more than $1.4 billion to support Tunisia's transition, which overall has focused on internal and external security, promoting democracy and good governance, and supporting economic growth.[16] In 2015, the United States designated Tunisia as a major non-NATO ally.

In 2021, however, President Kais Saied, who had been popularly elected two years earlier, launched a dramatic overhaul of the country's governing system, reversing many of its democratic advances. He has employed a populist, anti-Western narrative in part to justify his actions, challenging relations with the United States—and Europe. This situation has led to reduced U.S. economic and security assistance despite dire economic conditions, and postponement or cancellation of major programs such as a $500 million Millennium Challenge Corporation compact to improve transportation and access to water and irrigation.[17] Saied's comparative indifference regarding Tunisia's relationship to the United States has opened the country to greater activity from China and Russia, which lack America's scruples about Saied's governance.

Libya

The United States has had the rockiest relationship with Libya relative to the other three countries discussed in this paper. In the 1980s—during Muammar Qadhafi's forty-two-year rule—the United States carried out air operations against Libya and sanctioned the regime in response to the 1988 bombing of Pan Am Flight 103 over Scotland, which was linked to Libyan actors. By the early 2000s, in an effort to reopen his suffering but oil-rich economy, Qadhafi agreed to turn over weapons of mass destruction materiel and to pay reparations to the families of Pan Am victims. This long process, which occurred in the context of the U.S. invasion of Iraq, led to the formal restoration of U.S.-Libya relations in 2006.[18]

When the Libyan uprisings began in February 2011, U.S. president Barack Obama decided to intervene with NATO and coalition partners in response to the regime's crackdown, authorized by UN Security Council Resolution 1973. After six months of mostly stagnation, coalition forces helped the fragmented opposition seize the capital, Tripoli, in August 2011. Two months later, Qadhafi was killed and a transitional government took over.

Since then, the United States has supported a transitional governing process but suffered major setbacks, notably the 2012 murder in Benghazi of Ambassador Christopher Stevens and three other Americans. Yet internal Libyan disputes have been at the heart of a now thirteen-year transition, including two civil wars primarily between western and eastern actors. U.S. personnel vacated the Tripoli embassy during fighting

in 2014 and now operate out of Tunis, putting them at a distinct disadvantage when it comes to engaging the population. But the United States remains diplomatically involved through a special envoy, Richard Norland, to support the transition process.

Politically, the United States has supported a UN-led process to end the transition through national elections, which have been postponed indefinitely from a planned vote in December 2021. Over the last several years, America has been providing Libya an average of $69.4 million per year in economic support funds to the UN-recognized government based in the west, mainly earmarked for democracy and governance support for aiding civil society organizations, local governments, and national institutions such as the High National Election Commission. Nevertheless, the deep divides that continue to characterize Libyan leadership and the heavy influence of militias and Khalifa Haftar's eastern-based Libyan National Army suggest it will be difficult for Washington—or any actor—to help stabilize Libya and develop a strong, effective partnership with the country in the near future.[19]

The Russian and Chinese Tool Kits

China and Russia use differing strategies for asserting their influence. Broadly speaking, Russia takes a "pragmatic" approach to foreign policy on the African continent—supporting whomever it believes will help advance its goals—and primarily has a security or strategic focus.[20] In contrast, China seeks principally to advance its economic interests, typically by developing local infrastructure on terms conducive to Chinese firms, and thus create leverage in the relationship. (For trade with China and Russia for each North African country, see figures 2 and 3.)

In addition to extending military support to various armed actors through the state-sponsored Wagner Group (now rebranded Africa Corps), the Kremlin has long used disinformation as a tool in the Middle East and Africa. Over the years, the Russian state-owned media outlets RT Arabic and Sputnik Arabic emerged as major sources of perceived legitimate regional news in the Middle East.[21] More recently, starting in about 2019, the Wagner Group itself has helped spread disinformation across the African continent. Russia also deploys more traditional diplomatic and economic modes of influence, such as an initiative for a free trade area with North Africa, to be integrated into the Eurasian Economic Union—a bloc comprising Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan.[22]

Chinese economic activity includes high levels of exports, primarily of cheap consumer goods, and "near-shoring"—or establishing manufacturing plants for such goods in the Maghreb to take advantage of its proximity to Europe. China has also sought to export services in the form of construction projects—often major infrastructure initiatives—but this approach has faced some backlash due to Beijing's tendency to send its own workers rather than create opportunities for local employment. Large pockets of Chinese workers have on occasion led to friction with locals.[23] These efforts are often connected to Beijing's Belt and Road Initiative (BRI), which has sought among other means to link China with the rest of the globe through large transportation projects. China has also notoriously offered loans to heavily indebted countries in exchange for access to key natural resources, but this pattern has not taken hold in the Maghreb.

China engages all four Maghreb countries—as it does others in Africa and the Middle East—through a combination of bilateral relations and multilateral forums, with each country belonging to China's primary multilateral engagement mechanisms in the region: the China–Arab States Cooperation Forum (CASCF) and the Forum on China-Africa Cooperation (FOCAC). Engagement through these multilateral forums is seen as advantageous to China, in part because it allows China to portray itself as convening a wide range of countries while also diluting the Maghreb countries' individual bargaining power.[24] For the Maghreb countries, membership in such forums offers the appearance of active engagement

Figure 2. Trade with China

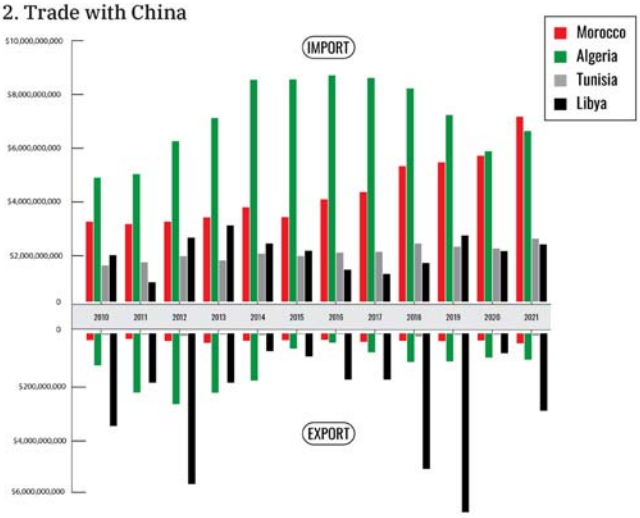
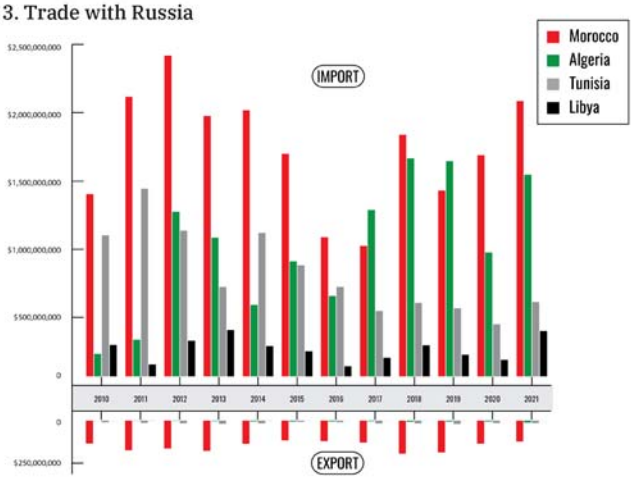


Figure 3. Trade with Russia



Sources: World Integrated Trade Solution (World Bank), see, e.g., https://wits.worldbank.org/CountryProfile/en/Country/MAR/Year/2020/TradeFlow/EXPIMP; "U.S. Trade with Algeria: Overall Trends," Office of Technology Evaluation, U.S. Census Bureau, 2021, https://bit.ly/4bVo5QN; and "Libya," Observatory of Economic Complexity, https://oec.world/en/profile/country/lby?yearSelector1=2011&yearlyTradeFlowSelector=flow0.

with a global power. The Algeria-Morocco rivalry has proven the greatest obstacle to Maghreb integration, forcing the other countries to relinquish their own potential benefits from collective bargaining with China.

Culturally, the Maghreb hosts centers such as Confucius Institutes, which are modeled on Western entities such as the Goethe Institute and Institut Français, where citizens of other countries can study language and other aspects of Chinese culture,[25] and Russia has supported outposts of the Orthodox Church. Although Russian and Chinese tourism in North Africa has grown, especially in Tunisia and Morocco, barriers such as language and ease of travel continue to limit such visits. Educational exchanges, too, are very limited compared with the number of North Africans studying in Europe or the United States.[26]

Morocco

Morocco's chief foreign policy concern is preserving its claim on Western Sahara, which affects its relations bilaterally with Algeria and in multilateral forums such as the UN Security Council. In addition, since approximately the start of King Mohammed VI's reign in 1999, Morocco has sought more actively to capitalize on its geographical position—namely, its access to the Atlantic Ocean and Mediterranean Sea and its proximity to Europe—by casting itself as a critical node in global supply chains. These efforts have been complemented by Rabat's successful diplomacy in sub-Saharan Africa—part of a general attempt to diversify the kingdom's political and economic partnerships as conditions in Europe have shifted (e.g., since the 2007–8 global financial crisis). Additionally, Morocco has tried to attract a diversity of investors and foreign partners by touting its endowment of renewable resources and its political stability compared to its North African neighbors.[27]

As a result, Morocco's relations with China have expanded in recent years, particularly in the economic sector. Relations between Morocco and Russia are generally cooler given Russia's traditional ties with Algeria.

Cordial Relations with Russia, but at a Remove

Russia-Morocco relations date back to approximately 1778, when an exchange of messages between Sultan Mohammed III bin Abdullah and Catherine the Great (Catherine II) resulted in a peace treaty.[28] In 1897, imperial Russia established a consulate in Tangier in part to gain support from North African countries during its confrontation with the Ottoman Empire.[29]

During the Cold War, Russia attempted to maintain good relations with Morocco, with Rabat serving as an important trading partner for the Soviets, who sought access to phosphates, used largely to produce fertilizers, and generally to gain a deeper foothold in North Africa.[30] Morocco never fully embraced socialism, however, limiting the intimacy of bilateral relations. Meanwhile, the Kremlin also armed the Polisario movement in Western Sahara (see below), drawing pushback from Rabat and creating tensions.[31]

In the Putin era, Russia has made a concerted effort to improve relations with Morocco. King Mohammed VI first visited Moscow in October 2002, three years after assuming power, and went again in March 2016.[32] During the first visit, Putin and the king signed a Declaration on Strategic Partnership aimed at expanding bilateral ties, with the language indicating it was "based on the principles of sovereign equality, a peaceful settlement of disputes, respect for human rights and freedoms, and a dialogue between civilizations and cultures."[33]

Putin's world profile had grown distinctly darker between the first and second visits, punctuated by Russia's 2014 invasion of Crimea, and Morocco had maintained its Western-oriented foreign policy under Mohammed VI. The 2016 conclave, nevertheless, yielded several cooperation agreements, including documents related to counterterrorism, tourism,

nuclear energy,[34] and transportation.[35] The king reportedly reiterated his determination to strengthen security ties between the two countries.[36] Subsequent senior official visits followed, along with visits from prominent members of the business community, and both countries reported continued intent to deepen ties on growing bilateral trade.[37] Upon Putin's 2024 reelection as president, the king reiterated his commitment to strengthening bilateral ties.[38]

Yet largely out of respect for the United States, and perhaps also due to Russia's close ties with Morocco's rival Algeria (see below), Rabat has kept its distance from Moscow, particularly in international diplomacy. Morocco was absent from the first several UN General Assembly votes condemning Russia's invasion of Ukraine but has since switched to voting against Russia (see figure 4 for UN votes by all North African states).[39] Morocco claims nevertheless to uphold a neutral position on the conflict,[40] possibly because of its increased dependence on Russian energy, having reportedly emerged as one of Africa's main importers of Russia's diesel fuel, along with increased imports of other oil and gas products, as Russia loses shares in the European market amid sanctions.[41] But Morocco has reportedly sent tanks to Ukraine,[42] and especially given its close ties to Europe and the United States, would be unlikely to take a future position in support of Russia.[43] The growing presence of the Russia-sponsored Wagner Group/rebranded Africa Corps in the Sahel, including reportedly in southern Algeria[44]—combined with Russia's substantial arms sales to Algeria—has also heightened Rabat's suspicions about Russian aims.

Economically, Morocco is Russia's third largest African trading partner behind Egypt and Algeria, although Moroccan exports to Russia—mostly citrus and other food products—constituted less than 1 percent of Russian imports in 2021.[45] In the same year, Russia accounted for 3.4 percent of Moroccan imports, which totaled about 42 percent of Morocco's total GDP.[46] Moroccan imports from Russia include coal, chemicals, diesel fuel, and fertilizers.[47] The coal plays a significant role in producing electricity for Morocco, which is entirely energy-import dependent, and increased Moroccan imports of Russian diesel after the Ukraine invasion exemplify Rabat's increased energy dependence on Moscow, whose investment in the North African country remains minimal.[48]

In terms of public diplomacy, Russia saw its first North African vaccine diplomacy success during the Covid-19 pandemic in Morocco. In November 2020, Artyom Tsinamdzgvrishvili, the head of Russia's trade mission there, announced that his country would ship Morocco enough doses to vaccinate 20 percent of its population.[49] Thus far, however, this success does not appear to have translated into a deeper connection between the two countries. By comparison, the United States donated 2.7 million doses of vaccines produced by Pfizer and Johnson & Johnson through the COVAX program, enough to vaccinate about 7 percent of the Moroccan population.[50]

Growing Morocco-China Economic Links and Modest Defense Ties...

Morocco's economic ties with China have deepened in recent decades, particularly given Beijing's simultaneous shift to a more market- and export-oriented economy followed by its Belt and Road Initiative. In 2017, Morocco became the first Maghreb country to launch a strategic partnership with China. Trade between the two countries stood at approximately $4.8 billion in 2020;[51] China has sought to manufacture goods in Morocco to take advantage of its free trade agreements with both Europe and the United States.[52] Yet the large trade imbalance—imports from China are roughly 10 percent of Morocco's total, while exports to China represent only 0.9% of all Morocco's exports—worries some Rabat officials.[53] Moreover, Morocco has deliberately sought to maintain a diversity of trading partners and avoid compromising its traditional close relations with Europe—particularly France—and the United States.

The two countries signed a BRI implementation agreement in January 2022, which among other objectives sought to promote Chinese financing for Moroccan development projects and encourage Chinese firms to invest in Morocco.[54] Yet Chinese

Figure 4. North African Votes on Ukraine at UN General Assembly

○ Absent ● No ● Yes ● Abstain

Year	Resolution	Description	Voting record			
			Morocco	Algeria	Tunisia	Libya
2023 (Mar)	ES-11/6	Principles of the Charter of the UN underlying a comprehensive, just, and lasting peace in Ukraine (calling for peace in Ukraine)	●	●	●	●
2022 (Nov)	ES-11/5	Furtherance of remedy and reparation for aggression in Ukraine (imposing a war reparation mechanism on Russia)	○	●	●	●
2022 (Oct)	ES-11/4	Territorial integrity of Ukraine: defending the principles of the Charter of the UN (declaring Russia's referenda in occupied Ukrainian territories invalid and demanding that Russia "immediately, completely, and unconditionally withdraw" from Ukraine)	●	●	●	●
2022 (Apr)	ES-11/3	Suspension of the rights of membership of the Russian Federation in the Human Rights Council	○	●	●	●
2022 (Feb)	ES-11/2	Humanitarian consequences of the aggression against Ukraine (demanding Russian withdrawal, expressing concerns over human rights violations and violence against civilians)	○	●	●	●
2022 (Feb)	ES-11/1	Aggression against Ukraine (demanding Russian withdrawal from Ukraine and reversing recognition of two separatist entities inside Ukraine)	○	●	●	●

Source: UN Digital Library, see, e.g., "Principles of the Charter of the United Nations Underlying a Comprehensive, Just and Lasting Peace in Ukraine," resolution adopted by the General Assembly, https://digitallibrary.un.org/record/4004933?ln=en&v=pdf.

investment (both public and private) had already been expanding in a range of sectors including but not limited to fisheries, telecommunications, and infrastructure.[55] Nonetheless, as with trade, Chinese investment in Morocco has not expanded at the same pace as in other African countries,[56] and it still has not reached the levels of traditional European, Gulf, and American investors.[57] Additionally, an increase in Chinese foreign direct investment (FDI) remains challenged by Morocco's preference for local production, which conflicts with China's emphasis on manufacturing and production by Chinese companies.[58]

Unlike in neighboring Algeria, China has not been the main implementer of high-profile construction projects, which in Morocco include impressive endeavors such as the Tanger Med Port Complex,[59] which has become one of the largest and most active ports both along the Mediterranean Sea and in Africa.[60] Nonetheless, China's investment has been notable, including as a partner on the Mohammed VI Tangier Tech City project.[61] This $10 billion "smart city" was announced in March 2017 but delayed after the Chinese Haite Group pulled out—later replaced by the China Communications Construction Company and its subsidiary, the China Road and Bridge Corporation, which signed a memorandum of understanding with Morocco's BMCE Bank.[62] The project, now projected for completion by 2027, is set to become the largest Chinese investment project in North Africa.[63] It is also meant to host approximately two hundred Chinese tech companies and "strengthen Morocco's linkages within the Euro-Mediterranean region."[64]

The Chinese telecommunications giant Huawei also plans to establish regional and logistical centers in the Tangier Tech City, having already achieved a significant place in Morocco's market.[65] Yet security concerns may limit its presence at the port complex,[66] and several indicators suggest Morocco will not use Huawei as its 5G provider.[67] Still, this decision—and the reassurance it would provide to the United States and Europe about preventing Chinese access to sensitive data—is not a sure thing, and the West may have to put forward a clear, affordable alternative to dissuade Morocco from ultimately choosing Huawei.

Chinese investors have also been involved in the past two decades of Moroccan growth in key strategic sectors such as automobile manufacturing.[68] Major European manufacturers including Renault and Stellantis now produce inside the kingdom, with Chinese firms among their many international suppliers.[69] Additionally, Morocco's cobalt and phosphate reserves could allow the country to become a key player in the production of electric vehicle batteries and EVs themselves.[70] Here, too, Chinese firms have been quick to establish their role. For example:

- In 2017, the Chinese company BYD signed a deal to open an EV production plant in Kenitra—although this effort has faced some delays.[71]
- In June 2023, the Chinese firm Gotion signed a similar MOU for an EV battery factory, which would represent the second largest FDI project in the country if realized.[72]

China would likely face headwinds in pursuing major defense contracts with Morocco, given the kingdom's preference for importing arms from the United States, Europe, and elsewhere. Rabat has purchased frigates from Europe,[73] unmanned aerial vehicles from Turkey,[74] and some of the most in-demand U.S. platforms, like F-16s,[75] Apache helicopters,[76] and the High Mobility Artillery Rocket System (HIMARS).[77] In 2022, Morocco signed on to a ten-year road map for defense cooperation with the United States.[78] Morocco also has a growing relationship with Israel: the Moroccan air force currently operates three Heron UAVs, and Israeli soldiers participated in the African Lion exercise for the first time in 2023.[79] Moroccan forces regularly train with their U.S. and Western counterparts, and Moroccan defense officials have clearly prioritized relations with the United States and the West.

Yet that does not mean relations have been exclusive. In recent years, Morocco has increased its defense budget from an adjusted $3.61 billion in 2008 to

$5.66 billion in 2022.[80] With increased spending has come a willingness to diversify its defense relations in select sectors, including developing modest defense ties with China. In 2016, for example, Morocco purchased the Tianlong-50 air defense system from Beijing.[81] Another Chinese air defense system operated by Morocco, according to the International Institute for Strategic Studies, is the FD-2000, a long-range platform similar to Russia's S-300.[82] In 2022, open source imagery indicated Morocco was building a new air defense base outside Rabat that would incorporate Chinese systems, potentially alongside others from the United States, Europe, and Israel.[83]

...While Cultural Ties Face Challenges

China has pursued certain openings in the people-to-people domain, such as in vaccine diplomacy and cultural exchange, but these do not yet constitute a threat to the historic Moroccan closeness with the United States and Europe, particularly France. Chinese cultural exchanges with Morocco are nonetheless significant: Morocco hosts three Confucius Institutes—in Casablanca, Rabat, and Tetouan—and other cultural centers in Casablanca, Tangier, Tetouan, and Agadir.[84] Chinese-language instruction is becoming integrated into training courses in the tourism industry and other professional development programs such as those run by the BMCE Bank Foundation for Education and Environment. The language is even being introduced in some primary schools.[85] Morocco's Ministry of Culture has helped organize celebrations of the Chinese New Year in multiple cities for the past several years.[86]

Chinese tourism to Morocco received a major push with the lifting of visa restrictions in 2016 and the establishment of direct flights in 2019,[87] reaching approximately 150,000 visitors per year by 2019.[88] Anecdotal reports suggest the numbers have not returned to their pre-Covid levels.[89] Regardless, Chinese tourism is still minor compared to the numbers from the Moroccan diaspora, France, and Spain.[90]

Like Russia, China took advantage of the severity of the pandemic to expand its health diplomacy in Morocco, providing 65 million doses of the Chinese-produced vaccine Sinopharm and four large air shipments of medical supplies and personal protective equipment. (Immediately following the outbreak, Rabat sent medical supplies to Beijing.[91]) Chinese pharmaceutical companies also partnered with Morocco to carry out clinical tests for the vaccine.

As elsewhere, a growing Chinese economic presence does not necessarily translate into closer people-to-people relations. Despite some indications of an expanding Chinese presence in Moroccan society,[92] including reports of pockets of Chinese residency in places like Casablanca's Derb Omar business district,[93] Beijing's investment has not necessarily been accompanied by the societal integration of Chinese workers. The numbers of Chinese immigrants has actually fallen in recent years, likely as a result of the pandemic and the demand for workers elsewhere in Africa.[94]

Unsurprisingly given their histories, cultural affinity between Moroccans and their Western counterparts remains stronger than that between Moroccans and Chinese. This is evident in the wide prevalence of French in Morocco (as in Algeria and Tunisia) and the large numbers (approximately 1.3 million) of Moroccan expats living in France paired with roughly 50,000 French citizens living in Morocco—"a number that doubles when accounting for dual citizens."[95] Other indications come from public opinion data: for instance, China's treatment of Uyghur Muslims has reportedly weakened perceptions of China inside Morocco.[96] Numbers of Chinese students in Morocco have not increased with particular rapidity, and the growth of Moroccan students interested in studying in China remains limited.[97]

Algeria

Despite its professed commitment to nonalignment, Algeria during the Cold War was closer to the Soviet Union and its proxies and satellites than to the West. In the 1990s, amid the Algerian civil war and the Russian transition away from communism, relations temporarily dimmed, but they picked up again under Algerian president Abdelaziz Bouteflika, who came to power in 2000, and Russia's newly elected President Putin.[98] More recently, defense ties have been challenged by Russia's invasion of Ukraine and Algeria's growing desire to assert itself globally following several years under an ailing head of state,[99] the internal disruptions of the pandemic, and popular uprisings in 2019. Algeria's pursuit of improved regional and global stature is also evident in its relations with China, where President Abdelmadjid Tebboune paid an official visit in July 2023.[100] Yet China-Algeria relations have also faced hurdles, including on the economic front.

Algeria-Russia Defense Relations Strong but Not Unshakable

The Algerian military's significant influence in national politics makes the country's historic defense orientation toward Russia all the more significant. The connection can be traced to 1963, a year after independence, when Algerian forces suffered a serious setback during a border clash with the Moroccan military, prompting officials to seek military aid from Moscow. The Soviet Union extended a line of military credit for the equivalent of $100 million, thus starting a long arms sales relationship.[101] Today, Algeria is a top-five purchaser of Russian arms globally, with Russian weaponry constituting approximately 76 percent of Algeria's arms imports since 2002.[102] Algeria has purchased advanced Russian platforms, including the S-300 air defense system, Project 636 diesel-electric submarines, Iskander-E short-range ballistic missiles, and various fighter jets.[103] Given the importance of arms exports to Russia's economy and the strategic positioning of Algeria in the Mediterranean, Moscow has been keen to keep this relationship close: in 2006, Russia wrote off billions of dollars in Algerian debt in exchange for Algerian purchases of Russian arms;[104] and in 2018, Russia granted Algeria access to its global navigation satellite system known as GLONASS, a status previously given only to India.[105]

Yet over the decades, Algeria has often attempted to assert its defense independence. It rejected the Soviet Union's requests for basing rights at naval facilities in the 1960s and attempted to reassert its status as a nonaligned country following the 1973 Arab-Israel war, in part because it viewed Moscow's support for the Arabs as insufficient.[106] In the 1980s, Algerian officials grew wary of their reliance on Moscow for weaponry and attempted to diversify arms suppliers, in particular by purchasing C-130s from the United States.[107] Algerian leader Chadli Bendjedid visited Washington in 1985, prompting the United States to grant Algeria access to general military equipment—though subsequent purchases were unsubstantial.[108] Algeria condemned the 9/11 attacks and pledged to enhance counterterrorism efforts with the United States, leading to an increase in U.S. military support and several cabinet-level visits to Algiers.[109] When Mark Esper visited in 2020, he became the first U.S. defense secretary to visit the country since 2006. The trip reflected an inclination in Washington to "maybe push the door open a little bit" in courting Algeria out of Russia's defense orbit.[110]

Notably, Russian and Algerian leaders have not finalized an estimated $12–17 billion weapons purchase by the latter reportedly under discussion since 2022[111]—likely due to Russia's unanticipated needs in Ukraine. In August 2023, the Russian defense minister and Algerian army chief also met to discuss "improving the combat capabilities of the Algerian armed forces," but they did not announce a deal.[112] Thereafter, in April 2024, the deputy defense ministers met in Algeria to discuss the countries' "strategic partnership."[113]

For Algiers, Russia's invasion of Ukraine and the subsequent effects on its ability to export arms will continue to shake up the global arms market and

may have renewed Algeria's desire for more autonomy in its defense partnerships, but Algeria's deep and historic ties to the Russian military remain a serious hurdle.[114] Algeria, like many traditional customers of Russian weaponry, will struggle in the coming years to not only purchase new Russian weaponry but even to maintain its existing supply of Russian arms. From now on, Algiers will have to weigh whether its historically close defense relationship with Moscow still makes sense.

Algiers as a Political Free Agent

In the diplomatic arena too, Algiers must balance its desire to retain strong ties with Moscow (as its main weapons supplier) with its foreign policy principles of sovereignty and its relations with the West. Moscow offered more support to Algiers than did other countries during its decade of internal turmoil, as well as during the 2019 popular protests that pushed President Abdelaziz Bouteflika from power—giving Algiers reason to try to keep Russia happy[115]—but the Ukraine invasion altered the equation. Algeria abstained on five of six votes in the UN General Assembly condemning Russian aggression in Ukraine, but in April 2022 it voted—along with BRICS members China, India, and Brazil[116]—to remove Russia from the UN Human Rights Council.[117] A similar dynamic may have pertained in July 2023 when then Prime Minister Aymen Benabderrahmane, rather than President Tebboune, represented Algeria at the second Russia-Africa Summit in St. Petersburg. Benabderrahmane also attended the U.S.-Africa Leaders Summit in December 2022, suggesting that Algeria is seeking to send balanced signals about its great power relations.[118]

In November 2022, Algeria officially announced that it was applying to join the BRICS political-economic grouping, and Russian foreign minister Sergei Lavrov subsequently said the North African state "tops the list" of applicants.[119] The candidacy was generally considered a reflection of Algeria's longstanding foreign policy strategy of pursuing multilateralism without becoming tied down by formal alliances, as well as a means of accelerating Algeria's own economic development—e.g., by increasing financial resources and technological transfers from countries such as India.[120] Finally, however, Algeria was not among the five countries—including the higher-GDP Middle East contestants Egypt, Iran, and the United Arab Emirates—invited to join in August 2023.[121]

Economically, Algeria is one of Russia's main trading partners in Africa,[122] but trade relations are highly imbalanced, as they are in the Russia-Morocco context. In 2017, Russia exported an estimated $1.2 billion worth of goods and services to Algeria (led by navigation equipment, soybean oil, and broadcast services); that same year, Algeria only exported approximately $6.3 million in goods to Russia (largely dried and fresh fruit).[123] In 2017, Algeria's GDP totaled $170.1 billion, 22.6 percent of which consisted of exports.[124] This reflects Algeria's general lack of diversification when it comes to economic production and exports. Another barrier to trade between the two countries is their shared role as major exporters in natural gas.[125] Algeria also imports significant amounts of wheat from Russia.[126] After Russia pulled out of the Black Sea Grain Initiative in July 2023, which allowed exports of various grains from Odessa ports, Egypt criticized the move, but Algeria did not. This reflects the balancing act Algiers is still seeking to strike.

Cultural Relations with Russia Mostly Strong

Culturally, Russia has managed to make inroads in Algeria. According to some reports, Russian disinformation campaigns have attempted to portray the Hirak protest movement as fueled by radical Islamists.[127] One analyst has documented several cases of Russian media outlets, think tank analysts, and officials warning about Islamists' role in the uprisings that began in 2019, and likening them to Egypt's 2011 uprisings.[128]

Analyses of Russian media suggest the Kremlin views Algeria as a significant country to pursue influence. The state media outlet RT (formerly Russia

Today) opened a bureau in 2024, thereafter launching its fifth RT Arabic talk show series, also available in Russian.[129] Reportedly, RT has received more welcoming treatment compared with other international news outlets, many of which have either been barred from operating or had journalists expelled.[130]

Polling data also suggests that decades of broad government-level Algeria-Russia cooperation, as well as Russia's relative success in the information and media sphere, has influenced public perceptions.[131] For example, in 2022 a large majority (66%) of Algerians expressed favorable attitudes toward Russia—likely "the consequence of decades of close government cooperation and cultural exchange."[132] Notably, in 2022 the proportion of Algerians wanting to strengthen economic ties with the country (55%) had increased by 20 points from 2019. (For public perceptions of the United States, Russia, and China, see figure 5.)

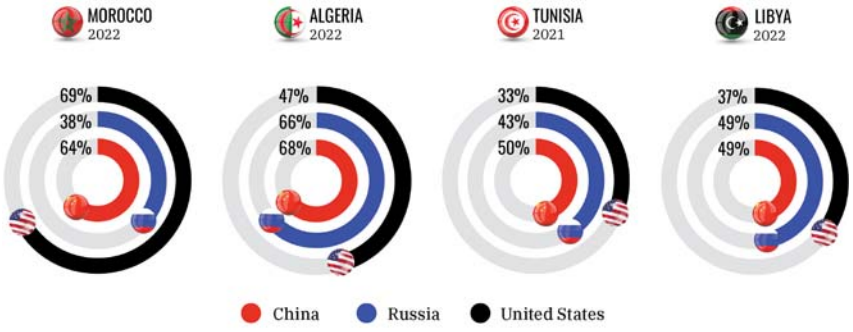
In late 2020 and early 2021, Russia and Algeria also reached an agreement over a delivery of 500,000 doses of the Sputnik V vaccine free of charge and for Algeria to start producing the vaccine. Algeria was reportedly the first African country to register the vaccine and one of a select number on the continent to receive a delivery given its "preferred" status in Moscow's eyes.[133] The first shipment of Sputnik V was quickly followed by deliveries of the British-produced AstraZeneca vaccine and the U.S.-produced Johnson & Johnson vaccine.[134]

A Generally Upward Trend for Algeria-China Ties

China and Algeria have grown closer politically in recent years. Historically, Beijing was an early supporter of the National Liberation Front (FLN) during the Algerian war of independence from 1954 to 1962. In the 1970s, Algeria supported China's candidacy to the United Nations and eventually promoted the resolution that in 1972 granted to the People's Republic Taiwan's seat at the UN.

The state visit of President Tebboune to Beijing in July 2023, following a similar trip to Moscow the previous month, is a recent sign of this deepened political partnership. The visit highlighted the evolution of Algeria-China ties, based on a shared vision of the world that emphasizes sovereignty and

Figure 5. China, Russia, and the United States: Favorability Ratings Across North Africa



Source: Arab Barometer Wave VII reports, https://www.arabbarometer.org/surveys/arab-barometer-wave-vii/.

noninterference. The main pillar of this renewed relationship is Algeria's continued candidacy to join BRICS, which Algeria continues to frame optimistically despite its lack of success thus far.[135] In a further sign of adherence to this "new multilateralism" pursued by Beijing, Algiers pledged to join the BRICS-associated New Development Bank as a shareholder. On January 1, 2024, Algeria entered the UN Security Council as nonpermanent member for a two-year tenure, during which it is expected to coordinate closely with China.

The two countries are also longtime economic partners. Algeria has shown a preference for Chinese investments over the past decade, notably awarding Beijing emblematic projects such as the construction of the Great Mosque of Algiers and the new Algiers International Airport.[136] Today, as with all its economic partners, Algeria expects China to carry out productive investments in partnership with Algerian actors. Algeria hosts one of the largest populations of Chinese workers in Africa,[137] and has 850 Chinese active companies in the country.[138]

Indeed, since 2012 China has overtaken France as Algeria's top supplier, with more than $6 billion of imports that year, and China is among the biggest clients of Algeria globally.[139] Algerian authorities have encouraged a Chinese presence and ratified a Belt and Road Initiative MOU in 2019. Algiers also adhered to the Asian Infrastructure Investment Bank as early as 2018, hence acquiring a seat on the bank's board, with voting rights proportional to capital invested.[140]

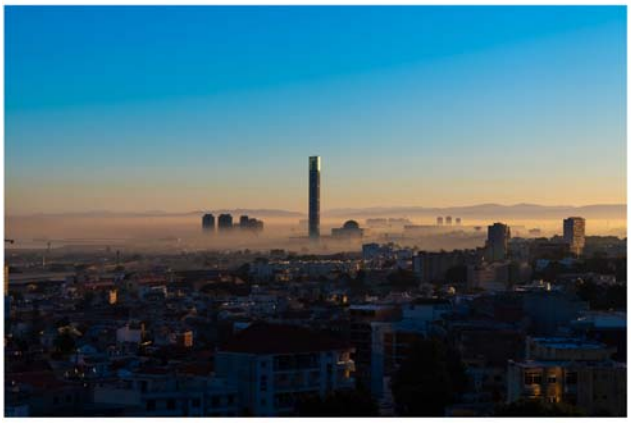
China's investments have focused on four key sectors: petrochemical extraction, public works and infrastructure, telecommunications, and car production. (Activity in the defense industry marks a fifth.) Building on this strong presence, contracts involving Chinese companies now emphasize key infrastructure projects with strategic value, including:

- The completion in 2023 of the 1,216-kilometer East-West Highway, largely built by CITIC Construction at a total cost of more than $17 billion.
- An agreement for the construction of a deepwater port in El Hamdania–Cherchell, signed in January 2016 as part of the BRI and backed by a $3.3 billion Chinese loan.[141] If this project materializes, it will end the de facto Algerian policy of not contracting loans.
- A contract signed in February 2022 with the Chinese petroleum and chemical company Sinopec for the construction of a liquid gas storage facility in Skikda, worth $180 million.
- A project with Sinopec underway since May 2022 on the production of fuel additives in Arzew, worth $430 million.

Despite this seemingly flourishing economic relationship, Algiers-Beijing cooperation faces many constraints. As a generally closed economy with an unfriendly investment climate,[142] Algeria has placed restrictions on imports that have forced some Chinese companies to leave the country. As elsewhere, the significant number of Chinese workers has prompted accusations in Algerian policy circles that China is evading the practice of local hiring in a country where unemployment reaches 14 percent. Besides these difficulties, Chinese efforts in Algeria face stiff competition from abroad, especially from Turkish companies in the key sector of public works.[143] The reputation of some Chinese companies for scandal and corruption has encouraged such competition.[144] In fact, President Tebboune's summer 2023 visit to Beijing resulted in the rebranding of old projects, reflecting some of the limitations to growing the partnership.

Like many countries that rely on arms imports primarily from a single source, Algeria has at various points attempted to diversify its acquisitions and modernize its defense industrial base. Russia's invasion of Ukraine—and the subsequent turbulence facing longstanding customers of Russian weaponry, including Algeria—will likely accelerate Algeria's efforts to fortify its military's status.[145]

In recent years, Algeria has shortened military



The world's tallest minaret belongs to the Djamaa el Djazair mosque in Algiers, which opened in 2019 and was built by China State Construction Engineering. REUTERS

conscription requirements from eighteen to nine months,[146] increased defense spending,[147] and engaged in coproduction arrangements with various European firms.[148] As it seeks to diversify its arms imports, Algeria could turn increasingly to China, one of the world's fastest-growing arms exporters. As a fellow legacy purchaser of Russian weaponry, Beijing can make a unique marketing pitch to arms importers struggling to source supplies from Moscow. In recent years, Algeria has already begun to look toward China, such as in the following instances:

- In 2012, Algeria began purchasing several Chinese corvettes for its navy.[149]
- In 2017, Beijing launched Algeria's first telecommunications satellite, which could support military operations.[150]
- In 2018, the Algerian military took delivery of several Chinese armed UAVs.[151]
- In 2022, reports emerged that Algeria was in negotiations with China to acquire short-range ballistic missiles.[152]

Some reports have also indicated China has hosted Algerian military officers for training.[153] To date, Algeria-China defense relations have been modest in comparison to Algeria's historic ties to Russia, yet there is clearly room for growth. During Tebboune's visit to Beijing, the two countries pledged to deepen their security ties.[154] In November 2023, the head of Algeria's armed forces visited Beijing to further discuss military cooperation, likely including an exploration of arms sales.[155] In the future, one can expect Algeria's defense ties with China to gradually expand, perhaps at Russia's expense.



The CH-4 UAV is one of the Chinese-made drone types to arrive in Algeria in 2018.

Russia, China, and the Conflict over Western Sahara

The U.S.-Russia geostrategic rivalry has been playing out quietly in the dispute over Western Sahara—a situation from which both Algeria and Morocco have sought advantage. Technically, Moscow has always professed neutrality on Western Sahara. Yet in practice, Russia has stuck close to the Algerian position, which generally backs the Polisario Front representing the claim to Sahrawi independence."[156] In October 2023, Moscow abstained from a UN Security Council vote on the draft resolution put forth by the United States to renew the MINURSO mandate, calling it "unscrupulous" and claiming it failed to incorporate "a single one" of Russia's comments.[157]

In the years since the Trump administration recognized Morocco's sovereignty over Western Sahara, Russia has responded favorably to the Polisario's increased overtures for support. Morocco's anger over such moves may have prompted its postponement in October 2021 of the sixth Arab-Russian Cooperation Forum in Marrakesh, even as the gathering eventually took place in December 2023—conveniently timed with the rise in anti-American sentiment over the Hamas-Israel war.[158]

In tapping the Western Sahara issue, Algeria appeals to Russia's interest in expanding bilateral relations as well as its competition with the United States. When in June 2023 Algerian president Tebboune led a large ministerial delegation on a long-awaited visit to Moscow, some read this as a response to the joint U.S.-Morocco military exercises taking place the same week. For the first time, the area for the exercises had been expanded to include al-Mahbes in the Moroccan-held part of Western Sahara—a move potentially seen as provocative by Algiers.

Thus, Moscow has followed similar patterns of behavior in Morocco and Algeria as elsewhere in the Middle East: attempting to play a more assertive role as a mediator, taking the anti-U.S. side despite professing neutrality, and inserting itself into vacuums left by a U.S. absence.[159] With respect to Western Sahara, Morocco has sometimes gestured toward Russia when it feels challenged, such as in 2013 when Rabat canceled the African Lion exercise in response to the U.S. introduction of a human rights monitoring component into the MINURSO mandate, which Morocco has consistently opposed.[160] Some have argued that the incident helped solidify Morocco's intent to find more allies in the Security Council, although U.S. recognition of Moroccan sovereignty over Western Sahara likely dampened this inclination.[161]

China has staked out a more neutral position than Russia on the Western Sahara issue. Despite strong ties to Algiers, Beijing has generally embraced principles of sovereignty and territorial integrity that some have read as tacit recognition of Morocco's claim to the territory.[162] To date, an equilibrium appears to have emerged wherein Morocco respects Beijing's "one China" policy in exchange for the latter's cooperation on the UN Security Council over Western Sahara—a sort of mutual acceptance of red lines.[163]

Meanwhile, building on their history and ideological affinity, Algiers and Beijing have developed a positive political relationship based on mutual support in multilateral forums. On Western Sahara and Taiwan, key sovereignty issues for both capitals, each is careful not to take any step that would harm the other. In China's case, a real balancing act here involves ensuring its relations with Morocco do not deteriorate in the process.

Given the intractability of the Western Sahara conflict, Morocco and Algeria are likely to continue using U.S.-Russia competition to try to advance their respective positions. At a moment when the basis for American recognition of Morocco's position—Rabat's normalization of relations with Jerusalem—is being challenged by Israel's engagement in Gaza, this situation has only become more complicated. Although China has not yet signaled an intent to do so, a more neutral position could conceivably position it to try to exert influence as a mediator in the future.[164]

Tunisia

Tunisia's sharp authoritarian turn since July 2021—driven in large part by popular frustration with the failures of the country's political elites—has had a noticeable, if confusing, effect on its foreign policy outlook.[165] Under previous governments, the country had maintained largely friendly relations with the West and comparatively more distant relations with China and Russia. Yet over the past few years, President Kais Saied's fierce anti-Western populist rhetoric has become a key part of Tunisia's outward identity, as manifested in actions such as the rejection of EU assistance and the blocking of a European parliamentary delegation in summer 2023.[166] In Washington, once an active supporter of Tunisian democratization, it has aroused fears of enhanced influence from Moscow and Beijing—even as these fears appear not yet to have played out.

Political, Economic, and Cultural Ties with Russia—Modest but Not Insignificant

Russia and Tunisia have had full diplomatic ties since July 1956,[167] but the relationship has never been especially deep. Since February 2022, Tunisia has voted in favor of four of the six UN General Assembly resolutions condemning Russia's aggression in Ukraine, although it claims to be neutral on the conflict. Some have interpreted its two abstentions as the result of increasing pressure from Algiers, on which Tunis relies for some financial support.[168] Certain analysts also highlight a lack of sympathy for Ukraine among the Tunisian public, where the West is perceived as hypocritical in its rush to aid Ukraine while ignoring the suffering of Palestinians and conflicts in Africa and elsewhere.[169]

Recently, diplomatic exchanges have been moderate but noteworthy. In July 2023, Tunisia was among thirty-two of forty-nine countries to send a delegation headed by a foreign minister, rather than a head of state, to the Russia-Africa Summit in St. Petersburg.[170] In late September 2023, Foreign Minister Nabil Ammar met with his Russian counterpart, Sergei Lavrov, in Moscow, where the two reportedly discussed increasing volumes of Russian wheat to Tunisia—a key vulnerability for the country.[171] Then, in December 2023, Lavrov stopped in Tunis as part of a North African tour following the Arab-Russian Cooperation Forum in Marrakesh.[172] And in early 2024, reports emerged that the national electoral commission, known by its French acronym ISIE, had entered into a memorandum of understanding with Russia following a study tour to Moscow by ISIE president Farouk Bouasker.[173]

Tourism has remained a key link between the two countries. Between 2012 and 2016, overall tourism in Tunisia suffered a sharp decline due to a series of terrorist attacks, but a tenfold increase in Russian visitors between 2015 and 2016 helped make up for the drop from Europe.[174] This was partly a result of diverted tourism from Egypt and Turkey, two top destinations, attributable among other factors to a temporary diplomatic rift between Ankara and Moscow.

In 2021, Russia furnished 3 percent of tourists in Tunisia—considered a significant market by authorities.[175] Hotel owners and other stakeholders in Tunisia's tourism industry expected another increase in 2022, but the war in Ukraine brought about a decline.[176] In an achievement, Russia managed to deliver one million doses of its Sputnik V Covid vaccine to Tunisia, reportedly driven in part by Tunisia's desire to encourage the return of Russian tourists.[177] The Russian airline Aeroflot announced that it would restart flights to Tunisia in May 2023,[178] but is rumored to have faced financial difficulties in doing so.[179]

"Cultural centers" are generally known to be fronts for Russian intelligence gathering, and for many years one has maintained a presence in Tunisia. In the 1950s, moreover, the Russian community built an Orthodox Church in Tunis, and its enduring presence suggests a means of access or intelligence gathering, with the church having become integral to the state in the Putin era.[180] Also in the area of cultural

exchange, recently the Russian state propaganda outlet Sputnik reported that Tunis held its first exhibition promoting Russian universities, "Education in Russia for Tunisia 2023."[181] The Tunisian-Russian Friendship Association has reportedly launched an initiative to facilitate funding for Tunisian students wishing to study in Russia.[182]

Stasis in Other Areas, but Tunisia Susceptible

Elsewhere, Russia's activity in Tunisia has not tended to expand significantly, likely as a result of Tunisia's inability to capitalize on any Russian interest. Trade between the two countries is modest, totaling roughly $566 million in 2021,[183] although such numbers should be seen in the context of its much smaller GDP ($46.69 billion) relative to Algeria ($163.47 billion) and Morocco ($141.82).[184] Like Algeria, Tunisia imports significant amounts of grain from Russia—in 2021, wheat and barley imports were estimated at approximately $38 million and $105 million, respectively, although these figures were upset by the February 2022 invasion of Ukraine.[185] Tunisian exports to Russia mostly consist of textiles, leather, and fluorides.[186]

However limited the current relationship, Tunisia remains susceptible to Russian inroads—likely more than Morocco, another North African state with scant ties to Moscow. Tunisia's reliance on Russian and Ukrainian grain is one such area, with Moscow having shown it will weaponize food in the context of the Ukraine war.[187] Morocco historically has imported its grain from both Ukraine and Russia.[188]

Relatedly, Tunisia's democratic backsliding under President Kais Saied has prompted U.S. policymakers to enact reductions in bilateral assistance.[189] To the extent that this affects the security partnership—some on Capitol Hill are calling for a trimming of military assistance[190]—Tunisian officials could decide that Russia is a more reliable partner during its time of heightened economic uncertainty. So far, this has not played out, with Saied choosing to insist on Tunisian "sovereignty" above a more direct turn toward the West's rivals. Yet given the overall dynamic, Western officials should also closely monitor Russian inroads into the Tunisia security services as an attempt to expand influence across the region. Finally, the possibility must be considered that Saied will call on Russian, not American, assistance if the terrorist threat reemerges in Tunisia.

Political-Economic Relations with China Hampered by Tunisian Weakness

Tunisia recognized the People's Republic in 1964, becoming the last Maghreb country to do so. The first president of Tunisia as an independent nation, Habib Bourguiba, favored a pro-Western orientation, but relations with China deepened somewhat under his successor, Zine al-Abidine Ben Ali, who unambiguously supported the one China policy. Ben Ali traveled to Beijing in 1991 and Chinese leader Jiang Zemin traveled to Tunisia in 2002. During the second visit, they signed several bilateral agreements on a range of economic and other cooperative issues.[191]

Relations dipped slightly following the sudden popular overthrow of Ben Ali in 2011, with Beijing uncertain of how to react.[192] Under the first permanent postrevolutionary government of Beji Caid Essebsi, elected in 2014, both sides seriously explored ways to deepen Chinese investment, but the domestic preoccupation with rebuilding the Tunisian state prevented these explorations from fully bearing fruit.[193] This general trend has accelerated since the transition of power to Saied from Essebsi who died in office in 2019 at age ninety-two, with Chinese outreach to Tunisia appearing stronger than the other way around. For example, Chinese foreign minister Wang Yi's visit to the country in January 2024 as part of his annual Africa tour reflected a recognition of Tunisia's importance in Beijing's eyes but was not presented as holding particular strategic value by the Tunisian press.[194] Moreover, despite his fierce anti-Western positions, Saied's rhetoric and actions have so far contained surprisingly few allusions to deepening ties with China.[195] This is in contrast to neighboring Algeria, which has actively

pursued stronger relations with both Russia and China as part of its larger foreign policy strategy.

Economically, Tunisia signed on to the BRI with a 2018 MOU, but no implementation agreement has occurred yet. Trade between China and Tunisia has expanded over the past decades, but, as with other Maghreb countries, Tunisia has a substantial trade deficit with China.[196] Moreover, although China has reached the position of third largest supplier of consumer goods to Tunisia, Tunisian trade is still relatively heavily weighted toward European partners.[197] This offers a contrast to other African countries, including the Maghreb as well as elsewhere in francophone Africa, where Chinese trade has largely begun to replace French and other European trade.[198] As with Morocco, Tunisia's free trade agreement with Europe draws Chinese manufacturing to the country because it enables export of Chinese-made goods with lower tariffs.[199]

Nonetheless, Tunisia's location at the center of the North African Mediterranean coast, with its proximity to European and African markets and vital shipping routes, makes it attractive for Chinese investment. Such investment has faced barriers, however, most notably the lack of a legal framework for public-private partnerships.[200] In 2021, the two countries signed a $15 million deal on infrastructure packages, but most have yet to be started.[201]

Thus, again in contrast to neighboring Algeria, Chinese construction contracts have been limited in Tunisia, mainly consisting of a few high-visibility projects such as a $23 million diplomatic academy



In December 2020, Tunisian president Kais Saied inaugurated a university hospital in Sfax, built with Chinese financial assistance.



inaugurated in April 2022.[202] China also constructed a university hospital in Sfax, completed in 2020.[203]

Similarly, China's interest in developing Tunisia's ports has been clear, but its actual involvement has not been.[204] Tunisia's plans to expand the strategic Zarzis port into a logistical hub with a free trade zone opening onto Libya, for example, have been consistently delayed, as has the planned port project at Enfidha.[205] Tunisia's indebtedness makes a contract with China on such projects unlikely any time soon;[206] at the time of writing, it is unclear how the government will meet its $2.6 billion foreign liability repayments scheduled for 2024.[207] Moreover, China has struggled to translate its interest in developing Tunisia's ports, including Bizerte, into tangible contracts due to Tunisian government ineptitude.[208] China appears to have more promising prospects of developing deepwater ports in neighboring Algeria, as discussed earlier.

Tunisia has permitted some Chinese involvement in developing the country's connectivity and other infrastructure. For instance, Huawei Marine Networks completed the "Hannibal" cable linking Tunisia to Italy in 2009, despite concern among Europeans that this could lead to Chinese intelligence gathering and naval and military cooperation in the Mediterranean.[209] Tunisia was also the site of the BeiDou Navigation Satellite System's first facility abroad, launched in 2018 by the China Satellite Navigation Office and the Arab Information and Communication Technology Organization.[210] In June 2023, Tunisia's minister of communication technologies, Nizar Ben Neji, led a delegation to China's port city of Tianjin, where the two countries entered into an MOU on communication and information technology.[211] Yet even as Huawei provides 4G connectivity for approximately 15 percent of the local smartphone market,[212] its 5G ambitions have faced pushback from the United States and competition from Europe.[213]

In sum, while China theoretically should have a favorable position in Tunisia on investments, infrastructure, and loans, Saied's emphasis on sovereignty—including his insistence on hiring of local workers amid high unemployment—as well as Tunisia's general internal struggles could challenge China's traditional development model.

A Slow Attempt to Build Cultural Ties

During the 1980s, Tunisia became the first Arab country to offer Chinese-language courses, and in 2009 it became the first to open a Confucius Classroom, in Sfax.[214] A Confucius Institute was opened in 2010 at the University of Carthage outside Tunis, and the same university now partners with four different Chinese universities and has hosted cohorts of Chinese students studying Arabic.[215] By 2020, Chinese training centers and universities had hosted more than a thousand Tunisians for courses and workshops in sectors including diplomatic relations, economic management, and health and agriculture.[216] In late 2023, the Chinese Association for International Understanding and the Tunisian National Heritage Institute held a conference on culture and civilization in Tunis.[217]

Tunisia has followed Morocco's path in trying to attract Chinese tourism by eliminating visa requirements.[218] Chinese visits subsequently increased by as much as 10 percent year-on-year between 2017 and 2019, according to some reports.[219] As in Morocco, however, a pandemic-era drop in tourist numbers still has not been remediated; moreover, even at its annual peak of 30,000 Chinese tourists, this represented an iota of the roughly 9.4 million total yearly visitors.[220]

The Chinese media presence in the country has notably expanded, including through social media outreach by the Chinese embassy in Tunis.[221] Thus far, however, its effects on public opinion are unclear.[222] Polling data indicates that Tunisians hold largely favorable perceptions of China—more than 60 percent say they would favor stronger economic relations[223]—but this does not translate into a preference for Beijing as a political and economic partner.[224] At the same time, the narrowing of domestic press freedoms in Tunisia could make the country more prone to Chinese influence.

Libya

Lacking support from a permanent government since 2011, Libyan foreign policy has consisted of responses by various actors to international interests. At its height in 2015 and again in 2019, the proxy conflict between Libya's eastern and western governments included competition between regional powers—broadly, with the UAE and Egypt supporting one side and Turkey and Qatar backing the other—but other international actors, including Italy, France, and Russia, have also been involved.[225] Overall, Russia has played a much more overt role in such activity than China, but both countries have sought to establish a presence that will produce benefits regardless of Libya's future political character.



Russian Intervention in Libyan Politics and Military...

In April 2008, Vladimir Putin became the first Russian leader in twenty-three years to visit Libya, helping establish a cordial relationship with Muammar Qadhafi.[226] Putin's visit brought about the cancellation of $4.5 billion in Soviet-era debt in exchange for Qadhafi's commitment to multibillion-dollar contracts with Russian defense companies, energy investments, and a plan to build a high-speed coastal rail from Qadhafi's hometown, Sirte—often the site of his vanity projects and diplomatic ceremonies—to Benghazi.[227] Yet by the time of the 2011 uprisings, only fifteen kilometers had been built, and the project was suspended by the fighting.

The Libyan dictator's violent response to the 2011 uprisings and subsequent NATO-led intervention ultimately facilitated a destructive Russian role in the country, along with new fault lines with the United States. Russia's bitterness about the NATO action can be traced to its abstention on (rather than rejection of) UN Security Council Resolution 1973, which authorized a "civilian protection" mission in response to Qadhafi's vicious crackdown, primarily then around Benghazi. At the time, while ostensibly serving as Dmitry Medvedev's prime minister, Putin did not block Russia from abstaining on the resolution. Yet Russia later claimed it had been reassured the resolution would not lead to regime change, and the apparent betrayal of this promise has stoked Russian anti-NATO grievance ever since. Putin called the resolution "defective and flawed" and compared it to "medieval calls for crusades."[228] Reportedly, Putin has repeatedly watched the gruesome footage of Qadhafi's eventual death in October 2011 as a reminder of perceived Western duplicity and the consequences of allowing organized domestic opposition.[229]

Since Putin's resumption of the presidency, Russia has been an obstinate actor on the Security Council, often opposing international efforts to unify the opposing sides, providing alternative forums for international gatherings, and limiting the mandate and leadership of the UN Support Mission in Libya (UNSMIL). As of this writing, UNSMIL is on its eighth leader in twelve years, and huge staff and leadership turnover weakens its overall mission. Russia's obstructionism is largely responsible for two lengthy gaps in UNSMIL leadership and even shortened the length of the mission's mandate, requiring the Security Council to reauthorize it every three months instead of every year.[230]

Moreover, in the run-up to the ultimately postponed December 2021 elections, Russia was suspected of supporting the return of Saif al-Islam al Qadhafi, one of the former leader's sons, and at least two Russians were arrested for conducting influence operations.[231] Russia pays lip service to supporting elections and voted for the latest UNSCR 2702 (October 2023), which extended UNSMIL's mandate by a year, calling for reconciliation and urging "free, fair, transparent and inclusive national presidential and parliamentary elections as soon as possible across the country."[232] Yet Russia remains an unreliable actor and has regularly agreed to resolutions calling for the departure of foreign forces since the October 2020 ceasefire, despite the obvious presence of Wagner, as detailed below.[233]

On the military front, Russian activity in Libya's fractured military landscape can be dated to at least 2017, when Moscow backed Haftar following his visit to Moscow. Despite his anti-Qadhafi stance in the 1980s and his ultimate residency in Virginia for more than twenty years, Haftar is at heart a Russian-trained officer, like most of his Qadhafi-era colleagues. Moscow, for its part, has denied being active in Libya, using its Wagner Group forces for deniability. After Haftar was rebuffed in his April 2019 assault on Tripoli, Wagner forces began deploying to the frontlines and offered additional tactical advantages to his Libyan National Army (LNA), including precision sniper activity, deployment of Pantsir antiaircraft systems, and Chinese-origin drones.[234] A Defense Department report corroborated by independent research showed that Wagner was receiving UAE support at the time, but this evident relationship—denied by Abu Dhabi—ended after being exposed.[235] A UN panel of experts initially established to monitor arms

embargo and other violations estimated the presence of up to two thousand Wagner personnel actively supporting Haftar, as of 2021.[236]

To counter Haftar's advances, the UN-recognized Government of National Accord signed a set of controversial maritime and defense agreements with Turkey, which formed the legal basis for Ankara to deploy its own forces to Tripoli and ultimately defeat Haftar's LNA forces and Wagner's systems with superior Bayraktar-2 drones.[237] In its retreat, Wagner left dozens of improvised explosive devices, including some attached to children's toys.[238]

After the October 2020 ceasefire, the parties agreed to the departure of foreign forces on either side, including mercenaries from Chad, Sudan, and Syria. (Many Syrian were fighting under Wagner's direction.) In May and July 2021, the U.S. Africa Command released imagery demonstrating the continued supply of Wagner platforms and equipment, including transfers of fighter aircraft from Syria. Other imagery showed cargo aircraft delivered from Syria to Libya. The UN panel of experts, moreover, "identified at least 505 flights by specific aircraft registration number, equating to a maximum cargo delivery of 23,328 tonnes during 2020..."[239] As of late 2023, many African and Syrian mercenaries had departed even as Turkish personnel remained, ostensibly justified by their defense pact with the Tripoli-based government. Haftar, in turn, argues that he needs Wagner to defend against a potential attack from Turkish forces.[240]

After the August 2023 death of Wagner chief Yevgeny Prigozhin, the Russian official defense establishment worked expeditiously to keep Haftar in its orbit. Deputy Defense Minister Yunus-bek Yevkurov, charged with running Moscow's Africa operations, visited Haftar the day after Prigozhin's death and has met Haftar in Libya multiple times since. More tellingly, a day after meeting the U.S. envoy to Libya and the head of U.S. Africa Command in Libya, Haftar flew to Moscow to meet Putin—an unmistakable diplomatic swipe at Washington. For U.S. and NATO interests, the potentially worst outcome would be Russia's establishment of a naval base in eastern Libya, to go with its al-Jufrah Air Base, marking an unacceptable Russian intrusion into the Mediterranean.

As it has done on Western Sahara and other Middle East conflicts, however, Russia has tried to uphold the appearance of balance, maintaining a relationship with the Tripoli-based government even as it has poured most support into Haftar's forces, thus affording it a veneer of credibility as a mediator. For example, Prime Minister Fayez al-Sarraj visited Moscow twice, in 2017 and 2020; during the latter visit, he accepted Russian diplomatic support to end the 2019–20 battle for Tripoli. Subsequently, in April 2021, Putin met current prime minister Abdulhamid Dbeibeh shortly after he assumed the role. And in November 2023, Mohammed Takala, the newly appointed head of the Tripoli-based parliament, known as the High State Council, stressed the need for improving Libya-Russia relations during his first visit to Moscow.[241]

Given Russia's track record of meddling, the United States and its partners can expect Moscow to remain a destructive force in internal Libyan politics. This is because a unified, legitimate government threatens the presence of Russia-backed forces, whatever risks the alternative scenario may pose, ranging from emboldened militias to rampant smuggling and overall chaos. U.S. and other actors, in the end, should not be fooled by Russian pretensions of neutrality in Libya. They must in turn pressure Haftar to limit his reliance on Russia and, if he fails to respond, be prepared to impose meaningful consequences against the military figure.

...But Without Major Economic Benefit for Either Side

Modest economic ties do not fundamentally drive Russia's interest in Libya, in contrast to the Wagner Group's gold and mineral exploitation elsewhere in Africa. Nevertheless, expansion of trade and investment—especially in the energy sector—is always a possibility, although volumes will remain limited relative to neighboring Egypt and Algeria. When it does engage in trade and investment, Russia will need to show political balance due to Tripoli's

overall economic influence through the Central Bank and National Oil Corporation, institutions through which any deal requiring state funding must go.

Russia clearly demonstrated its support for the east when, over 2016–19, it began creating a black market exchange rate by printing and shipping around 10 billion dinars (then around US$7 billion) until a large shipment was stopped in Malta.[242] The Russian initiative temporarily eased a liquidity crunch but only created more long-term debt in the eastern banking system, which would eventually be supplied by the Tripoli-based Central Bank as part of a Haftar-engineered deal in exchange for ending the Wagner-supported 2022 blockade of oil fields, which over four months cut production by as much as half.[243]

On the energy front, Russia suspended operations in Libya for a decade, from 2011 until 2021. Gazprom, in a joint venture with Germany's Wintershall Dea, shares a 49 percent stake in fields in the Sirte basin that produce around 50,000 barrels per day.[244] And in May 2023, the Russian exploration and development company Tatneft discovered a small field in Ghadames Basin.[245] Overall, though, Moscow appears much less poised to expand its influence in Libya's energy sector relative to the political and security domains.

China-Libya Ties Guided by Pragmatism

Compared with Russia's strategic presence in Libya, China has taken a much more limited, pragmatic approach, principally governed by economic interests, mainly oil imports. In late 2019, just before the outbreak of the Covid-19 pandemic, China imported 2 percent of its crude oil from Libya.[246] That amount flatlined during the pandemic but could increase if record Chinese demand persists and Libyan production endures, which is contingent on the absence of domestic conflicts or stoppages and boycotts at production sites. Libya exports almost exclusively fuel to China. For its part, China is second to Italy as an exporter of goods to Libya, a significant portion of them consumer goods.[247]

To date, Libya remains a comparatively limited source of investment in the Belt and Road Initiative, in large part due to Libyan governance instability and China's desire to avoid entangling itself in the Libyan conflict. China also remains scarred by having had to evacuate 36,000 workers from nearly fifty infrastructure projects during the 2011 Libyan revolution, a massive effort that required diplomatic resources, naval assets, and chartered planes.[248] Those workers were employed at projects valued at approximately $18.8 billion, including a more than $4 billion railroad project.[249] The experience has made China slow to engage Libya on BRI projects, although Libyan leaders from both east and west have occasionally sought Chinese reinvestment—principally in the railroad project. In August 2023, Tripoli-based Presidential Council deputy Musa al-Koni talked with Chinese officials on the sidelines of the BRICS summit in South Africa.[250]

China has demonstrated its neutrality diplomatically by abstaining on UN Security Council Resolution 1973 (2011), which authorized the intervention against Qadhafi, as well as during the country's subsequent periods of civil war. The China-Libya relationship has vacillated historically and was marred for Beijing by Qadhafi's initial recognition of Taiwan. But that insult evidently faded, relations improved, and economic ties deepened once Libya started opening its economy. Today, China generally regards Maghreb and African states as holding increasing strategic importance, with intentional engagement in Libya reflected in its humanitarian response to the massive September 2023 flooding in Darnah. According to the Chinese Foreign Ministry spokesman: "The people of China and Libya share a profound and long-standing friendship."[251] China's chargé d'affairs at the embassy in Tripoli also provided the Libyan Red Crescent with $200,000 for flood relief. The chargé completed a five-and-a-half-year tenure in Libya in 2023, with China's non-appointment of an ambassador likely showing its ambivalence toward the bilateral relationship.[252]

Although Libya is not a Chinese military client, Haftar's forces did use Wing Loong II drones and missiles against Tripoli before Turkey intervened on the western government's behalf in early 2020. These drones were reportedly operated out of the

UAE and launched from Libyan air bases, as confirmed by the UN panel of experts.[253] China's lack of end-user agreements allows these advanced systems to be operated with impunity in third countries.

Conclusions

The Russian and Chinese presence in North Africa varies substantially by country and in form. Russia's military involvement, for example, ranges from fairly deeply embedded in Libya to almost completely absent in Morocco. Similarly, both Russian and Chinese economic activity—particularly trade—is high in some countries, such as Algeria and Morocco, but relatively low elsewhere, such as in Tunisia. This variation reflects the starkly different strategies of the two aspiring superpowers and the diversity and lack of integration among the Maghreb countries.

Clearly, however, both Russia and China have a desire to expand their influence in North Africa. Some of the most formidable obstacles come not from the Eastern powers' weaknesses, but from the inability of North African countries to capitalize on this interest—again to varying degrees, reflecting their own politics, ideologies, governance capacity, or conflicts. Tunisia's failure thus far to realize several infrastructure projects in partnership with China, as compared to Chinese participation in Moroccan and Algerian economic activity, reflects not so much different preferences among these North African countries as their different capacities and levels of economic stability. On the other hand, Russia's success in establishing a foothold in Libya is partly due to the inability of North Africa's leaders to unify around national interests and objectives. The same is true regarding China's growing media influence in Tunisia—as compared to, say, Algeria—where Beijing seems to have recognized an opportunity to successfully deploy certain tools and tactics.

Yet to the extent that Russia and China will seek opportunities to engage in the Maghreb, the four countries of the region will seek to benefit from them. This is true, for example, as great power competition plays out in the UN Security Council vis-à-vis the Western Sahara and Libya conflicts. It is also plain in defense spending and in the economic sphere—with the possible exception of Tunisia, where a great emphasis by the current president on sovereignty could explain the relative lack of courtship of Beijing. Finally, in North Africa as elsewhere on the continent, Russia and China are perceived differently from Western powers. Available post–October 7 public opinion polls suggest a sharp decline in favorable attitudes toward the United States and President Joe Biden specifically, and a moderate rise in favorable views about China and Russia along with their leaders, Xi Jinping and Vladimir Putin. An Arab Barometer poll of Tunisians fielded both before and after October 7 supports this trend, finding that "before October 7, on average 40 percent of Tunisians had a favorable view of the U.S. and 29 percent favored Biden's foreign policies." After October 7, however, favorable views of the United States fell to 10 percent and to just 6 percent for President Biden.[254] Although the polling results did not reflect significant movement of views on China and Russia, their starting points are strong, with China earning 71 percent favorability and Xi netting 54 percent; the numbers are 60 percent for Russia and 54 percent for Putin. This data suggests that the Eastern powers enjoy a more favorable public perception because they lack the same colonial legacy, do not impose the same conditions on human rights and democracy, and "talk about equal partnerships with African states."[255]

A trans-regional poll conducted in December 2023/January 2024 by the Arab Center for Research and Policy Studies suggests similar trends, with more country-specific opinions on Hamas, U.S. policy, and relations with Israel. It found that across the region, 94 percent of respondents viewed the U.S. position on the Gaza war as "very bad" or "bad," compared with 42 percent for Russia and 38 percent for China; 76 percent reported that their attitudes toward the United States had become more negative. The generally negative view was pretty steady across

the states surveyed, although slight variations appeared in "very bad" versus "bad" responses. Perhaps notably, respondents from Morocco, which normalized relations with Israel in 2020, held more negative views than those from Algeria, which has no official ties to Israel. Similarly, the poll suggested that whereas 67 percent of Moroccans opposed recognition of Israel when surveyed in 2022, the figure had risen to 78 percent in 2024.[256] This survey indicates trends similar to the Arab Barometer poll, but does not address China or Russia. The question is whether and to what extent these views, assuming they are accurate, could change with the end of the war and progress toward a Palestinian state.

Such trends reinforce the overall picture presented in this paper: each North African country will pursue its own interests before joining any geopolitical "camp." With two major wars now raging—one started by Russia and with heavy repercussions in Europe, one with profound implications across the Middle East, and both with significant American involvement—the complexity of navigating the geopolitical environment for a divided country like Libya only deepens. North African governments and publics may be influenced by messaging, policies, and larger strategies, but ultimately they will seek to profit from today's fractured global landscape however they can—such as by inviting Chinese investment in infrastructure, a sector from which American investors are largely absent—while mitigating the detrimental effects of increased global competition.

Implications and Recommendations for U.S. Policy

North Africa's lack of integration and unity makes it particularly vulnerable to increased geopolitical competition with Russia and China. As this paper has outlined, North Africa is a case of long-term, slow-moving engagement by U.S. adversaries, which use both country-specific and region-wide approaches to expand their influence. The United States should therefore invest now in expanding its influence across a range of sectors so that it can compete in the region. Showing a commitment to partnerships in North Africa will also better position the United States to respond if and when the region experiences a new crisis linked to governance, stability, terrorism, or a climate disaster. In the absence of a crisis, stronger relationships with the four countries discussed here will help accomplish U.S. foreign policy objectives in other areas, especially in the strategically vital East Mediterranean, where Washington needs to stay focused on impeding Russia's influence. Libya remains especially vulnerable to Russian aspirations to East Mediterranean access on NATO's southern flank and Russia's overall power projection into Africa. Similarly, enhancement of relations with Algeria—a major source of energy resources particularly for Europe, a military heavyweight, and an increasingly vocal actor in multilateral forums—warrants stronger U.S. efforts given Algeria's potential future influence on the world diplomatic stage and through energy exports.

While Russia and China appear to adapt somewhat to each North African country's specific context, they also tend to use the same playbook regardless of where they are operating. To counter Russian and Chinese influence in each country and in the region as a whole, Washington should promote regional integration, in addition to strengthening ties on a bilateral level. Policies promoting integration are absent from Russian and Chinese activities and can help fortify the countries against malign influence by Moscow and Beijing by decreasing the need for arms buildups, fostering solutions to key cross-border challenges such as climate change, and providing new pathways for economic development.

Specifically, the United States should focus on several actions in order to counter growing Russian and Chinese influence.

Recommendations for the Broader Region

Policy recommendations applicable to the broader North Africa region are as follows:

Encourage cooperation to address natural disasters and climate change. In the second half of 2023 alone, Algeria, Morocco, and Libya suffered extensive damage from wildfires, earthquakes, and flooding. As such incidents become more frequent, North African states can benefit from exchanging information and best practices and preparing coordination mechanisms for future incidents that cross national borders. Washington can encourage cooperation in the face of accelerating climate change by facilitating regional dialogues among civil society and other relevant actors that deal with challenges facing North Africa. The United States should also provide expertise on emergency rescue and crisis management as a gateway to the discussions.

Focus on economic and livelihood issues. Democracy promotion remains an important part of U.S. foreign policy, and America should remain true to its values. That said, when it comes to North Africa, a more effective approach would be to prioritize the needs of the population—particularly through protection against economic instability and climate shocks—and build closer relationships based on those interests. (Indeed, after a decade of progress toward democracy, including the drafting and approval of a constitution and the peaceful transition of power after successive elections, Tunisians elected an autocrat who remains popular.) This is where Russia and China tend to make headway: by focusing on the immediate and practical needs of their interlocutors. For instance, when Russian foreign minister Sergei Lavrov travels to Africa, he typically arrives with a business entourage and the goal of signing business agreements that matter to the region's leaders. The United States should therefore review practical programs that it can provide, especially in the commercial, business, energy, and trade sectors, and seek to extend public-private initiatives that would assist North African populations where they need the most help.

Coordinate with the private sector to offer commercial alternatives to China and Russia. China, in particular, has the ability to direct state-associated companies to make deals in resource-stricken countries, often at a more competitive price point than Western alternatives and without being subject to strict anti-corruption laws. When Western companies have successfully outbid their Chinese competitors, they have often done so after coordination between Western countries and China's potential customers. For instance, Jordanian telecommunications companies recently selected European firms over Chinese firms for their 5G networks after years of concerted U.S. and Western discussions with Amman. A similar opportunity exists in North Africa, where Morocco and Tunisia have yet to select their own 5G provider and have considered Huawei. The United States and its partners must keep conveying the risks of deeper commercial ties with China and Russia (e.g., to cybersecurity, which violates principles of sovereignty) while simultaneously coordinating with Western private-sector partners on the development of alternatives.

Convey to regional countries the risks of security ties with China. A close security partnership with China poses risks to the sovereignty of host nations, an issue of particular sensitivity in North Africa. Even seemingly commercial projects, such as those involving critical infrastructure, can open the door to Chinese interference that can affect relationships with other states. The increasing risk of Chinese surveillance of sensitive U.S. platforms at home and abroad means Washington will likely have little appetite for selling sensitive weaponry to countries with security ties to China. For U.S. partners in the region—particularly Morocco and Tunisia—America should consult closely on establishing clear baseline parameters for relations with China that safeguard security cooperation with Washington.

Emphasize the poor track record of Russia and China as security partners. Russia has a weak history of countering terrorism, from Syria to the North Caucasus to its own capital, as the March 22, 2024, terrorist attack in Moscow tragically demonstrated. Although Russian officials have acknowledged the importance of countering terrorism emanating from North Africa, they often do so as a pretext to establish influence. Extremist activity is a major concern for North African governments given the region's history, and terrorism threats will likely worsen as Libyan authorities struggle to contain militias and Sahel governments reel from instability. Beijing, for its part, has done little to engage in counterterrorism-related issues beyond those that directly touch its own interests abroad. In North Africa, China has yet to present itself as a security partner, and if it did so, it could not offer a convincing track record. Such weakness offers Washington an opportunity to highlight its advantages over Beijing and Moscow in areas of transparency, technology, knowledge, and experience and to increase security cooperation where appropriate.

Work more closely with European and other allies where interests align. Europe understandably remains focused on the war in Ukraine and on its eastern sector generally. Still, its southern neighborhood also deserves close attention for reasons including a rolling migration crisis, which has fueled the rise of far-right political movements across Europe. As in the past, the Kremlin will likely use migration as a cudgel against Europe, underscoring why the United States should increase its attention to North Africa now, including by supporting European initiatives (e.g., on migration management and renewable energy) that lay the groundwork for future cooperation.

Project an alternative narrative. Russia and China have been sending a clear message in North Africa, as they have done elsewhere in the "global south": that they will support development and security with "no strings attached"—i.e., no expectation of steps toward democracy—although such support is undoubtedly associated with other "strings" such as debt traps. Rather than simply play defense and counter disinformation, Western governments must unapologetically project their own narrative on media channels and elsewhere, whether about Russia's invasion of Ukraine, China's mistreatment of its Muslim Uyghur population, or any other issue. Ultimately, the West needs to make clear that the alternative to the world order advanced by Moscow and Beijing will allow North African countries to develop economically while also retaining their sovereignty.

Although both Russia and China tend to invest in cultural activities with little apparent tangible value, including parades and movie nights, such activities appear to be gradually helping shape a positive image of these countries among North Africans. In addition to focusing on local and regional media, the United States can enhance its influence by devoting more resources to cultural exchanges—e.g., study tours, English-language courses and clubs, scholarships—that help reorient participants' worldviews toward a liberal model. Such programs have historically contributed to building strong ties that anchor North African countries to the United States—e.g., through the high number of U.S.-Morocco Fulbright and Peace Corps exchanges. Although the effectiveness of such "soft power" tools is notoriously difficult to measure, their absence ensures failure and creates a vacuum for American adversaries to fill.

Country-Specific Recommendations

Recommendations applicable to individual North African states are as follows:

Shore up Morocco as the strategic anchor for U.S. engagement in North Africa. Morocco is the most stable American partner in North Africa, and Washington must reinforce the countries' strong security partnership and sustain existing economic

and security assistance with the goal of blunting Chinese and Russian advances. The United States should also monitor areas such as Morocco's energy imports from Russia and reiterate its support for Morocco not only in security but also in fields that will enhance the perception of the West in the eyes of the Moroccan public, including through technical assistance to manage water scarcity. The United States can expand programs through the Development Finance Corporation and show its commitment to resolving the Western Sahara conflict by reiterating its support for UN special envoy Staffan de Mistura and urging "concerned parties," including Algeria, to resume roundtable talks.

Deepen defense and business relations with Algeria. The United States should continue to warn Algiers of the perils of a close security relationship with China and be prepared to address Algeria's concerns if Beijing's actions jeopardize the relationship. Washington likewise needs a closer defense dialogue with Algiers on U.S. end-user agreements and their perceived risks to Algerian sovereignty. An enhanced dialogue should include reiterating how increased security cooperation with Russia and China also compromises Algeria's sovereignty, particularly through purchases of communications and surveillance technology. Concomitantly, Washington should keep pursuing business and investment relations in Algeria.

Reinforce up Tunisia against long-term vulnerabilities such as climate change. The United States has rightly decided to continue investing in its military partnership with Tunisia despite concerns about President Kais Saied's authoritarian measures, including some apparent attempts to drag the military into politics. Washington should additionally support Tunisia against Russian and Chinese encroachment by helping the country mitigate the effects of climate change and boosting private-sector development of advanced technological industries. It could begin doing so by reinvigorating the Tunisian American Enterprise Fund and exploring new projects through the Development Finance Corporation, thereby benefiting the Tunisian population regardless of Saied's authoritarian rule.

Pressure Haftar to stop cooperating with Russia. Russia's military presence in Libya remains especially concerning for reasons connected to stability, security, and control of natural resources. With Wagner Group/rebranded Africa Corps forces having seized the al-Jufrah Air Base in 2019, Moscow's acquisition of a naval base or even docking rights would pose an acute threat to NATO. Reopening the U.S. embassy in Tripoli will be useful for freeing up resources and coordinating with like-minded partners in countering Russian encroachment. Yet eastern-based warlord Khalifa Haftar provides Russia with a gateway to the Sahel as well as East Africa, potentially facilitating power projection and mineral extraction activities. Any effort to counter Russia in Libya therefore requires a plan to counter Haftar. If UN initiatives to produce elections fail and if Haftar does not adhere to U.S. warnings to stop obstructing peace efforts, Washington should sanction him and his family under authorities including the Global Magnitsky Act. Washington should also work with Egypt and the UAE especially to convey to Haftar's clique the serious consequences of deepening his relationship with the Kremlin. ❖

NOTES

1 Elizabeth Hagedorn, "Inside the Plan to Send American Diplomats Back to Tripoli," Al-Monitor, March 28, 2024, https://www.al-monitor.com/originals/2024/03/inside-plan-send-american-diplomats-back-libya.

2 Such as those used in electric vehicles.

3 See "GDP Africa," Trading Economics, https://tradingeconomics.com/country-list/gdp?continent=africa.

4 Christopher Hemmer, "U.S. Policy Towards North Africa: Three Overarching Themes," *Middle East Policy* 14, no. 4 (2007), https://mepc.org/journal/us-policy-towards-north-africa-three-overarching-themes.

5 The Maghreb is one of the least integrated regions in the world, at least economically: see "Economic Integration in the Maghreb: An Untapped Source of Growth," International Monetary Fund, February 13, 2019, https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/02/08/Economic-Integration-in-the-Maghreb-An-Untapped-Source-of-Growth-46273.

6 "Profile: Arab Maghreb Union," Institute for Security Studies, accessed February 24, 2024, https://issafrica.org/profile-arab-maghreb-union-amu.

7 John W. Finney, "Senate Unit Finds U.S. Has Secret Base in Morocco for Navy Communications," *New York Times*, July 28, 1970, https://www.nytimes.com/1970/07/28/archives/senate-unit-finds-us-has-secret-base-in-morocco-for-navy.html.

8 See "Morocco FTA," Office of the United States Trade Representative, https://ustr.gov/trade-agreements/free-trade-agreements/morocco-fta/final-text.

9 For the visits, see U.S. Department of State, "Travel to Turkey, Spain, Morocco, and Algeria, March 4–10, 2022," https://www.state.gov/deputy-secretary-travel/travel-to-turkey-spain-morocco-algeria-and-egypt-march-4-11-2022/; and U.S. Embassy in Algiers, "A Delegation of U.S. Senior Officials in Algiers," December 7, 2022, https://dz.usembassy.gov/a-delegation-of-u-s-senior-officials-arrived-in-algiers-on-december-6-to-discuss-the-u-s-algeria-partnership/.

10 U.S. Embassy in Algeria, "United States–Algeria Joint Military Dialogue 2023," December 5, 2023, https://dz.usembassy.gov/united-states-algeria-joint-military-dialogue-2023/.

11 Algeria hosts roughly 175,000 refugees from Western Sahara who fled the conflict between Morocco and the Polisario between 1975 and 1991; see James Mulholland, "Congolese Cast Ballots as Polls Extended for Second Day," France 24, December 22, 2023, https://www.france24.com/en/tv-shows/eye-on-africa/20231221-congolese-cast-ballots-as-polls-extended-for-a-second-day.

12 UN Development Program, "Human Development Index," https://hdr.undp.org/data-center/human-development-index#/indicies/HDI.

13 See Alexis Arieff, "Western Sahara," Congressional Research Service, October 8, 2014, https://crsreports.congress.gov/product/pdf/RS/RS20962; and Alexis Arieff, Brock R. Williams, and Jim Zanotti, "Morocco-Israel Normalization and U.S. Policy Change on Western Sahara," Congressional Research Service, December 15, 2020, https://crsreports.congress.gov/product/pdf/IN/IN11555.

14 See EUR-Lex, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.1998.097.01.0002.01.ENG.

15 Gene Kramer, "Peace Corps in Retreat," *Washington Post*, June 4, 1996, https://www.washingtonpost.com/archive/politics/1996/06/04/peace-corps-in-retreat/bf3c32f1-a83f-4e55-b899-e31cab65e754/.

16 U.S. Department of State, "U.S. Relations with Tunisia," June 6, 2022, https://www.state.gov/u-s-relations-with-tunisia/.

17 "Tunisia Compact," Millennium Challenge Corporation, https://www.mcc.gov/where-we-work/program/tunisia-compact/.

18 Geoff D. Porter, "The False Premise of Preemption," *New York Times*, op-ed, July 31, 2004.

19 In early 2024, the Biden administration notified Congress of its intent to reestablish a physical diplomatic presence in Libya. See Hagedorn, "Inside the Plan to Send American Diplomats," https://www.al-monitor.com/originals/2024/03/inside-plan-send-american-diplomats-back-libya.

20 Raphael S. Cohen, et al., *Great-Power Competition and Conflict in the 21st Century Outside the Indo-Pacific and Europe* (Santa Monica, CA: RAND, 2023), https://www.rand.org/pubs/research_reports/RRA969-1.html.

21 Anna Borshchevskaya and Catherine Cleveland, *Russia's Arabic Propaganda: What It Is, Why It Matters*, Policy Note 57 (Washington DC: Washington Institute, 2018), https://www.washingtoninstitute.org/policy-analysis/russias-arabic-propaganda-what-it-why-it-matters.

22 Jack Dutton, "Russia Pushes North African Trade Area as Ukraine Sanctions Bite," Al Monitor, August 19, 2023, https://www.al-monitor.com/originals/2023/08/russia-pushes-north-african-trade-area-ukraine-sanctions-bite.

23 See Chris Zambelis, "China's Inroads into North Africa: An Assessment of Sino-Algerian Relations," *China Brief* 10, no. 1 (Jamestown Foundation, January 2010), https://jamestown.org/program/chinas-inroads-into-north-africa-an-assessment-of-sino-algerian-relations/.

24 Tin Hinane El Kadi, "China in the Maghreb: Engagement, Perceptions, and Prospects," Real Instituto Elcano, June 30, 2023, https://www.realinstitutoelcano.org/en/analyses/china-in-the-maghreb-engagement-perceptions-and-prospects/.

25 One difference with Confucius Institutes is that they operate mostly on university campuses.

26 "Global Flow of Tertiary-Level Students," UNESCO: Institute for Statistics, accessed December 12, 2023, https://uis.unesco.org/en/uis-student-flow.

27 "Les Investissements chinois au Maghreb," Ecole de Guerre Economique, November 27, 2020, https://www.ege.fr/infoguerre/2020/11/investissements-chinois-maghreb; "Under the Radar: What's Behind China's Love Affair with Morocco?" Global Risk Insights, https://globalriskinsights.com/2017/03/chinas-love-affair-with-morocco/.

28 Russian Government, "Russia-Morocco Talks," October 11, 2017, http://government.ru/en/news/29598/.

29 Samuel Ramani, *Russia in Africa: Resurgent Great Power or Bellicose Pretender?* (Oxford: Oxford University Press, 2023), 8.

30 Derek Harvey, "The Reagan Doctrine, Morocco, and the Conflict in the Western Sahara: An Appraisal of United States Policy" (master's thesis, University of Utah, 1988), https://apps.dtic.mil/sti/tr/pdf/ADA196845.pdf.

31 "Morocco Assails Soviet over Missiles in Sahara," *New York Times*, October 27, 1981, https://www.nytimes.com/1981/10/27/world/around-the-world-morocco-assails-soviet-over-missiles-in-sahara.html.

32 In comparison, Mohammed VI first came to the United States in 2000 and has since visited "several times," according to the U.S. embassy website, although state visits are relatively rare for this king.

33 President of Russia, "President Vladimir Putin Met with King Mohammed VI of Morocco," October 15, 2002, http://www.en.kremlin.ru/events/president/news/27556.

34 "Russia's Rosatom, Morocco Sign Cooperation Agreement," TASS (Russian News Agency), October 11, 2017, https://tass.com/economy/970060.

35 According to some reports, Moscow may be using counterterrorism cooperation to try to curb Western influence in the country. See David Pollock, "The View from Marrakesh: 'Africans Against Islamic Extremism!'" *Fikra Forum*, Washington Institute for Near East Policy, March 27, 2017, https://www.washingtoninstitute.org/policy-analysis/view-marrakesh-africans-against-islamic-extremism.

36 See President of Russia, "Meeting with King Mohammed VI of Morocco," March 15, 2016, http://www.en.kremlin.ru/events/president/news/51516/photos; Zainab Calcuttawala, "King Mohammed VI Invites Vladimir Putin to Visit Morocco," *Morocco World News*, December 16, 2016, https://www.moroccoworldnews.com/2016/12/203839/king-mohammed-vi-invites-vladimir-putin-to-visit-morocco; and Kingdom of Morocco, "The Official Visit of HM the King Mohammed VI to Russia," March 12, 2016, https://www.maroc.ma/en/news/russias-deputy-foreign-minister-hm-kings-visit-extremely-important.

37 "Morocco, Russia Set to Deepen Strategic Partnership," *North Africa Post*, October 11, 2017, https://northafricapost.com/20126-morocco-russia-set-deepen-strategic-partnership.html.

38 Moroccan Ministry of Foreign Affairs, "HM the King Congratulates Putin on Re-Election as President of Russia," March 19, 2024, https://diplomatie.ma/en/hm-king-congratulates-putin-re-election-president-russia.

39 "The UN Resolution Against Russia's Ukraine Annexations: How Did the Middle East Vote?" PolicyWatch 3660, Washington Institute for Near East Policy, October 13, 2022, https://www.washingtoninstitute.org/policy-analy-

sis/un-resolution-against-russias-ukraine-annexations-how-did-middle-east-vote. Rabat was also absent from the November 2022 vote imposing a war reparation mechanism on Russia.

40 "Russian Deputy Ministry of Foreign Affairs Receives Moroccan Ambassador," *Hespress*, May 24, 2023, https://en.hespress.com/64698-russian-deputy-ministry-of-foreign-affairs-receives-moroccan-ambassador.html?print.

41 Saad Benjelloun, "Morocco Among Africa's Main Importers of Russian Diesel," *Morocco World News*, February 7, 2024, https://www.moroccoworldnews.com/2024/02/360661/morocco-among-africas-main-importers-of-russian-diesel; and Enrique Fernandez, "Morocco Emerges as One of the Main Beneficiaries of Russian Gas," *Atalayar*, https://www.atalayar.com/en/articulo/economy-and-business/morocco-emerges-one-main-beneficiaries-russian-gas/20230206121237160036.html.

42 Jennifer Holleis, "Tanks to Ukraine Mark Change in Moroccan Foreign Policy," Deutsche Welle, January 26, 2023, https://www.dw.com/en/tanks-to-ukraine-mark-change-in-moroccan-foreign-policy/a-64527084.

43 Author interviews with Moroccan officials and experts.

44 According to the *Washington Post*, Algeria is one of at least thirteen African nations where Wagner "has operated in some capacity." Greg Miller and Robyn Dixon, "Wagner Group Surges in Africa as U.S. Influence Fades, Leak Reveals," April 23, 2023, https://www.washingtonpost.com/world/2023/04/23/wagner-russia-africa-leaked-documents/. Algerian officials deny any Wagner presence in the country.

45 Constantin Duhamel, "A 2023 Russia-African Trade Summary," *Russia Briefing*, February 2, 2023, previously available at https://www.russia-briefing.com/news/a-2023-russia-african-trade-summary.html/; "Leading Trade Partners of Russia in Africa in 2021, by Trade Revenue," Statista, https://www.statista.com/statistics/1063407/russia-leading-trade-partners-in-africa-by-trade-volume/.

46 See "Morocco Imports of Goods and Services, in % of GDP," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/MAR/StartYear/2010/EndYear/2021/Indicator/NE-IMP-GNFS-ZS; "GDP (Current US$)—Morocco," World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=MA; "Morocco Trade Balance 2021," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/MAR/Year/2021/TradeFlow/EXPIMP; and "Morocco Trade Balance 2021," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/MAR/Year/2021/TradeFlow/EXPIMP.

47 "Trade Map," International Trade Centre, https://bit.ly/3wXlOFl; Michael Tanchum, "Why North Africa Is a Natural Choice for Brics Expansion," *The National*, August 25, 2023, https://www.thenationalnews.com/weekend/2023/08/25/brics-north-africa/; and James Marriott, "North Africa Imports Record Volumes of Cut-Price Russian Distillates," MEES, September 1, 2023, https://bit.ly/3TA7dru.

48 "Regional Trends – Africa," UNCTAD World Investment Report 2022, https://unctad.org/system/files/non-official-document/WIR2022-Regional_trends_Africa_en.pdf. This trend reflects Russian investment in Africa more generally.

49 Ramani, *Russia in Africa*, 238–39.

50 "Morocco," U.S. Department of State, https://www.state.gov/countries-areas/morocco/.

51 "Morocco Trade Balance 2020," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2020/TradeFlow/EXPIMP/Partner/MAR/Product/All-Groups. According to some sources, total trade may now have reached $6 billion. See Anass Machloukh, "Maroc-Chine: Ce que gagnera le Maroc de la 'Nouvelle Route de la Soie,'" *L'Opinion*, https://www.lopinion.ma/Maroc-Chine-Ce-que-gagnera-le-Maroc-de-la-Nouvelle-Route-de-la-Soie_a30676.html.

52 Christian Géraud Neema Byamungu, "Morocco, an Unexpected Winner of China's Strategy to Circumvent the Inflation Reduction Act," Center for Strategic and International Studies, January 23, 2024, https://www.csis.org/analysis/morocco-unexpected-winner-chinas-strategy-circumvent-us-inflation-reduction-act; Anouar Boukhars, "Sino-Moroccan Relations: A Partnership Seeking to Reach Its Full Potential," in *China and North Africa: Between Economics, Politics and Security*, ed. Adel Abdel Ghafar (London: I. B. Tauris, 2022), 175.

53 Author interviews; also Boukhars, "Sino-Moroccan Relations," 174.

54 "Morocco and China Agree to Implement the Belt and Road Initiative," *AfricaNews*, January 6, 2022, https://www.africanews.com/2022/01/06/morocco-and-china-agree-to-implement-the-belt-and-road-initiative/. China-in-Africa expert Thierry Pairault clarifies that a more useful measure than "investment" is actually "number of Chinese companies" in Africa, because what many observers describe as investment is actually service provision and acting as customers and suppliers of goods. See Thierry Pairault, "China-Africa Relations

in Review," *Geopolitical Monitor*, December 5, 2022, https://www.geopoliticalmonitor.com/china-africa-relations-in-review/.

55 See Yahia Zoubir, "Chinese Relations with the Maghreb: The Leading Role of Algeria," *Confluences Méditerranée* 2, no. 109 (2019), https://www.cairn.info/revue-confluences-mediterranee-2019-2-page-91.htm?ref=doi; Françoise Nicolas, "La Présence économique chinoise et indienne au Maghreb" (Institut Français des Relations Internationales, June 24, 2010): 31–36, https://www.ifri.org/fr/publications/notes-de-lifri/presence-economique-chinoise-indienne-maghreb.

56 François Lafargue, "La Présence économique de la Chine au Maghreb: Ambitions et limites" (Fondation pour la récherche strategique, 2018): 9, https://www.frstrategie.org/programmes/observatoire-du-monde-arabo-musulman-et-du-sahel/presence-economique-chine-maghreb-ambitions-limites-2018.

57 Kingdom of Morocco, Office des Changes, *Balances Des Paiements et Position Extérieure Global du Maroc: Rapport Annuel 2022*, 46, https://bit.ly/4alulvd.

58 See Boukhars, "Sino-Moroccan Relations," 176.

59 Tanger, not Tangier, is the official spelling.

60 China is involved in certain construction activities, such as the Borj Moulay Omar railway tunnel (2004), the railway connecting Tangier to the Ras R'mel port, the Taza-Oujda road, and the Kenitra dam (see Nicolas, "La Présence économique chinoise," 36), and the Mohammed VI bridge (see "China's Love Affair with Morocco," https://globalriskinsights.com/2017/03/chinas-love-affair-with-morocco/).

61 Also see David Rogers, "Morocco and China Communications to Build $1 Billion Tangier Tech City," *Global Construction Review*, July 27, 2022, https://www.globalconstructionreview.com/morocco-hires-china-communications-to-build-1bn-tangier-tech-city/.

62 Reportedly because Beijing would not give its blessing. See Pairault, "China-Africa Relations."

63 Adel Abdel Ghafar and Anna Jacobs, *Beijing Calling: Assessing China's Growing Footprint in North Africa*, Policy Brief (Washington DC: Brookings Institution, 2019), https://www.brookings.edu/articles/beijing-calling-assessing-chinas-growing-footprint-in-north-africa/. The authors note that "following the announcement of the 'Tech City' project, Chinese auto manufacturing companies, including BYD, Citic Dicastal, and Aotecar New Energy Technology, signed agreements with the Moroccan government to build various plants."

64 Dalia Ghanem, *Footprints in the Sand: China's and India's Low-Key but Growing Presence in the Maghreb* (European Union Institute for Security Studies, March 2023), https://bit.ly/3vr0QOZ; Machloukh, "Maroc-Chine," https://www.lopinion.ma/Maroc-Chine-Ce-que-gagnera-le-Maroc-de-la-Nouvelle-Route-de-la-Soie_a30676.html.

65 "Chinese Mobile Phone Brands Gain Popularity in Morocco," *China Daily*, June 23, 2021, https://global.chinadaily.com.cn/a/202106/23/WS60d2ab48a31024ad0bacaf63.html.

66 Ghanem, *Footprints*, https://bit.ly/3vr0QOZ.

67 Author interviews with Moroccan officials.

68 Other key sectors include energy and pharmaceuticals. The Bank of China is also present in Casablanca Finance City, a major initiative to grow Morocco's already-strong banking sector internationally.

69 Michael Tanchum, "Morocco's Green Mobility Revolution: The Geo-Economic Factors Driving Its Rise as an Electric Vehicle Manufacturing Hub," Middle East Institute, August 26, 2022, https://www.mei.edu/publications/moroccos-green-mobility-revolution-geo-economic-factors-driving-its-rise-electric.

70 Tanchum, "Morocco's Green Mobility Revolution," https://www.mei.edu/publications/moroccos-green-mobility-revolution-geo-economic-factors-driving-its-rise-electric. This is especially true because Morocco's cobalt reserves rank eleventh in the world.

71 Francisco Serrano, "Morocco to Accelerate Transition to EV Manufacturing," Al Monitor, June 7, 2023, https://www.al-monitor.com/pro/memos/morocco-accelerate-transition-ev-manufacturing.

72 "Gotion Explores Africa's First Gigafactory in Morocco," *fDi Intelligence*, June 9, 2023, https://www.fdiintelligence.com/content/news/gotion-explores-africas-first-gigafactory-in-morocco-82603.

73 Vivienne Machi, "Sea Trials Launch for the Last of France's New Multi-Mission Frigates," *Defense News*, February 23, 2022, https://www.defensenews.com/global/europe/2022/02/23/sea-trials-launch-for-the-last-of-frances-new-multi-mission-frigates/.

74 Orhan Coskun, Jonathan Spicer, and Ece Toksabay, "Turkey Expands Armed Drone Sales to Ethiopia and

Morocco," Reuters, October 14, 2021, https://www.reuters.com/world/middle-east/turkey-expands-armed-drone-sales-ethiopia-morocco-sources-2021-10-14/.

75 U.S. Defense Security Cooperation Agency, "Morocco—F-16 Block 72 New Purchase," March 25, 2019, https://www.dsca.mil/press-media/major-arms-sales/morocco-f-16-block-72-new-purchase.

76 U.S. Defense Security Cooperation Agency, "Morocco—AH-64E Helicopters," November 20, 2019, https://www.dsca.mil/press-media/major-arms-sales/morocco-ah-64e-helicopters.

77 U.S. Defense Security Cooperation Agency, "Morocco—High Mobility Artillery Rocket Systems (HIMARS)," April 11, 2023, https://www.dsca.mil/press-media/major-arms-sales/morocco-high-mobility-artillery-rocket-systems-himars.

78 U.S. Department of State, "Morocco: Integrated Country Strategy," April 7, 2022, https://www.state.gov/wp-content/uploads/2022/04/ICS_NEA_Morocco_Public.pdf.

79 Emanuel Fabian, "In First, IDF Sends Troops to Participate in Major U.S.-Led Drill in Morocco," *Times of Israel*, June 5, 2023, https://www.timesofisrael.com/in-first-idf-sends-troops-to-participate-in-major-us-led-drill-in-morocco/.

80 *The Military Balance 2023* (London: Institute for International and Strategic Studies, 2023).

81 "SIPRI Arms Transfers Database," Stockholm International Peace Research Institute, https://www.sipri.org/databases/armstransfers.

82 IISS, *Military Balance 2023*.

83 Agnes Helou and Chris Martin, "Satellite Images Show Morocco Has Built an Air Defense Base near Its Capital," *Defense News*, January 4, 2022, https://www.defensenews.com/global/mideast-africa/2022/01/04/satellite-images-show-morocco-has-built-an-air-defense-base-near-its-capital/.

84 Khadija Skalli, "Le Chinois fascine les marocains," *Maroc Diplomatique*, June 25, 2019, https://maroc-diplomatique.net/le-chinois-fascine-les-marocains/; also see "Confucius Institute at Mohammed V University," *China Daily*, updated November 16, 2022, https://regional.chinadaily.com.cn/bisu/2022-11/16/c_850186.htm.

85 Boukhars, "Sino-Moroccan Relations," 190. BMCE Bank Foundation and the Confucius Institute in Casablanca have also piloted projects that offer Mandarin in select primary schools.

86 Boukhars, "Sino-Moroccan Relations," 167.

87 See Mustafa Qamas, "Morocco: Obstacle to Attracting Goal of Half-Million Chinese Tourists" (in Arabic), *al-Araby*, January 21, 2020, https://bit.ly/43pdBq7.

88 Ghanem, *Footprints*, https://bit.ly/3vr0QOZ, citing "Un responsable chinois appelle à un plan post-pandémie pour relancer le tourisme avec le Maroc," H24Info, https://www.h24info.ma/un-responsable-chinois-appelle-a-un-plan-post-pandemie-pour-relancer-le-tourisme-avec-le-maroc/. Some reports say the number is closer to 200,000.

89 "Le Maroc, une destination 'hot' pour les chinois en 2023," GMA, December 29, 2022, https://marketing-chine.com/le-maroc-une-destination-hot-pour-les-chinois-en-2023.

90 Ghanem, *Footprints*, https://bit.ly/3vr0QOZ.

91 Mordechai Chaziza, "Chinese Health Diplomacy and the Maghreb in the COVID-19 Era," Middle East Institute, February 23, 2021, https://www.mei.edu/publications/chinese-health-diplomacy-and-maghreb-covid-19-era.

92 Including the opening of Chinese restaurants and Chinese TV channels added to hotels' TV subscriptions for tourists.

93 Adel Abdel Ghafar and Anna L. Jacobs, "Introduction" to *China and North Africa: Between Economics, Politics and Security*, ed. Adel Abdel Ghafar (London: I. B. Tauris, 2022), 11.

94 Ghanem, *Footprints*, https://bit.ly/3vr0QOZ.

95 Frédéric Bobin, "Why Diplomatic Relations Between France and Morocco Have Turned Sour," *Le Monde*, October, 3, 3032, https://bit.ly/3vm5Kgf.

96 El Kadi, "China in the Maghreb," https://www.realinstitutoelcano.org/en/analyses/china-in-the-maghreb-engagement-perceptions-and-prospects/.

97 Jihane Rahhou, "China to Grant 100 Scholarships to Moroccan Students to Learn Mandarin," *Morocco World News*, May 14, 2023, https://www.moroccoworldnews.com/2023/05/355444/china-to-grant-100-scholarships-to-moroccan-students-to-learn-mandarin.

98 Michael Willis, *Algeria: Politics and Society from the Dark Decade to the Hirak* (New York: Oxford University Press, 2022), 388–89.

99 Bouteflika suffered a stroke in 2013, severely limiting his abilities to engage in diplomacy. He ultimately resigned in April 2019 and died two years later.

100 For the visit, see, e.g., Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Holds Talks with Algerian President Abdelmadjid Tebboune," July 18, 2023, https://www.mfa.gov.cn/eng/zxxx_662805/202307/t20230718_11114879.html.

101 Helen Chapin Metz, *Algeria: A Country Study* (Washington DC: Library of Congress, 1994), https://www.loc.gov/item/94043019.

102 Sabina Henneberg, Grant Rumley, and Erik Yavorsky, "Algeria-Russia Relations After the Ukraine Invasion," PolicyWatch 3740, Washington Institute for Near East Policy, May 18, 2023, https://www.washingtoninstitute.org/policy-analysis/algeria-russia-relations-after-ukraine-invasion.

103 Andrew S. Bowen, *Russian Arms Sales and Defense Industry* (Washington DC: Congressional Research Service, 2021), https://crsreports.congress.gov/product/pdf/R/R46937.

104 Guy Faulconbridge and Hamid Ould Ahmed, "Russia Writes Off $4.74 Billion of Algeria's Debt," *Arab World News*, March 11, 2006, https://www.arabnews.com/node/281633.

105 Martin Mateso, "L'Algérie achète 'la moitié des armes russes' exportées vers l'Afrique," France Info, July 7, 2018, https://www.francetvinfo.fr/monde/afrique/politique-africaine/lalgerie-achete-la-moitie-des-armes-russes-exportees-vers-lafrique_3056643.html.

106 Yahia Zoubir, "Soviet Policy in the Maghreb," *Arab Studies Quarterly* 9, no. 4 (1987): 399–421.

107 "Hercules Still Has the Power," *Times Aerospace*, n.d., https://www.timesaerospace.aero/features/defence/hercules-still-has-the-power.

108 Metz, *Algeria*, https://www.loc.gov/item/94043019.

109 Mhand Berkouk, "U.S.-Algeria Security Cooperation and the War on Terror," Carnegie Endowment for International Peace, June 17, 2009, https://carnegieendowment.org/2009/06/17/u.s.-algerian-security-cooperation-and-war-on-terror-pub-23276.

110 Ryan Browne, "U.S. Secretary of Defense Makes Rare Visit to Algeria," CNN, October 1, 2020, https://www.cnn.com/2020/10/01/politics/mark-esper-algeria-visit/index.html.

111 See Jack Dutton, "Algeria's Tebboune Uses Reliable Partner Status to Secure Russian Arms," Al Monitor, June 19, 2023, https://www.al-monitor.com/originals/2023/06/algerias-tebboune-uses-reliable-partner-status-secure-russian-arms. Although Algeria's draft 2023 budget did include a huge increase in defense spending over the previous year, the level was not as high as originally expected by analysts, and a purchase from Russia was removed from that draft. See Zine Labidine Ghebouli, "Algeria's 2023 Budget: President Tebboune's Make-or-Break First-Term Project," Middle East Institute, March 8, 2023, https://www.mei.edu/publications/algerias-2023-budget-president-tebbounes-make-or-break-first-term-project.

112 Tuqa Khalid, "Russia Ready to Help Improve Algeria's Armed Forces: Shoigu," Al-Arabiya, August 1, 2023, https://english.alarabiya.net/News/world/2023/08/01/Russia-ready-to-help-improve-Algeria-s-armed-forces-Shoigu.

113 Ministry of Foreign Affairs of the Russian Federation, "On the Meeting..." (in Russian), media release, April 15, 2024, https://mid.ru/ru/foreign_policy/news/1944418/.

114 Grant Rumley and Louis Dugit-Gros, *How Russia's Invasion of Ukraine Is Reshaping the Global Arms Market: Implications for the Middle East and Beyond* (Washington DC: Washington Institute, 2023), https://www.washingtoninstitute.org/policy-analysis/how-russias-invasion-ukraine-reshaping-global-arms-market-implications-middle-east.

115 Willis, *Algeria: Politics and Society*; Samuel Ramani, "Russia's Cautious Calculus in Algeria," Carnegie Endowment for International Peace, March 22, 2019, https://carnegieendowment.org/sada/78667.

116 Brazil, Russia, India, China, and South Africa.

117 "China Votes in Favor of UN Resolution Acknowledging Russian Aggression Against Ukraine," *Kyiv Post*, May 1, 2023, https://www.kyivpost.com/post/16484.

118 See Nosmot Gbadamosi, "How Algeria Became Indispensable," *Foreign Policy*, January 11, 2023, https://foreignpolicy.com/2023/01/11/algeria-energy-oil-brics-russia-china; Henneberg, Rumley, and Yavorsky, "Algeria-Russia Relations," https://www.washingtoninstitute.org/policy-analysis/algeria-russia-relations-after-ukraine-invasion.

119 "Lavrov: Algeria Tops the List of Applicants to Join the BRICS Group," RT Online (Arabic), February 1, 2023, https://bit.ly/43pOmDS; Permanent Mission of the Russian Federation to the European Union, "Foreign Minister Sergey Lavrov's Interview with the Television Channel RT Arabic," February 1, 2022, https://russiaeu.ru/en/news/foreign-minister-sergey-lavrovs-interview-television-channel-rt-arabic-moscow-february-1-2023.

120 Hafed al-Ghwell, "Algeria's BRICS Gambit May Not Be Such a Risky Bet," *Arab News*, November 26, 2022, https://www.arabnews.com/node/2206631; Zahra Rahmouni, "Is Algeria Ready to Join BRICS?" Tahrir Institute for Middle East Policy, May 9, 2023, https://timep.org/2023/05/09/is-algeria-ready-to-join-brics/.

121 "BRICS Invites Argentina, Saudi Arabia, Egypt, Ethiopia, the Emirates and Iran to Join the Bloc," Euronews, August 24, 2023, https://www.euronews.com/2023/08/24/brics-invites-argentina-saudi-arabia-egypt-ethiopia-the-emirates-and-iran-to-join-the-bloc.

122 Dutton, "Algeria's Tebboune Uses Reliable Partner Status," https://www.al-monitor.com/originals/2023/06/algerias-tebboune-uses-reliable-partner-status-secure-russian-arms.

123 See "Algeria Product Exports and Imports to Russian Federation 2017," World Integrated Trade Solution, accessed November 28, 2023, https://wits.worldbank.org/CountryProfile/en/Country/DZA/Year/2017/TradeFlow/EXPIMP/Partner/RUS/Product/all-groups.

124 See "GDP (Current US$)—Algeria," World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DZ; and "Algeria Exports of Goods and Services, in % of GDP," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/DZA/StartYear/2010/EndYear/2017/Indicator/NE-EXP-GNFS-ZS.

125 There is apparent Russian investment in Algeria's oil, gas, and nuclear energy sectors. See Farzad Ramezani Bonesh and Chris Devonshire-Ellis, "Russia-Africa 2023–24 Trade and Development Prospects," *Russia Briefing*, July 27, 2023, previously available at https://www.russia-briefing.com/news/russia-africa-2023-24-trade-and-development-prospects.html/.

126 "Blé Russe: Algérie a presque quadruple ses achats avec 1.3 million de tonnes en 2022," *Algérie Eco*, February 6, 2023, https://www.algerie-eco.com/2023/02/06/ble-russe-lalgerie-a-quadruple-ses-achats-avec-13-million-de-tonnes-en-2022/.

127 "Tracking Russian Interference to Derail Democracy in Africa," Africa Center for Strategic Studies, June 21, 2023, https://africacenter.org/spotlight/russia-interference-undermine-democracy-africa/.

128 See Ramani, *Russia in Africa*, 172–74.

129 "RT Arabic Expands Presence with New Regional Office in Algeria," Broadcast Pro Middle East, December 8, 2023, https://www.broadcastprome.com/news/rt-arabic-expands-presence-with-new-regional-office-in-algeria/.

130 "RT Moves Its Pawns in Africa, Opening a Bureau in Algeria," Reporters Without Borders, April 4, 2023, https://rsf.org/en/rt-moves-its-pawns-africa-opening-bureau-algeria.

131 Such favorable impressions are likely "the consequence of decades of close government cooperation and cultural exchange," according to a close observer of Russian activity in the region.

132 Catherine Cleveland, "The Word on the Street: Gauging Public Perceptions of Washington, Moscow, and Beijing," in *China, Russia, and the USA in the Middle East: The Contest for Supremacy*, ed. Benjamin Houghton and Kasia A. Houghton (Abingdon, UK: Routledge, 2024).

133 Kester Kenn Klomegah, "Russia's Covid-19 Vaccine Diplomacy in Africa," Modern Diplomacy, January 6, 2022, https://moderndiplomacy.eu/2022/01/06/russias-covid-19-vaccine-diplomacy-in-africa/.

134 Samer al-Atrush, "Vaccine Diplomacy in the Mediterranean: The Contest for Influence," Konrad Adenauer Stiftung, Med Dialogue Series no. 36, February 2021, https://bit.ly/494vpl7; U.S. Embassy in Algeria, "United States Donates 604,800 Doses of COVID-19 Vaccine to Algeria," https://bit.ly/3TLxAMc.

135 Tahar Kaidi, "BRICS: 'L'Algérie continuera de défendre ses choix avec les mêmes alliés dans d'autres cadres,'" *El Moudjahid Online*, August 29, 2023, https://www.elmoudjahid.dz/fr/actualite/attaf-au-sujet-des-brics-nous-continuerons-a-defendre-nos-choix-avec-les-memes-allies-dans-d-autres-cadres-204512.

136 "China FM Hails China-Algeria BRI Cooperation as Major Highway Opens to Traffic," *Global Times*, August 14, 2023, https://www.globaltimes.cn/page/202308/1296262.shtml; and Associated Press, "Algeria Inaugurates Africa's Largest Mosque After Years of Political Delays and Cost Overruns," February 26, 2024, https://apnews.com/article/algeria-mosque-dd69a238023a3db8f0312ca0e4f5bad5.

137 According to some reports, this number has been steadily declining, from a peak of 91,000 in 2016 to roughly 10,000 in 2021. See El Kadi, "China in the Maghreb," https://www.realinstitutoelcano.org/en/analyses/china-in-the-maghreb-engagement-perceptions-and-prospects/.

138 Thierry Pairault, "Main-d'oeuvre Chinoise en Algérie, Egypte, Guinée, Guinée Equatoriale, Lesotho, Maroc, Maurice, Seychelles, et Tchad," Afrique, Chine, Europe: Document de Travail, December 14, 2020, https://www.pairault.fr/sinaf/doc/ps&mo.pdf.

139 Client numbers/rankings fluctuate significantly from one year to the next, depending on oil and gas purchases.

140 "AIIB Approves Membership of Algeria, Ghana, Libya, Morocco, Serbia, Togo," Asian Infrastructure Investment Bank, December 19, 2018, https://www.aiib.org/en/news-events/news/2018/AIIB-Approves-Membership-of-Algeria-Ghana-Libya-Morocco-Serbia-Togo.html.

141 Abdul Hakim Hakhaqa, "Algeria Accelerating in Silk Road: Will French, European Influence Decline?" (in Arabic), Al Jazeera, April 12, 2021, https://bit.ly/3vqKRR2.

142 "Index of Economic Freedom: Algeria," Heritage Foundation, updated October 2023, https://www.heritage.org/index/country/algeria; U.S. Department of State, "2023 Investment Climate Statements: Algeria," https://www.state.gov/reports/2023-investment-climate-statements/algeria.

143 Yahia Zoubir, "Türkiye and Algeria: A Promising Evolution," Middle East Council on Global Affairs, June 2023, https://mecouncil.org/publication/turkiye-and-algeria-a-promising-evolution/.

144 "Algiers Cold-Shoulders Chinese Companies Involved in Bouteflika-Era Scandals," *Africa Intelligence*, July 20, 2023, https://www.africaintelligence.com/north-africa/2023/07/20/algiers-cold-shoulders-chinese-companies-involved-in-bouteflika-era-scandals,110005508-eve; Saliha, "Les Retards et les malfaçons s'accumulent sur de nombreux tronçons—L'autoroute Est-Ouest: Chronique d'un Projet inachevé," *Algerie360*, May 6, 2014, https://www.algerie360.com/les-retards-et-les-malfacons-saccumulent-sur-de-nombreux-troncons-lautoroute-est-ouest-chronique-dun-projet-inacheve/.

145 See, e.g., Rumley and Dugit-Gros, *How Russia's Invasion Is Reshaping the Arms Market*, https://www.washingtoninstitute.org/policy-analysis/how-russias-invasion-ukraine-reshaping-global-arms-market-implications-middle-east.

146 Abdennour Toumi, *Algeria's Military Changes and New Doctrine* (Ankara: Center for Middle Eastern Studies, 2020), https://orsam.org.tr/d_hbanaliz/algerias-military-changes-and-new-doctrine.pdf.

147 Ghebouli, "Algeria's 2023 Budget," https://www.mei.edu/publications/algerias-2023-budget-president-tebbounes-make-or-break-first-term-project.

148 "Joint Venture with the Algerian Ministry of Defence for Local Helicopter Assembly, Support and Training," Leonardo, March 25, 2019, https://www.leonardo.com/en/press-release-detail/-/detail/25-03-19-joint-venture-with-the-algerian-ministry-of-national-defence.

149 Zhao Lei, "China Delivers Warship to Algeria," *China Daily*, July 20, 2016, https://www.chinadaily.com.cn/world/2016-07/20/content_26155715.htm.

150 Syrine Attia, "L'Algérie lance son premier satellite de télécommunications," *Jeune Afrique*, December 11, 2017, https://www.jeuneafrique.com/501179/economie-entreprises/lalgerie-lance-son-premier-satellite-de-telecommunications/.

151 Darek Liam, "Algerian Military Displays Chinese-Made CASC CH-4 and CH-3 Unmanned Combat Aerial Vehicles," *Military Africa*, November 3, 2018, https://www.military.africa/2018/11/algerian-military-displays-chinese-made-casc-ch-4-and-ch-3-unmanned-aerial-vehicles/.

152 "Algeria, Norinco, and SY-400 SRBM System," Tactical Report, November 24, 2022, https://www.tacticalreport.

com/daily/60952-algeria-norinco-and-sy-400-srbm-system.

153 Yahia Zoubir, "Algeria and China: Shifts in Political and Military Relations," *Global Policy* 14, no. 1 (February 2023): 58–68, https://onlinelibrary.wiley.com/doi/full/10.1111/1758-5899.13115.

154 Ryan Woo et al., "China to Deepen Security, Defence Cooperation with Algeria," Reuters, July 18, 2023, https://www.reuters.com/world/china/xi-says-china-will-deepen-cooperation-with-algeria-several-key-sectors-2023-07-18/.

155 "Algerian Army Chief of Staff Visits China to Diversify Military Partnerships," *Asharq al-Awsat*, November 13, 2023, https://english.aawsat.com/arab-world/4665611-algerian-army-chief-staff-visits-china-diversify-military-partnerships.

156 See, e.g., Sahara Press Service, "Sharawi Delegation Holds Talks in the Russian Capital, Moscow," February 7, 2024, https://archive.spsrasd.info/ar/node/111163; "Tensions Rise with Morocco as Russia Receives Polisario Delegation," *Arab Weekly*, October 23, 2021, https://thearabweekly.com/tensions-rise-morocco-russia-receives-polisario-delegation; and Safaa Kasraoui, "Western Sahara: Algeria Embraces Russia 'New Position' with Propaganda and Half-Truths," *Morocco World News*, June 15, 2023, https://www.moroccoworldnews.com/2023/06/355980/western-sahara-algeria-embraces-russia-new-position-with-propaganda-and-half-truths.

157 UN Security Council, "Security Council Extends UN Mission for Referendum in Western Sahara by One Year, with Two Members Abstaining on Resolution," October 30, 2023, https://press.un.org/en/2023/sc15471.doc.htm. This was Moscow's sixth abstention.

158 Oumaima Latrech, "Russian-Arab Cooperation Forum to Be Held in Marrakech, December 15," *Morocco World News*, November 19, 2021, https://www.moroccoworldnews.com/2021/11/345604/russian-arab-cooperation-forum-to-be-held-in-marrakech-december-15; Sam Metz and Bouazza Ben Bouazza, "Russia's Foreign Minister Tours North Africa as Anger Toward the West Swells Across the Region," Associated Press, December 21, 2023, https://apnews.com/article/russia-morocco-tunisia-war-lavrov-c825c46f0177b6cef72db1343d4134ce.

159 Moscow has done the same at times in the Libya conflict.

160 Colum Lynch, "Susan Rice Gets the Morocco Block," *Foreign Policy*, April 24, 2013, https://foreignpolicy.com/2013/04/24/susan-rice-gets-the-morocco-block/.

161 Boukhars, "Sino-Moroccan Relations," 172.

162 Zoubir, "Chinese Relations with the Maghreb."

163 Boukhars, "Sino-Moroccan Relations," 169. Also see "China's Love Affair with Morocco," https://globalriskinsights.com/2017/03/chinas-love-affair-with-morocco/.

164 Michael Tanchum and Nerea Alvarez-Ariztegui, "China's Chance to Bridge the Algeria-Morocco Divide," East Asia Forum, March 12, 2021, https://eastasiaforum.org/2021/03/12/chinas-chance-to-bridge-the-algeria-morocco-divide/.

165 Thomas Hill and Sarah Yerkes, "Tunisian Foreign Policy under Kais Saied," Carnegie Endowment for International Peace, January 11, 2023, https://carnegieendowment.org/2023/01/11/tunisian-foreign-policy-under-kais-saied-pub-88770.

166 This rhetoric has increased since the start of the Hamas-Israel war that began in October 2023. In addition, like other Arab leaders, President Saied has supported the rehabilitation of Syrian president Bashar al-Assad.

167 Russian Ministry of Foreign Affairs, "Briefing by Foreign Ministry Spokesperson Maria Zakharova," March 19, 2020, https://mid.ru/en/foreign_policy/international_organizations/1429763/.

168 Sabina Henneberg, "Global Ambitions and Tunisia's Crisis Could Spur Algeria to Rethink Its Non-Intervention Policy," *Just Security*, June 27, 2023, https://www.justsecurity.org/87055/global-ambitions-and-tunisias-crisis-could-spur-algeria-to-rethink-its-non-intervention-policy/.

169 Akram Belkaid, "Tunisia with Its Hands Tied," *Orient XXI*, May 24, 2022, https://orientxxi.info/magazine/maghreb-ukraine-2-tunisia-with-its-hands-tied-public-opinion-favourable-to,5635.

170 "Tunisian Foreign Minister to Head Country's Delegation at Russia-Africa Summit," Sputnik News, July 25, 2023, https://en.sputniknews.africa/20230725/tunisian-foreign-minister-to-head-countrys-delegation-at-russiaafrica-summit-1060750079.html. The attendance by heads of state was markedly lower than at the previous summit. See Alex Vines, "Russia-Africa Summit Fails to Deliver Concrete Results," Chatham House, August 2, 2023, https://www.chathamhouse.org/2023/08/russia-africa-summit-fails-deliver-concrete-results.

171 Ghaya Ben Mbarek, "Russia's Lavrov Pledges More Wheat Shipments for Tunisia During Foreign Ministers' Meeting," *The National*, September 26, 2023, https://www.thenationalnews.com/mena/tunisia/2023/09/26/russias-lavrov-pledges-more-wheat-shipments-for-tunisia-during-foreign-ministers-meeting/.

172 Metz and Bouazza, "Russian Foreign Minister Tours North Africa," https://apnews.com/article/russia-morocco-tunisia-war-lavrov-c825c46f0177b6cef72db1343d4134ce.

173 Monia Ben Hamadi, "En Tunisie, l'instance chargée de superviser les élections va coopérer avec la Russie," *Le Monde*, April 4, 2024, https://www.lemonde.fr/afrique/article/2024/04/04/en-tunisie-l-instance-chargee-de-superviser-les-elections-va-cooperer-avec-la-russie_6225993_3212.html.

174 "The Russians Are Coming," *Economist*, November 12, 2016, https://www.economist.com/middle-east-and-africa/2016/11/12/the-russians-are-coming.

175 "Distribution of Inbound Tourist Arrivals in Tunisia in 2021, by Country of Origin," Statista, April 26, 2023, https://www.statista.com/statistics/1221083/distribution-of-inbound-tourist-arrivals-in-tunisia-by-country/. "Tunisie-Russie: Un programme de coopération ambitieux pour les 6 prochains mois," *Realités*, February 5, 2024, https://realites.com.tn/fr/tunisie-russie-un-programme-de-cooperation-ambitieux-pour-les-6-prochains-mois/.

176 "Tunisia—Country Commercial Guide," International Trade Administration, July 30, 2022, https://www.trade.gov/country-commercial-guides/tunisia-market-overview; Agence Tunis Afrique Presse, "2023 Tourist Season: Revenues Up 55.1% Compared to 2022," July 28, 2023, https://www.tap.info.tn/en/Portal-Economy/16494940-2023-tourist; and Belkaid, "Tunisia's Hands Tied," https://orientxxi.info/magazine/maghreb-ukraine-2-tunisia-with-its-hands-tied-public-opinion-favourable-to,5635.

177 Ramani, *Russia in Africa*, 240.

178 Agence Tunis Afrique Presse, "Russian Company Aeroflot Airlines to Resume Flights to Tunisia from May 30," *Zawya*, February 9, 2023, https://www.zawya.com/en/business/aviation/russian-company-aeroflot-airlines-to-resume-flights-to-tunisia-from-may-30-mqgwm2yu.

179 Interview with U.S. official in Tunisia, June 2023.

180 The vast majority of Tunisia's 30,000 Christians are Roman Catholic and mostly foreigners. The rest belong to multiple sects, including Russian Orthodoxy: U.S. Department of State, "2022 Report on International Religious Freedom: Tunisia," https://www.state.gov/reports/2022-report-on-international-religious-freedom/tunisia.

181 Rasina Musallimova, "First Exhibition of Russian Universities Held in Tunis," Sputnik, November 18, 2023, https://en.sputniknews.africa/20231118/first-exhibition-of-russian-universities-held-in-tunis-1063634911.html.

182 "Un programme de coopération ambitieux," https://realites.com.tn/fr/tunisie-russie-un-programme-de-cooperation-ambitieux-pour-les-6-prochains-mois/.

183 "Tunisia: Exports from and Imports to Russian Federation 2019," World Integrated Trade Solution, accessed December 12, 2023, https://wits.worldbank.org/CountryProfile/en/Country/TUN/Year/2019/TradeFlow/EXPIMP/Partner/RUS/Product/All-Groups.

184 "GDP (Current US$)—Algeria," World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DZ; "GDP (Current US$)—Morocco," World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=-MA; and "GDP (Current US$)—Tunisia," World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=TN.

185 "Tunisia Imports from Russia of Wheat and Meslin," Trading Economics, accessed December 12, 2023, https://tradingeconomics.com/tunisia/imports/russia/wheat-meslin; and "Russia/Tunisia," Organisation for Economic Complexity, accessed December 12, 2023, https://oec.world/en/profile/bilateral-country/rus/partner/tun.

186 "Russia/Tunisia," https://oec.world/en/profile/bilateral-country/rus/partner/tun.

187 According to World Bank data, Tunisian imports of Russian grain constitute a higher proportion of total imports (30%) than Moroccan imports (less than 20%).

188 Ramani, *Russia in Africa*, 303.

189 See Sabina Henneberg, "U.S. Foreign Policy in Tunisia: Dilemmas and Prospects," Arab Reform Initiative, June 1, 2023, https://www.arab-reform.net/publication/us-foreign-policy-in-tunisia-dilemmas-and-prospects/.

190 Connor Echols, "Murphy Slams Biden's 'Business as Usual' Approach to Tunisia amid Backslide," Responsible Statecraft, April 11, 2023, https://responsiblestatecraft.org/2023/04/11/murphy-slams-bidens-business-as-usual-approach-to-tunisia-amid-backslide/.

191 Ministry of Foreign Affairs of the People's Republic of China, "Xi Jinping Meets with Tunisian President Kais Saied," December 9, 2022, https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wshd_665389/202212/t20221211_10988768.html. Other high-level visits have occurred since—e.g., a May 2023 Chinese delegation to Tunis. See Agence Tunis Afrique Presse, "Bouderbala Meets Chinese Communist Party Delegation," May 31, 2023, tap.info.tn/en/Portal-Politics/16329342-arp-bouderbala.

192 Yahia Zoubir, "Expanding Sino-Maghreb Relations: Morocco and Tunisia," Chatham House, February 26, 2020, https://www.chathamhouse.org/2020/02/expanding-sino-maghreb-relations/4-tunisia-and-china-evolution-relations; and Sarah Yerkes "The Burgeoning China-Tunisia Relationship: Short-Term Reward, Long-Term Risk," in *China and North Africa: Between Economics, Politics and Security*, ed. Adel Abdel Ghafar (London: I. B. Tauris, 2022), 98.

193 Interview with former member of Tunisian government under President Beji Caid Essebsi.

194 Mariateresa Natuzzi, "Wang Yi's First Trip of 2024 According to the Egyptian and Tunisian Press," ChinaMed Project, January 24, 2024, https://www.chinamed.it/observer/wang-yis-first-trip-of-2024-according-to-the-egyptian-and-tunisian-press.

195 For instance, China is not even mentioned in a 2023 article about Saied's foreign policy: Hill and Yerkes, "Tunisian Foreign Policy," https://carnegieendowment.org/2023/01/11/tunisian-foreign-policy-under-kais-saied-pub-88770.

196 In 2022, Tunisia's trade deficit with China was estimated at 8.5 million dinars (roughly US$2.5 million). Agence Tunis Afrique Presse, "Tunisia-China: Untapped Trade Potential Estimated at Over 600 Million Dinars," June 15, 2023, https://www.tap.info.tn/en/Portal-Economy/16376070-tunisia-china.

197 According to World Bank data, Tunisia's first import partners are Italy and France (supplying 13.5% and 11.5% of consumer goods, respectively), followed by China (10.4%). See "Tunisia Exports and Imports 2021," World Bank, https://wits.worldbank.org/CountryProfile/en/Country/TUN/Year/2021/TradeFlow/EXPIMP.

198 Martin Armstrong, "China's African Trade Takeover," Statista, January 25, 2023, https://www.statista.com/chart/26668/main-import-countries-sources-africa/.

199 Yerkes, "The Burgeoning China-Tunisia Relationship," 104; El Kadi, "China in the Maghreb," https://www.realinstitutoelcano.org/en/analyses/china-in-the-maghreb-engagement-perceptions-and-prospects/.

200 Donia Damak, "The Research to Remove Barriers Between China and Tunisia in the Shipping Field," *International Business Research* 11, no. 5 (2018), available at https://ccsenet.org/journal/index.php/ibr/article/view/74122.

201 Agence Tunis Afrique Press, "China Makes $15 Million Grant to Fund Development Projects in Tunisia," *Zawya*, April 6, 2021, https://www.zawya.com/en/economy/china-makes-15mln-grant-to-fund-development-projects-in-tunisia-td42va2f.

202 Cobus van Staden, "Tunisia Inaugurates Chinese-Built Diplomatic Academy, Boosting Beijing's 'Building Diplomacy,'" China Global South Project, May 5, 2022, https://chinaglobalsouth.com/2022/05/05/tunisia-inaugurates-chinese-built-diplomatic-academy-boosting-beijings-building-diplomacy/. For more detail, see Yerkes, "The Burgeoning China-Tunisia Relationship," 103.

203 "Tunisian President Inaugurates New Hospital Built with Chinese Aid," XinhuaNet, December 11, 2020, http://www.xinhuanet.com/english/2020-12/11/c_139580487.htm; also see Sarah Souli, "Tunisia Hopes Boost in Chinese Investment Can Ease Economic Woes," Al-Monitor, March 19, 2018, https://www.al-monitor.com/originals/2018/03/boost-china-investment-tunisia-europe-trade.html#ixzz88UkbnXhd.

204 Souli, "Tunisia Hopes Boost in Chinese Investment," https://www.al-monitor.com/originals/2018/03/boost-china-investment-tunisia-europe-trade.html#ixzz88UkbnXhd.

205 "Tunisia Wants to Proceed with Enfidha Port Project," Ports Europe, October 11, 2022, https://www.portseurope.com/tunisia-wants-to-proceed-with-entfidha-port-project/.

206 Author interview with Tunisian politician.

207 "Steering Tunisia Away from Default," International Crisis Group, October 4, 2023, https://www.crisisgroup.org/middle-east-north-africa/north-africa/tunisia/steering-tunisia-away-default.

208 Donia Jemli, "Chine en Tunisie, Génese d'une coopération ambitieuse," Observatoire Francais, May 18, 2022, https://observatoirenrs.com/2022/05/18/tunisie-chine-la-genese-une-cooperation-ambitieuse/; Hamza Meddeb, *Reckless Abandon: Why Tunisia Can No Longer Delay a Border Free Trade Zone* (Washington DC: Carnegie Endowment for International Peace, 2022), https://carnegie-mec.org/2022/09/13/reckless-abandon-why-tunisia-can-no-longer-delay-border-free-trade-zone-pub-87888.

209 Abdel Ghafar and Jacobs, *Beijing Calling*, https://www.brookings.edu/articles/beijing-calling-assessing-chinas-growing-footprint-in-north-africa/; Len Ishmael, ed., *Aftermath of War in Europe: The West vs. the Global South?* (Morocco: Policy Center for the New South, 2022), 160, https://bit.ly/43t6Cw6.

210 "China Opens First Overseas Center for BeiDou Navigation Satellite System in Tunisia," XinhuaNet, April 11, 2018, http://www.xinhuanet.com/english/2018-04/11/c_137103594.htm.

211 Agence Tunis Afrique Presse, "Tunisia-China Sign Deal in ICT Field," *Zawya*, June 28, 2023, https://www.zawya.com/en/business/technology-and-telecom/tunisia-china-sign-deal-in-ict-field-gaqev4md.

212 "Mobile Vendor Market Share Tunisia: Jan. 2019–Dec. 2021," StatCounter, accessed January 17, 2023, https://gs.statcounter.com/vendor-market-share/mobile/tunisia/#monthly-201901-202112.

213 On U.S. pushback, see Donald Blome, "Smart 5G Decisions Today Can Preserve the Security and Privacy of All Tunisians," U.S. Embassy in Tunisia, December 24, 2020, https://tn.usembassy.gov/smart-5g-decisions-today-can-preserve-the-security-and-privacy-of-all-tunisians/; on European competition, see Louis Dugit-Gros and Sabina Henneberg, "China's Presence in Tunisia: How Far Has It Come and Where Is It Headed," PolicyWatch 3728, Washington Institute for Near East Policy, April 6, 2023, https://www.washingtoninstitute.org/policy-analysis/chinas-presence-tunisia-how-far-has-it-come-and-where-it-headed.

214 For the Chinese-language classes, see "Cultural Exchange Builds a Bridge for Tunisia and China," *China Daily*, September 27, 2019, https://bit.ly/44pGxhT. A Confucius Classroom serves the primary and secondary levels, whereas Confucius Institutes serves higher grades.

215 Yerkes, "The Burgeoning China-Tunisia Relationship," 103.

216 "China-Sponsored Training Courses Help Enhance China-Tunisia Cooperation: Embassy," XinhuaNet, January 10, 2020, http://www.xinhuanet.com/english/2020-01/11/c_138695163.htm. Ghanem, in *Footprints*, 6, https://bit.ly/3vr0QOZ, also writes that Tunisians were the fourth most represented among the 20,000 Arab students in China in 2014, followed by Moroccans and later—in eighth place—Algerians.

217 "China-Tunisian Civilizations Exchange Conference Opens in Tunis," *Zawya*, December 27, 2023, https://www.zawya.com/en/press-release/africa-press-releases/chinese-tunisian-civilizations-exchange-conference-opens-in-tunis-rsxb2t16.

218 "Tunisia Waives Visa Requirements for Chinese Tourists," VisaIndex.com, October 8, 2023, https://visaindex.com/news/tunisia-waives-visa-requirements-for-chinese-tourists/.

219 "Plus de 9.4 millions de touristes ont visité la Tunisie en 2019," Web Manager Center/Agence Tunis Afrique Presse, January 3, 2020, https://www.webmanagercenter.com/2020/01/03/443174/plus-de-94-millions-de-touristes-ont-visite-la-tunisie-en-2019/.

220 "Plus de 9.4 millions de touristes," https://www.webmanagercenter.com/2020/01/03/443174/plus-de-94-millions-de-touristes-ont-visite-la-tunisie-en-2019/.

221 Freedom House, "Beijing's Global Media Influence 2022: Tunisia," https://freedomhouse.org/country/tunisia/beijings-global-media-influence/2022, accessed December 12, 2023. Also see, e.g., Jianguo Zhang, "Le Socialisme à la Chinoise est entré dans une nouvelle ère," *La Presse*, September 28, 2022, https://lapresse.tn/140590/son-excellence-m-zhang-jianguo-ambassadeur-de-chine-en-tunisie-a-loccasion-de-la-celebration-du-73-e-anniversaire-de-la-fondation-de-la-republique-populaire-de-chine-le-socialisme/.

222 Freedom House, "Beijing's Global Media Influence," https://freedomhouse.org/country/tunisia/beijings-global-media-influence/2022.

223 *Tunisia Report 2022*, Arab Barometer VII, https://www.arabbarometer.org/wp-content/uploads/AB7-Tunisia-Report-EN.pdf. This aligns with other public opinion polls (Pew) from around the same time. See Freedom House, "Beijing's Global Media Influence," https://freedomhouse.org/country/tunisia/beijings-global-media-influence/2022.

224 Gerald M. Feierstein, "As Great Power Competition in the Middle East Heats Up, Polling Data Shows a Complex Picture of Popular Attitudes," Middle East Institute, February 21, 2023, https://www.mei.edu/publications/

great-power-competition-middle-east-heats-polling-data-shows-complex-picture-popular. Also see Yerkes, "The Burgeoning China-Tunisia Relationship," 114, which argues that Tunisians are split on whether and how China is having a positive influence.

225 For more explanation of this foreign meddling, see Tarek Megerisi, "How Libya Became a Battleground for Foreign Powers," *New Lines*, October 11, 2020, https://newlinesmag.com/argument/how-libya-became-a-battleground-for-foreign-powers/, and Frederic Wehrey, "'This War Is out of Our Hands,'" New America, updated September 24, 2020, https://www.newamerica.org/future-security/reports/this-war-is-out-of-our-hands/.

226 Ramani, *Russia in Africa*, 73–75.

227 Federica Saini Fasanotti, "Russia and Libya: A Brief History of an On-Again-Off-Again Friendship," Brookings Institution, September 1, 2016, https://www.brookings.edu/articles/russia-and-libya-a-brief-history-of-an-on-again-off-again-friendship/.

228 Gleb Bryanski, "Putin Likens UN Libya Resolution to Crusades," Reuters, March 21, 2011, https://www.reuters.com/article/idUSTRE72K3JR/.

229 Kim Ghattas, "What a Decade-Old Conflict Tells Us About Putin," *Atlantic*, March 6, 2022, https://www.theatlantic.com/international/archive/2022/03/libya-russia-ukraine-putin/626571/.

230 Edith M. Lederer, "UN Extends Libya Mission After U.S.-Russia Clash," Associated Press, April 29, 2022, https://apnews.com/article/russia-ukraine-business-africa-libya-europe-2d1671dd4351281514bf7bb84ddefe39.

231 Andrew Higgins and Declan Walsh, "How Two Russians Got Caught Up in Libya's War, Now an Action Movie," *New York Times*, June 18, 2020, https://www.nytimes.com/2020/06/18/world/middleeast/russia-libya-maksim-Shugalei.html.

232 In order to deliver free, fair, transparent, and inclusive national presidential and parliamentary elections as soon as possible across the country. See UN Security Council Resolution 2702 (2023), https://unsmil.unmissions.org/sites/default/files/s-res-2702_english.pdf.

233 "Libya: Security Council Backs Ceasefire Mechanism, Calls for Withdrawal of Foreign Forces and Mercenaries," *UN News*, April 16, 2021, https://news.un.org/en/story/2021/04/1089992.

234 Frederic Wehrey, *"This War Is out of Our Hands": The Internationalization of Libya's Post-2021 Conflicts from Proxies to Boots on the Ground* (Washington DC: Carnegie Endowment for International Peace, 2020), https://carnegieendowment.org/2020/09/14/this-war-is-out-of-our-hands-internationalization-of-libya-s-post-2011-conflicts-from-proxies-to-boots-on-ground-pub-82695.

235 Candace Rondeaux, Oliver Imhof, and Jack Margolin, *The Abu Dhabi Express: Analyzing the Wagner Group's Libya Logistics Pipeline & Operations* (Washington DC: New America, 2021), https://www.newamerica.org/future-frontlines/reports/the-abu-dhabi-express/.

236 See "Libya Arms Embargo 'Totally Ineffective': UN," Al Jazeera, March 17, 2021, https://www.aljazeera.com/news/2021/3/17/libya-arms-embargo-totally-ineffective-un.

237 Ben Fishman and Conor Hiney, "What Turned the Battle for Tripoli?" PolicyWatch 3314, Washington Institute for Near East Policy, May 6, 2020, https://www.washingtoninstitute.org/policy-analysis/what-turned-battle-tripoli.

238 Jason Burke, "Russian Mercenaries Accused Over Use of Mines and Booby Traps in Libya," *Guardian*, May 26, 2022, https://www.theguardian.com/world/2022/may/25/russian-mercenaries-accused-over-use-of-mines-and-booby-traps-in-libya.

239 UN Security Council, "Letter Dated 8 March 2021 from the Panel of Experts on Libya Established Pursuant to Resolution 1973 (2011) Addressed to the President of the Security Council," https://bit.ly/3Woak8J.

240 Author conversations.

241 "Abdulkaderassad," "Takala Proposes Forming Joint Parliamentary Communication Teams with Russian State Duma," *Libya Observer*, November 30, 2023, https://libyaobserver.ly/news/takala-proposes-forming-joint-parliamentary-communication-teams-russian-state-duma.

242 Rinat Sagdiev and Aidan Lewis, "Supplies of Banknotes from Russia to East Libya Accelerated This Year," *Moscow Times*, October 29, 2019, https://www.themoscowtimes.com/2019/10/29/supplies-of-banknotes-from-russia-to-east-libya-accelerated-this-year-a67960; Jonathan M. Winer, "Seized Russian-Printed Dinars Highlight an Opportunity to Reform Libya's Civil War Economy," Middle East Institute, November 9, 2019, https://www.mei.edu/publications/seized-russian-printed-dinars-highlight-opportunity-reform-libyas-civil-war-economy.

243 Ben Fishman, "Libya Could Make or Break Biden's Middle East Oil Diplomacy," *National Interest*, July 10, 2022, https://bit.ly/3IOzy8s.

244 Russia Resumes Oil Production in Libya," *Libya Tribune*, August 2, 2021, https://en.minbarlibya.org/2021/08/02/russia-resumes-oil-production-in-libya/.

245 "Russia's Tatneft Makes New Oil Discovery in Libya," Al-Monitor, May 12, 2023, https://www.al-monitor.com/originals/2023/05/russias-tatneft-makes-new-oil-discovery-libya.

246 U.S. Energy Information Administration, "Country Analysis Executive Summary: China," September 30, 2020, https://www.eia.gov/international/content/analysis/countries_long/China/archive/pdf/china_2020.pdf.

247 "Libya Product Exports," World Integrated Trade Solution, https://wits.worldbank.org/CountryProfile/en/Country/LBY/Year/2019/TradeFlow/Export/Partner/all/Product/Total.

248 Beijing historically had friendly relations with Tripoli under the Qadhafi regime. For more detail, see Tarek Megerisi, "Libya & China: A Tale of Two Eras," in *China and North Africa: Between Economics, Politics and Security*, ed. Adel Abdel Ghafar (London: I. B. Tauris, 2022), 66–71.

249 Billy Chan, "China Faces Losses on $18.8 Bln in Libyan Contracts, Weekly Says," Bloomberg, May 24, 2011, https://www.bloomberg.com/news/articles/2011-05-25/china-faces-losses-on-18-8-bln-in-libyan-contracts-economic-weekly-says; Chris Oliver, "China Railway Construction Suspends Libyan Work," MarketWatch, March 1, 2011, https://www.marketwatch.com/story/china-railway-construction-suspends-libyan-work-2011-03-01-2342110.

250 Safa al Harathy, "Al-Koni, President Xi Jinping Talk over Return of Chinese Companies to Libya," *Libya Observer*, August 27, 2023, https://libyaobserver.ly/news/al-koni-president-xi-jinping-talk-over-return-chinese-companies-libya.

251 Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference," September 25, 2023, https://www.mfa.gov.cn/eng/xwfw_665399/s2510_665401/2511_665403/202309/t20230925_11149572.html.

252 State Council, People's Republic of China, "China, Libya Discuss Promoting Bilateral Relations," January 19, 2023, https://english.www.gov.cn/news/internationalexchanges/202301/19/content_WS63c8b12ec6d0a757729e5d81.html.

253 UN Security Council, "Letter Dated 29 November 2019 from the Panel of Experts on Libya Established Pursuant to Resolution 1973 (2011) Addressed to the President of the Security Council," December 9, 2019, https://bit.ly/3TOHpt3.

254 "Arab Barometer Reveal Findings from Major Tunisia Survey," March 4, 2024, https://www.arabbarometer.org/media-news/arab-barometer-reveal-findings-from-major-tunisia-survey/.

255 Rida Lyammouri and Amine Ghoulidi, "North-West Africa," in *Aftermath of War in Europe: The West vs. the Global South?* ed. Len Ishmael (Rabat: Policy Center for the New South, 2022), 153–72.

256 "Arab Public Opinion About the Israeli War on Gaza," Arab Center for Research and Policy Studies, December 2023/January 2024, https://arabindex.dohainstitute.org/AR/Documents/Arab-Opinion-War-on-Gaza-report-EN.pdf.

The Authors



ANNA BORSHCHEVSKAYA is a senior fellow in The Washington Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East.



SABINA HENNEBERG is a 2023–24 Soref Fellow at the Institute.



LOUIS DUGIT-GROS is a French diplomat and member of the Ministry for Europe and Foreign Affairs who was a visiting fellow at the Institute from 2021 to 2023.



GRANT RUMLEY is the Meisel-Goldberger Senior Fellow and the director of the Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East.



BEN FISHMAN is the Steven D. Levy Senior Fellow in the Institute's Linda and Tony Rubin Program on Arab Politics.

THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
1111 19TH STREET NW, SUITE 500 | WASHINGTON, DC 20036
WWW.WASHINGTONINSTITUTE.ORG
©2024 THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY.
ALL RIGHTS RESERVED.

Policy Analysis (/policy-analysis) /
PolicyWatch 3854

G42 and the China-UAE-U.S. Triangle

by Andrew G. Clemmensen **(/experts/andrew-g-clemmensen)** , Rebecca Redlich **(/experts/rebecca-redlich)** , Grant Rumley **(/experts/grant-rumley)**

Apr 3, 2024

ABOUT THE AUTHORS



Andrew G. Clemmensen (/experts/andrew-g-clemmensen)
Colonel Andrew G. Clemmensen, USAF, is a 2023-24 Military Fellow at The Washington Institute.

Rebecca Redlich (/experts/rebecca-redlich)
Rebecca Redlich is a research assistant in The Washington Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East .



Grant Rumley (/experts/grant-rumley)
Grant Rumley is the Meisel-Goldberger Senior Fellow at the Washington Institute for Near East Policy, where he specializes in military and security affairs in the Middle East.

Brief Analysis

By sharing very specific concerns directly with the United Arab Emirates, the White House and Congress were rewarded with tangible action on a key company's ties to Beijing—though more such engagement is needed to keep regional partners aware of U.S. risk tolerance.

In January, the House Select Committee on the Chinese Communist Party asked **(https://selectcommitteeontheccp.house.gov/media/press-releases/gallagher-calls-usg-investigate-ai-firm-g42-ties-prc-military-intelligence)** the Department of Commerce to investigate the Emirati artificial intelligence company Group 42 Holdings (G42), citing suspicion of ties to blacklisted Chinese entities. The request followed months of quiet U.S. pressure on the issue. In June 2023, for instance, White House officials reportedly **(https://www.nytimes.com/2023/11/27/us/politics/ai-us-uae-china-security-g42.html)** mentioned their concerns about G42 during a meeting with company chair Sheikh Tahnoun bin Zayed, who also serves as the UAE's national security advisor. This February, in an apparent acknowledgment of these concerns, G42 announced **(https://www.ft.com/content/82473ec4-fa7a-43f2-897c-ceb9b10ffd7a)** that its investment arm had divested entirely from Chinese companies, including an estimated $100 million stake in ByteDance, owner of the controversial app TikTok.

Despite this promising step forward, however, G42 is not the UAE's only avenue for advanced technological collaboration with China, nor is this the first time that U.S. competition with Beijing has complicated relations with Abu Dhabi. As countries across the region deepen their ties with China in multiple sectors, many will continue to test the limits of U.S. patience and risk tolerance, and the UAE is no exception.

G42 and Broader Chinese Tech Concerns

Founded in 2018, G42 has been chaired by Sheikh Tahnoun since 2021. The full-spectrum AI company focuses on research related to machine learning, big data, and natural language processing across a range of industries, from government to healthcare to

finance. It is essentially the execution arm of an ambitious national strategy (https://ai.gov.ae/wp-content/uploads/2021/07/UAE-National-Strategy-for-Artificial-Intelligence-2031.pdf) that calls for the UAE to "build an AI economy" and "become one of the leading nations of AI by 2031." To that end, G42 has been interwoven into the Emirati economy: it inked a deal (https://www.zawya.com/en/press-release/addh-and-group-42-announce-joint-venture-agreement-to-boost-artificial-intelligence-adoption-across-addh-g0x8pz23) with the Abu Dhabi Developmental Holding Company just a year after its founding, then launched a joint venture (https://adnoc.ae/en/news-and-media/press-releases/2020/adnoc-and-abu-dhabi-based-group-42-launch-aiq-an-artificial-intelligence-joint-venture-company) with the Abu Dhabi National Oil Company (ADNOC) in 2020. Moreover, Sheikh Tahnoun was recently named (https://cointelegraph.com/news/artificial-intelligence-council-uae-president-abu-dhabi) chairman of the country's new Artificial Intelligence and Advanced Technology Council.

G42's CEO is Peng Xiao, a controversial figure who renounced his American citizenship in exchange for Emirati citizenship. Previously, he led the Pegasus subsidiary (http://c4iconf.com/node/370) of the DarkMatter Group, a UAE-based firm that has been accused of serious privacy breaches (https://freedomhouse.org/country/united-arab-emirates/freedom-net/2023) at home and abroad. Just before G42 was founded, he concluded a deal (https://www.intelligentcio.com/me/2017/05/09/pegasus-a-darkmatter-company-signs-a-global-strategic-mou-with-huawei-to-bring-greater-safety-and-security-to-smart-cities/) between Pegasus and the massive Chinese technology firm Huawei, highlighted by the latter's promotion of ToTok, a highly controversial (https://www.nytimes.com/2019/12/22/us/politics/totok-app-uae.html) messaging app tied to both G42 and DarkMatter. In its January letter to the Commerce Department, the House Select Committee noted (https://static01.nyt.com/newsgraphics/documenttools/f1068778a22c5d51/dc46b295-full.pdf), "Xiao operates and is affiliated with an expansive network of UAE and [China]-based companies that develop dual-use technologies and materially support PRC military-civil fusion and human rights abuses."

One such Chinese company is BGI Genomics, which was blacklisted (https://media.defense.gov/2022/Oct/05/2003091659/-1/-1/0/1260H%20COMPANIES.PDF) by the U.S. Defense Department in 2021 as an official Chinese military entity. In addition, the company faces a potential congressional ban (https://www.nbcnews.com/politics/national-security/congress-wants-ban-china-genomics-firm-bgi-from-us-rcna135698) from operating in the United States due to its close ties with the Chinese state and concerns over the military applications of its research. During the COVID-19 pandemic, G42 partnered (https://www.g42.ai/resources/news/g42-and-bgi-announce-covid-19-detection-lab) with BGI on virus detection; it also worked with another Chinese company, Sinopharm, on vaccine production (https://www.g42.ai/resources/news/g42-sinopharm-phase-3-clinical-trial-vaccine). In March 2023, it partnered with BGI again on the Emirati Genome Program (https://www.thenationalnews.com/uae/2023/03/28/uae-president-launches-national-genome-strategy-to-prioritise-emirati-health-care/).

G42 is not the only point of tech-related tension between the UAE and Washington. In 2019, Emirati telecom provider Etisalat contracted (https://www.bloomberg.com/news/articles/2021-06-11/biden-prods-uae-to-dump-huawei-sowing-doubts-on-key-f-35-sale) with Huawei to build 5G towers—an arrangement that drew U.S. ire under both the Trump and Biden administrations. Emirati ties with Huawei have only deepened since then, as seen in multiple deals announced last year (in February (https://www.arabianbusiness.com/industries/technology/du-huawei-sign-5-5g-network-deal), September (https://www.prnewswire.com/news-releases/huawei-appgallery-and-leading-banking-apps-in-the-uae-a-strategic-partnership-for-the-future-of-banking-301916965.html), and December (https://developingtelecoms.com/telecom-technology/wireless-networks/15906-huawei-and-etisalat-by-e-demo-net-zero-5g-massive-mimo.html)) and one this February (https://www.huawei.com/en/news/2024/2/5ga-du-mou).

U.S. officials tend to see G42 and other Emirati technological endeavors with China as inherent risks to U.S. proprietary information and technology—and in some cases to national security as well. In their view, the presence of Chinese firms runs the risk of corporate and technical espionage against U.S. entities when they work within the same networks.

Yet very few regional officials share these concerns. For instance, the UAE's minister for AI has dismissed (https://asia.nikkei.com/Editor-s-Picks/Interview/UAE-open-to-China-AI-despite-U.S.-concerns-minister) such arguments, noting that the government has been establishing safeguards to mitigate privacy and security risks.

Caught Amid Great Power Competition

Despite ongoing U.S. concerns about the UAE's China links, Emirati leaders have made clear that they will chart an independent course in this era of heightened great power competition. As the diplomatic advisor to President Muhammad bin Zayed stated (https://www.thenationalnews.com/uae/government/2022/11/14/uae-has-no-interest-in-choosing-sides-between-great-

powers-says-anwar-gargash/) in 2022, "The UAE has no interest in choosing sides between great powers," instead preferring a "multilayer approach" to its various partnerships. In seeking this balance, the government's foreign policy may at times embrace "more of China, less of America on all fronts," as one prominent Emirati commentator put it (https://www.ft.com/content/4f82b560-4744-4c53-bf4b-7a37d3afeb13) in 2021.

This calculation is partly rooted in Abu Dhabi's economic reality:

- China is the UAE's top trading partner, with their non-oil trade rising (https://www.moec.gov.ae/en/-/uae-and-china-discuss-investment-opportunities-in-new-economic-sectors-trade-transportation-technology) nearly 20 percent between 2021 and 2022, surpassing $70 billion that year according to Emirati officials.
- Around 7 percent of China's crude oil imports and 6 percent of its petroleum products came from the UAE as of 2022 (https://www.eia.gov/international/content/analysis/countries_long/China/pdf/china-2023.pdf). This includes approximately 480,000 barrels of crude per day, an increase of around 40 percent from the previous year.
- The UAE is the largest hub for Chinese businesses in the region and the transit point for approximately 60 percent of Chinese trade flowing to the Middle East and North Africa, according (https://www.mofa.gov.ae/en/Missions/Beijing/UAE-Relationships/Economic-Cooperation) to the Emirati Foreign Ministry. Similarly, a 2019 estimate (https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects) noted that almost two-thirds of Chinese exports to Africa, the Middle East, and Europe flowed through Emirati ports. And in 2022, Chinese ambassador Zhang Yiming remarked (http://ae.china-embassy.gov.cn/eng/dshd/202209/t20220929_10773756.htm) that the UAE was the top regional destination for his country's exports.
- China reportedly ranks third (https://www.uae-embassy.org/fdi-and-business-environment#:~:text=Foreign%20direct%20investment%20(FDI)%20flows,as%20an%20attractive%20investment%20destination.) in foreign direct investment in the UAE, after Britain and India.

In short, Washington can hardly be surprised or frustrated when the UAE—one of the most advanced economies in the Middle East—takes steps to enhance its robust economic relationship with a global powerhouse like China.

At the same time, however, endeavors like G42 indicate that the UAE still has little hesitation about deepening ties with Beijing in ways that may expose American interests to unacceptable risk. Most notable is its development of Khalifa Port in Abu Dhabi, where U.S. authorities revealed (https://www.wsj.com/articles/us-china-uae-military-11637274224) in 2021 that China was constructing a military facility mere miles from U.S. forces at al-Dhafra Air Base. This discovery contributed to the derailment of negotiations (https://www.washingtoninstitute.org/policy-analysis/unpacking-uae-f-35-negotiations) in which the UAE sought to acquire F-35 jets, MQ-9 drones, and billions of dollars in precision munitions from the United States. Abu Dhabi claimed (https://www.wsj.com/articles/u-a-e-confirms-it-halted-work-on-secret-chinese-port-project-after-pressure-from-u-s-11639070894) to stop work on this facility in 2021 and insisted that it was civilian in nature. Yet the status of the project and its implications for the broader bilateral relationship remain sensitive. Much like the G42 episode, the port episode reveals an underlying reality of U.S.-China competition: that economic ties with Beijing often come with security implications, and these implications may jeopardize aspects of a country's relationship with the United States.

Conclusion

The handling of the G42 issue may have crystallized an effective model for addressing China-related security issues with U.S. partners—that is, Washington shared its specific concerns about a specific company directly with Emirati officials, who in turn adjusted the company's ties with specific Chinese entities. Going after the entire G42 enterprise would have been a nonstarter given how crucial the company is to the UAE's national AI endeavor; U.S. officials also recognized the firm's closeness to the Emirati ruling elite. Combining pressure from Congress and the executive branch—whether coordinated or not—was similarly effective in underscoring the issue's gravity. Even G42's CEO recently acknowledged (https://fortune.com/2023/12/07/emirati-ai-company-picks-side-against-china-g24-us-sanctions/amp/) that the company "cannot work with both sides" anymore, pledging to divest entirely from China.

Yet divestment alone—while welcome—is unlikely to alleviate U.S. concerns completely. In its response to the congressional letter in January, G42 stated (https://www.g42.ai/resources/news/Statement-on-the-New-York-Times-article-and-the-letter-from-the-United-States-Congress-House-Select-Committee-on-the-CCP) that it operates within "strict compliance and ethical boundaries." But it did not specify what this formulation means in the current environment, where rapid AI development continues despite the international community's failure to establish clear standards for the sector or otherwise match policy with progress.

Accordingly, the United States will need to keep holding G42 accountable through continuous monitoring and engagement with Emirati officials. It should also turn its policy achievement with Abu Dhabi into a playbook for other countries seeking to balance between U.S. and Chinese tech cooperation. This means being prepared to hold tailored, senior-level briefings with Middle East partners on specific concerns related to China, and following up these discussions with patient, transparent diplomacy.

The United States should also convene like-minded partners to help formulate international norms and definitions for digital sovereignty (https://carnegieendowment.org/2023/11/29/defending-s-word-language-of-digital-sovereignty-can-be-tool-of-empowerment-pub-91078) and privacy (https://www.aclu.org/documents/human-right-privacy-digital-age) . Setting clear parameters and reinforcing them globally would enable Washington to simultaneously bolster its security partnerships and information protection.

Col. Andrew Clemmensen (USAF) is a 2023-24 military fellow at The Washington Institute. Rebecca Redlich is a research assistant in the Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East. Grant Rumley is the program's Meisel-Goldberger Fellow. The conclusions and opinions expressed in this article are the authors' and do not necessarily reflect the official policy or position of the U.S. government, the Department of Defense, or Air University. ❖

RECOMMENDED



BRIEF ANALYSIS

Avoiding Iranian-Backed Iraqi Militias' Political Takeover in Shadow of U.S. Withdrawal

Apr 3, 2024

Omar Al-Nidawi

(/policy-analysis/avoiding-iranian-backed-iraqi-militias-political-takeover-shadow-us-withdrawal)



BRIEF ANALYSIS

New Options for Iraq's Axis of Resistance Players (Part 2): Opening the Jordan Front

Apr 3, 2024

Hamdi Malik,
Michael Knights

(/policy-analysis/new-options-iraqs-axis-resistance-players-part-2-opening-jordan-front)



BRIEF ANALYSIS

New Options for Iraq's Axis of Resistance Players (Part 1): Attacks on Israel

Apr 3, 2024

Michael Knights,
Hamdi Malik

(/policy-analysis/new-options-iraqs-axis-resistance-players-part-1-attacks-israel)

TOPICS

Energy & Economics (/policy-analysis/energy-economics)

Great Power Competition (/policy-analysis/great-power-competition)

Military & Security (/policy-analysis/military-security)

REGIONS & COUNTRIES

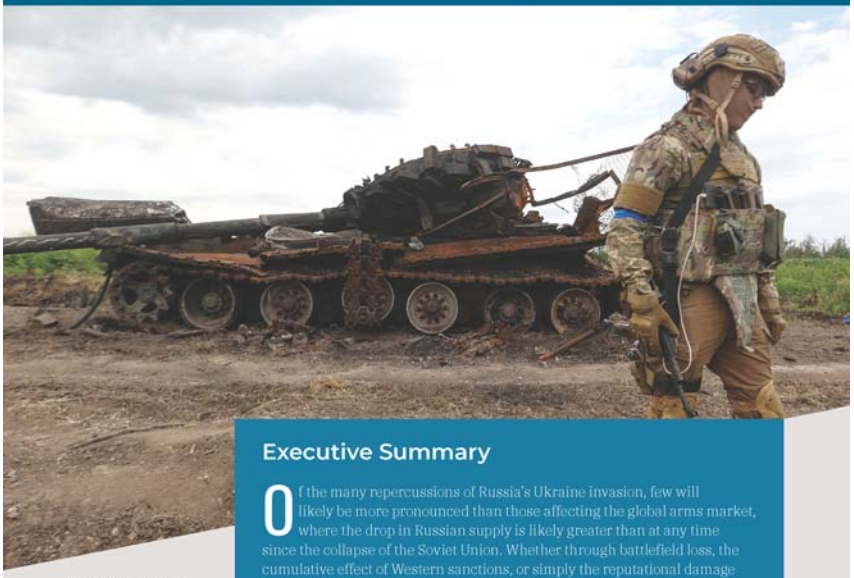
Gulf States (/policy-analysis/gulf-states)

THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
POLICY NOTES
JULY 2023
NO. 137

How Russia's Invasion of Ukraine Is Reshaping the Global Arms Market

Implications for the Middle East and Beyond

Grant Rumley and Louis Dugit-Gros



A Ukrainian soldier walks by a destroyed Russian tank in Novodarivka, Ukraine, July 2, 2023. REUTERS

Executive Summary

Of the many repercussions of Russia's Ukraine invasion, few will likely be more pronounced than those affecting the global arms market, where the drop in Russian supply is likely greater than at any time since the collapse of the Soviet Union. Whether through battlefield loss, the cumulative effect of Western sanctions, or simply the reputational damage suffered by Russian platforms, Moscow will struggle in the coming years to maintain its status as a top global arms exporter. In the resulting gap, several trends are already emerging with implications for both the global market and the Middle East and North Africa region, long home to some of the world's largest defense spenders.

Perhaps the most glaring trend involves the unpreparedness of the collective Western defense industrial base to provide consistent support in a protracted high-tempo conflict. Ukraine has revealed the ill effects of U.S. stockpile shortages and disunity in European defense communities. As the United States and other Ukraine supporters have had to ramp up production to meet Kyiv's needs, other customers have reevaluated their own defense acquisition strategies. Overreliance on a single source for arms, whether the United States or Russia, has proven a liability in the post-invasion marketplace and prompted countries to consider developing their domestic defense industrial bases or to seek out alternative suppliers.

At the forefront of this emerging dynamic is the Middle East and North Africa region, home to two of the largest importers of Russian weaponry (Algeria and Egypt), two of the fastest-growing global arms exporters (Israel and Turkey), and several countries pouring money and resources into developing domestic defense industrial bases (e.g., Saudi Arabia, Qatar, and the United Arab Emirates). The Ukraine war, coupled with other regional developments—such as the Abraham Accords, the relocation of Israel to U.S. Central Command, and the end of the Gulf rift—has created an opportunity for unique defense relationships to form. Many regional countries that have long expressed frustration with purchasing military equipment from the United States have likewise resented their reliance on imports to equip their militaries and are looking for solutions on both fronts. This has driven a desire to diversify acquisition sources and develop indigenous industries to better withstand future turbulence in the global marketplace.

Washington and its Western partners can make the most of today's shifting landscape by coordinating their efforts to ensure Ukraine can keep fighting and win, thus setting favorable terms for the postwar environment. Additionally, a Washington-led effort must do the following:

(1) Set the conditions for the Ukrainian defense establishment to expand and potentially export arms to traditional Russian customers.
(2) Unify stances on competition with China for influence in third-party countries.
(3) Plan multiyear defense acquisitions to avoid delays and turbulence for traditional customers.
(4) Strengthen the European defense industrial base.

In taking these steps, the United States and its Western partners can best capitalize on the post-conflict environment and ensure that Moscow does not recover from its strategic setback.

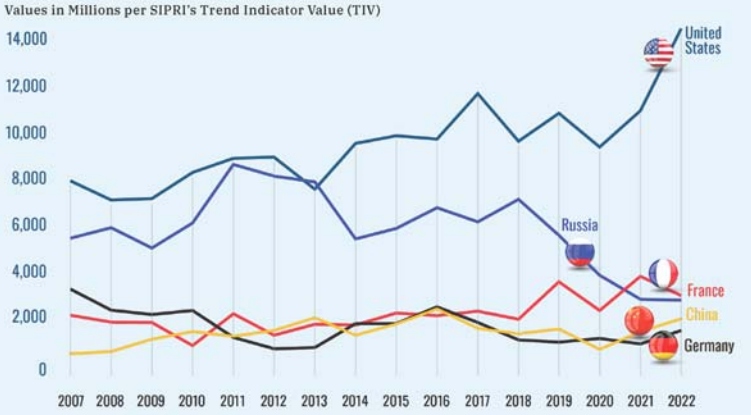
How Ukraine Is Changing the Global Defense Landscape

The Russian invasion has highlighted a decline in Russian arms on the market, caused a rise in global arms spending, and revealed many of the challenges facing U.S. and Western arms suppliers.

Russia's Invasion Has Highlighted a Decrease in Russian Arms on the Global Market

Arms and arms-related exports comprise a crucial component of the Russian economy. By some estimates, they are just behind oil and gas in terms of revenues.[1] Yet Russia's invasion will negatively affect Moscow's ability to maintain this flow of weaponry. In fact, the invasion may highlight an existing trend: namely, as shown in a recent Stockholm International Peace Research Institute (SIPRI) study, Russian arms exports dropped by 31 percent between the 2013–17 and 2018–22 time periods, and have consistently been in decline since peaking in 2011.[2] Russia has historically been one of the world's largest arms exporters, regularly surpassing the United States at times during the Cold War and routinely second only to America in the past two decades.[3] A majority of Russian arms exports have historically flowed to five countries—China, Egypt, Algeria, Vietnam, and India—although in recent years Moscow has made notable inroads in other areas like the Sahel.[4] Yet Moscow's invasion has jeopardized the future of these transactions, and Russia will face several obstacles to maintaining its level of exports:

Figure 1.
Global Arms Exports, 2007–22



Source: Stockholm International Peace Research Institute

Western sanctions. The Western-led sanctions regime will affect Russia's ability to field and export arms in two distinct ways:

- *By hampering the Russian defense industry's ability to source necessary parts.* Sanctions against the Russian defense industry, levied by the United States and European Union, have targeted military officials, senior defense executives, and the supply chains necessary for sourcing components.[5] Western countries have increasingly targeted efforts by the Russian defense industry to circumvent and evade sanctions throughout the conflict.[6] Recent reports suggest Russia has even been attempting to buy back military supplies previously shipped to customers overseas in the hope of repurposing equipment for its platforms.[7] The cumulative effect is a Russian defense industry, already plagued by pre-2022 sanctions, struggling to rapidly produce and maintain the most advanced armaments in its arsenal.[8]

- *Through the application of sanctions against third-party countries that purchase weapons from Russia.* The most prominent example here is the Countering America's Adversaries Through Sanctions Act, or CAATSA, which directs the United States to levy sanctions against any country or person deemed to be engaging in a "significant transaction" with "a person that is part of, or operates for or on behalf of, the defense or intelligence sectors of the Government of the Russian Federation."[9] CAATSA sanctions were applied against China in 2018 for buying Russian fighter jets and Turkey in 2020 after it acquired the Russian S-400 air defense system, and were reportedly a major consideration in Egypt's decision to walk away from the Su-35 fighter jet deal.[10] In addition to the threat of CAATSA sanctions, countries have been deterred by the prospect of secondary Ukraine-related sanctions. Already, the effect of these sanctions has been visible: India's payments to Russia for more than $2 billion in weaponry have been stuck since the invasion over India's unwillingness to pay in U.S. dollars, for fear of triggering sanctions.[11]

Battlefield demand and loss. Perhaps the most obvious obstacle to Russian arms exports is the loss of Russian platforms in Ukraine and the subsequent need to replenish its own forces. A year into the war, estimates from open-source analysis conducted by the Center for Strategic and International Studies indicate Russia has lost at least 9,700 pieces of military equipment, including tanks, artillery systems, and aircraft.[12] Notwithstanding its staggering battlefield losses, there is not necessarily a one-to-one correlation between its losses and arms exports. Russia's most popular exports—fighter jets and air defense systems—have largely been spared the atrophy facing land systems.

Reputational hit. The last time Russian equipment faced Western materiel on the battlefield—during the U.S. invasion of Saddam Hussein's Iraq—it was soundly defeated, dealing a blow to Russia's image as a global arms supplier. The loss by Saddam's Soviet-equipped forces against the U.S.-led coalition sent ripples through the global arms market. Chinese military officials, for instance, had previously seen Iraq's military as "similar and in some cases superior" to its own, but the quick U.S. victory spurred Beijing to modernize its military and reduce its dependence on Russian weaponry.[13] Of course, the collapse of the Soviet Union played an arguably larger role in the sudden decrease of Russian arms transactions, but the reputational damage from their poor performance lingered. Today, as Ukrainian forces have fielded Western platforms to surprising effect against their Russian adversaries, a similar reputational hit will likely follow for some Russian arms on the market. This will not dissuade all customers, of course, given that many will differentiate the standalone capabilities of some advanced Russian advanced platforms from their weak fielding in the invasion. Some such platforms, such as the S-300 and S-400 air defense systems, or Russia's loitering Lancet drones, have performed well and will likely still appeal to some customers.[14] But undoubtedly, the overall performance of the Russian military and technology will give many customers significant pause when contemplating future purchases.

Russia's Invasion Has Caused Global Defense Spending to Rise

The war in Ukraine and the return of great power competition have already driven up defense spending around the globe, with worldwide expenditures increasing by nearly 4 percent in 2022 to set record highs.[15] Europe has seen the sharpest rise in pledged defense spending, with countries like France, Poland, and Germany announcing plans to massively increase their budgets.[16] In Asia and the Pacific, countries like South Korea, Japan, and Australia have likewise announced plans to increase defense spending.[17] And in the Middle East, which in 2022 featured nine of the top-fifteen countries globally for defense spending relative to GDP, several countries have already boosted their defense spending.[18]

Ukraine Has Revealed Challenges Confronting Western Defense Industrial Bases

Many, if not all, of the challenges confronting these countries relate to production and stockpile issues such as the following:

- **The invasion has shed light on Western unpreparedness for high-intensity conflicts.** Although resolute in its determination to support Kyiv, the West quickly had to grapple with the effects of decades of defense budget reductions and inadequate investment in the defense industry. Stockpiles of various types of equipment were revealed to be extremely low.[19] In the United States, this was especially true for munitions, and in Europe for complex combat systems. The depletion of stockpiles even reached a point where it could jeopardize readiness levels, prompting NATO to raise its own targets this past February.[20]

- **The protracted conflict has revealed Western difficulties in surging production to meet the war's continuous demand.** The United States and its partners face an even greater challenge in the combined task of supporting Ukraine, replenishing depleted stockpiles, and preparing for potential high-intensity warfare in the future.

- **The difficulties in ramping up production have highlighted existing supply chain issues.** Sourcing the raw materials essential to assemble key combat systems has posed a particular problem, leading to further delays.[21]

- **The invasion has underscored the fragmented nature of European defense industrial bases.** This disconnected environment resulted in the multiplication and overlay of numerous combat systems, prompting even more difficulties.[22]

Emerging Trends in the Global Arms Market

As the United States and other Western countries grapple with the challenges of supplying Ukraine in a prolonged conflict, several features are emerging in the post-invasion global arms market, including the rise of alternative suppliers, more widespread efforts by countries to develop their own domestic industrial bases, and a continued focus on air, air defense, and naval platforms.

Lingering Issues Plague the Western Defense Community

On the one hand, the Western response to Russia's invasion and mobilization of materiel support to Ukraine testifies to the strength and speed of the U.S. and European defense communities. On the other hand, the war has shed light on the myriad issues facing these defense communities, whether it is the collective state of the defense industrial bases or ongoing efforts to synchronize acquisition strategies to reduce inefficiencies.

In Europe, in particular, the war has hindered longstanding efforts to integrate defense acquisition strategy. Indeed, many industrial issues stem from the lack of political collaboration between the United States and Europe and the lack of defense-related collaboration between European countries themselves. Difficulties in ramping up production have pushed European countries to buy off-the-shelf from their own companies or even from outside suppliers.[23] This has only emphasized the absence of coordination among European countries on procurement and reinforced a sense of difficulty in developing European combat systems.

The U.S. government has at times played a negative role and deterred European countries from synchronizing their defense industry—in part to advance its own defense industry and arms sales to European purchasers, and in part based on concerns that a European defense strategy outside NATO might devalue the alliance's collective power.[24] European countries have their own significant share of responsibility as well. They have sometimes feared that buying European instead of U.S. equipment would prompt Washington, their main security guarantor, to disengage. Those governments consequently have chosen to slow down European efforts in this field.[25] Such enduring difficulties in integrating European defense communities could hamper Europe's collective production and export capacity, placing Europe at a disadvantage in an era of renewed great power competition.

Alternative Arms Suppliers Look Poised to Take Advantage of the Market

The steady decrease in Russian supply, coupled with a likely backlog in orders from U.S. and European firms, may create a market opportunity for other, non-Western suppliers. Several emerging arms exporters look poised to take advantage. One of the biggest is China, which the United States assessed in 2019 was the fastest-growing arms exporter over the previous fifteen years.[26] China is already consistently one of the world's top-five arms exporting countries, primarily furnishing aircraft, ships, armored vehicles, and missiles.[27] Since 2006, nearly 67 percent of China's exports have gone to Pakistan, Bangladesh, Myanmar, and Algeria.[28] But Beijing has had success penetrating other markets as well: its unmanned aerial vehicles (UAVs) have been purchased widely in the Middle East, and it recently sold the HQ-22 to Serbia, marking its first air defense system delivery to a European country.[29] Chinese weapons systems are largely Russian-derived, a feature Beijing will likely market to longstanding purchasers of Russian equipment looking for similar alternatives at attractive price points.

Beyond China, several countries are increasingly offering alternatives to the United States and Russia. Turkey's arms sales in 2022 reached a record $4.4 billion, according to President Recep Tayyip Erdogan, in large part due to the popularity of Baykar's Bayraktar TB2 UAV.[30] Indeed, Turkey vaulted from being the twenty-seventh largest global arms exporter in 2000 to eleventh in 2021.[31] Also climbing on that list was South Korea, which rose from thirty-first to tenth in the same period, while reportedly doubling its arms exports from 2021 to 2022.[32] South Korea has not hidden its aspirations in the defense field: President Yoon Suk Yeol declared in August 2022 his goal of making his country a top-four global arms exporter.[33] In September 2022, Poland signed a massive arms deal with South Korea—one of the biggest from an Asian supplier to Europe—that included forty-eight FA-50 light attack jets.[34] In March 2023, Malaysia chose the FA-50 over India's Tejas and China/Pakistan's JF-17 fighter in a deal worth nearly $1 billion.[35] And Israel, consistently a top-fifteen global arms exporter, hit record levels in 2021, in part buoyed by new Gulf markets opened up by the Abraham Accords.[36]

More Countries Want to Develop Their Own Domestic Defense Industrial Bases

For many countries reliant on imports, the takeaway from Russia's invasion aftermath is that overreliance on a single military supplier is a potential

vulnerability. Countries that rely on Russia for equipment and spare parts now have inoperable facets of their military, while countries that have relied on the United States face long delivery times. One way to escape this predicament for the future is through developing their own defense industrial base. This is no simple task, and it requires much capital, personnel, time, and a willingness from other countries to share proprietary defense technology. But once established, it can reduce the turbulence associated with acquiring arms in an era of great power competition, thus bolstering a country's independence and sovereignty. Across the world, but especially in the Middle East and North Africa, countries are looking to build up their own defense industrial bases.

One way of building up a country's own defense industrial base is through co-production and research and development agreements with established suppliers. These arrangements can strengthen local industries while also reducing costs and speeding up delivery times. They have been a consistent feature of the post–Cold War arms trade: one 2016 study found that, while overall global arms trade volumes fell immediately after the Soviet Union's collapse, the number of co-production agreements between other countries rose.[37] For countries looking to lessen their reliance on imports while building up their own capabilities, co-production arrangements can be appealing.

These arrangements are a pronounced feature of the emerging post-Ukraine-invasion arms market. Turkey has co-production agreements with Qatar to produce artillery and tanks, an agreement with Kazakhstan to produce UAVs, and a pre-invasion deal with Ukraine to produce UAVs as well.[38] South Korea and Egypt announced in December 2022 their own plans to co-produce artillery and trainer fighter jets.[39] And Egypt and India, two of the largest historic importers of Russian arms, in early 2023 announced plans to enhance defense cooperation—including in co-production—during President Abdul Fattah al-Sisi's visit.[40] New Delhi, which has an open competition for its future multirole fighter jet—considered one of the largest potential contracts in the world—has regularly hinted that the winner will have some kind of co-production arrangement as part of the defense component of New Delhi's "Make in India" initiative.[41] Earlier this year, the French ambassador to India summarized his country's pitch like this: "No other country can commit to delivering the best technology to the Indian forces without any kind of restrictions. We are committed not just to 'Make in India' but also step further [*sic*] and co-develop and co-manufacture with India."[42]

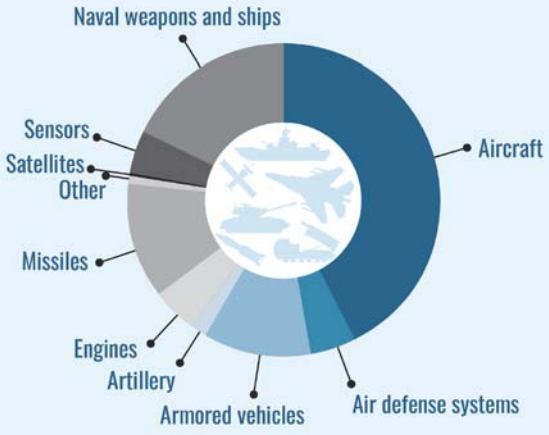
Several Arab countries are working concertedly to establish bona fide defense industrial bases. Saudi Arabia seeks to develop its own base as part of the Vision 2030 framework, and pledged to spend 50 percent of its defense budget on domestic suppliers by the decade's close. To that end, it has entered into a joint-UAV production agreement with China, is constructing one of the world's largest shipyards for civilian and military applications, and has established indigenous defense firms with investment from the country's Public Investment Fund.[43] One such firm is Saudi Arabian Military Industries, which was founded in 2017 and has since signed memorandums of understanding with several leading international defense firms, including America's Lockheed Martin and Raytheon, France's Thales and Naval Group, and Russia's Rosoboronexport.[44] The UAE likewise has created its own domestic defense conglomerate, the EDGE Group, which incorporates more than twenty Emirati defense firms and has a combined annual revenue of approximately $5 billion.[45] EDGE is on the vanguard of Emirati attempts to manufacture platforms locally, an effort gaining momentum in the country. According to the UAE, for the first time in 2023, most of the contracts awarded after the International Defense Exhibition & Conference were to domestic companies.[46] This momentum has emboldened the Emirati defense community: in May 2023, the UAE walked away from an approximately 800 million euro contract to purchase helicopters from Airbus in part because the European firm "lacked the serious motivation to respond to our demands...to achieve in-country goals," according to a senior Emirati official.[47]

Arms Purchases Will Continue to Focus on Air, Air Defense, and Naval Platforms

One likely stable feature of the current international market is the consumer priority placed on aerospace assets. In the decade before the Covid-19 pandemic, aerospace platforms made up 65 percent of the global arms market, per British government estimates.[48] Fighter jets, in particular, will remain one of the most in-demand platforms. One industry group recently projected that global fighter jet sales will rise from approximately $23 billion per year in 2022 to roughly $30 billion by 2030.[49] Historically, fighter jet sales have been dominated by the United States, Britain, France, Sweden, and Russia. And according to Russian officials, aircraft made up roughly 50 percent of all Russian defense exports in 2020.[50] A drop in Russian fighter jets available for export will lead consumers to look elsewhere for their airpower procurements.

Yet the global fighter jet supply will grow increasingly constrained as Western countries begin supplying Ukraine with secondhand fourth-generation fighters. The U.S. has only recently begun the process for Ukrainian pilots to begin training on the F-16s.[51] Some countries have transferred aging Soviet-origin fighter jets to Ukraine and expressed a desire to replenish their air wings with U.S. fighters like the F-16.[52] The F-16 remains one of the most popular U.S. export platforms: more than twenty-five countries have purchased the fighters, and the new Greenville, South Carolina, facility designed to produce the Block 70/72 F-16s currently has a back order of more than 120 jets.[53] Any country that considers transferring its F-16s to Ukraine will either have to line up to backfill its own fleet, seek approval to

Figure 2.
Global Arms Exports by Weapon Category, 2007–22



Source: Stockholm International Peace Research Institute

upgrade to the F-35, or look to a non-U.S. supplier for an alternative. All these options will be costly and require years of waiting.

As fighter jet sales have risen and UAVs have proliferated on the global market, the demand for air defense systems has also increased. Global sales of air defense systems steadily climbed after 2001, only tapering off slightly after peaking in 2016.[54] Here, too, the market may shrink in the wake of the Ukraine war: air defense systems are Russia's second-leading arms export, and Moscow will be unlikely to part with them in the foreseeable future. (Russia has reportedly pulled select air defense systems out of Syria to support its invasion.[55]) U.S. air defense systems, such as the Patriot and Terminal High Altitude Area Defense (THAAD) systems, are already in high demand.[56] Turkish officials have recently sounded optimistic notes that their own domestically manufactured air defense system might eventually reduce their reliance on the Russian S-400 system.[57] As more countries provide air defense systems to Ukraine, demand for purchases to replenish stocks will increase as well.

Naval platforms will also likely remain central acquisition priorities, fitting a globalized economy in which commercial vessels roam the sea surface while key resources (e.g., liquefied natural gas) or assets (e.g., internet cables) line the seabed. The maritime domain has also witnessed significant innovations, as demonstrated by Ukrainian forces' successful use of both unmanned surface vessels and long-range antiship missiles.[58] This high-tech, multidimensional domain stretches from space to the sea floor, and acquisition strategies will likely focus on countermeasures—against conventional threats as well as uncrewed systems and antiship missiles—and on ensuring ships can keep operating in a degraded environment amid a high-intensity confrontation. The democratization of space-based observation via commercial satellite operations will create opportunities for countries wishing to expand their maritime capabilities, but production of naval vessels is slow and expensive, which may limit the ability of prospective buyers to build up their maritime forces.

Impact on the Middle East and North Africa Defense Landscape

As Middle East actors navigate the effects of Russia's invasion on the global arms market, many will likely continue to diversify their arms suppliers while doubling down on efforts to build their own production capabilities. Some, like Israel and Turkey, are poised to capitalize on this changing global market; all, however, will have to grapple with the repercussions of deeper military ties between Iran and Russia and their possible effects on the regional balance of power.

Middle East and North Africa Countries View Reliance on a Single Supplier as a Vulnerability

Global arms suppliers commonly emphasize the notion of "interoperability." The pitch is simple: purchasing platforms primarily from one country allows the recipient to operate the same systems as its supplier and thus more easily "plug in" to combined operations. The more one country purchases from another, the more interoperable they become and, by extension, the more formidable their potential combined military power. In the Middle East, interoperability has been a constant talking point linked to the defeat of violent extremist organizations and the containment of Iran's aggressive regional behavior. Recent U.S. administrations have regularly spotlighted the importance of combining regional efforts, whether through the Trump-era Middle East Security Architecture or the Biden administration's efforts to integrate air and missile defenses. Largely understood in both efforts has been the notion that purchasing primarily from the United States would make regional integration more attainable and effective. As a senior Biden administration Defense Department official noted in May 2023: "We want our partners purchasing U.S. and allied systems...Not doing so undermines

our partnerships as well as elements of our strategic approach to the region."[59]

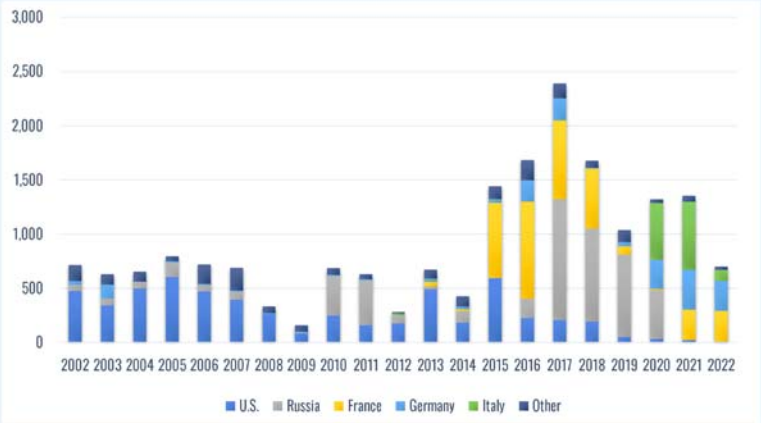
A country that purchases primarily from a single supplier stands to reap considerable second-order benefits, assuming that the supplier can maintain a steady stream of platforms, parts, and support, and assuming that the two countries maintain diplomatic harmony. If, however, supplies fall or bilateral relations change, as exemplified after the Russian invasion, reliance on a single source turns from a strength into a vulnerability. Countries like Algeria, which since 2002 has imported approximately 76 percent of its arms from Russia, may incur negative operational effects amid a shortfall in Russian supply.[60] Countries like Egypt, which in recent years has diversified its arms sources, may suffer operationally but hold advantages from an acquisitions standpoint. Thus, when assessing the effects of the Ukraine invasion, existing weapons clients of Russia—as well as of other countries—will likely grow warier of the risks of overreliance on a single supplier.

The War Will Speed Up Efforts in the Region to Achieve Defense Acquisition Independence

For countries in the region, the evolving global defense landscape and challenges facing Western industry will likely reinvigorate efforts to achieve independence in acquisitions and build homegrown defense industrial bases. Such efforts come amid

Figure 3.
Egyptian Arms Imports by Source, 2002–22

Values in Millions per SIPRI's Trend Indicator Value (TIV)



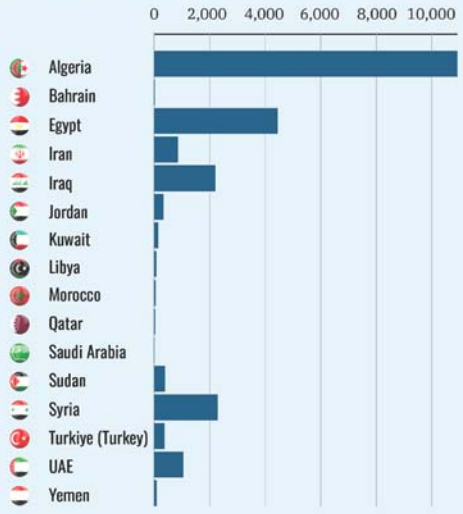
Since President Sisi came to power, Egypt has increasingly diversified its acquisitions.
Source: Stockholm International Peace Research Institute

a perception of increasing regional threats paired with greater confidence among the region's countries, likely translating into requests for technology transfer and a rollback of usage restrictions on Western platforms. Regional countries seek opportunities to create domestic jobs, and they view the defense industry as an avenue to retain highly skilled workers. To achieve this end, they will partner with countries that, in their view, can best meet their requirements. Non-Western suppliers may have an advantage here, given their demonstrated willingness to share technology and impose less-stringent export-control limitations compared to their Western competitors.[61]

The Invasion Has Deepened Russia's Security Relationship with Iran in Ways That May Alter the Regional Balance of Power

The battlefield demands in Ukraine and Russia's lack of a robust UAV force have created a quid pro quo agreement with implications far beyond Eastern Europe. While Russia has received hundreds of Iranian drones to deploy in Ukraine, Tehran has reportedly received cash as well as captured U.S. and NATO weaponry, and Iranian officials are eyeing more advanced Russian arms, including air defense systems, helicopters, and possibly the advanced Su-35 fighter jet.[62] While these systems may not dramatically alter the Middle East balance of power in the near future, Iran's potential ability to reverse engineer these platforms and add conventional capabilities to its already robust

Figure 4.
Russian Arms Exports to the Middle East and North Africa (by Country), 2007–22



Source: Stockholm International Peace Research Institute



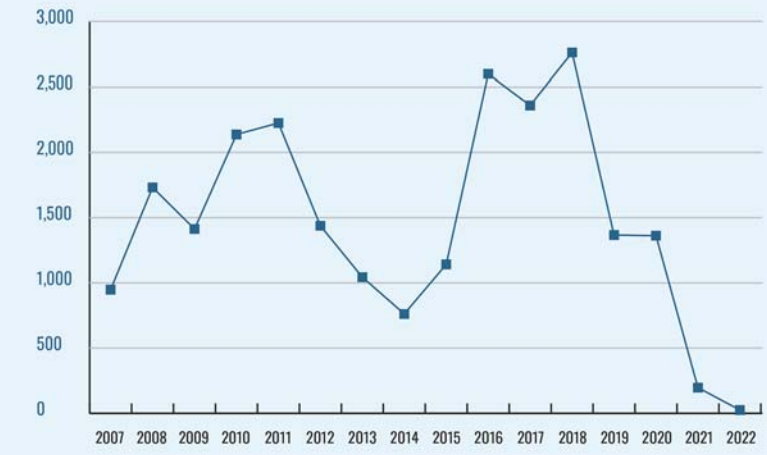
asymmetrical capabilities will add another wrinkle for Iran's regional competitors. Countries around the region looking to contain the Islamic Republic will have to plan around not only a more advanced Iranian military but potentially a network of Iranian proxies outfitted with more advanced weaponry.

In turn, this deepening Iran-Russia defense relationship will likely cause regional countries to drive up their own defense spending. Long a major arms-importing region, the Middle East today is home to five of the world's top-fifteen arms importers (Saudi Arabia, Qatar, Egypt, UAE, and Kuwait); in 2022, it featured nine of the top-fifteen countries in terms of defense spending relative to GDP (Oman, Kuwait, Algeria, Jordan, Saudi Arabia, Morocco, Israel, UAE, and Qatar).[63] Regional countries have hardly needed a reason to spend more on arms, but the worrying prospect of Iran's new advanced weaponry—including possibly Russian fighter jets—will likely contribute to their purchases of corresponding platforms.

Several Regional Countries Look Poised to Take Advantage of the Uncertain Future

Although Western corporations are sure to remain significant arms suppliers to the region, some regional actors with developing or robust defense industries could take advantage of the

Figure 5.
Russian Arms Exports to the Middle East and North Africa (by Year), 2007–22



Source: Stockholm International Peace Research Institute

post-Ukraine-invasion market to advance their own interests. The region's main security requirements and concerns remain linked to the Iranian regime and its use of proxies and asymmetric warfare. Regional actors like Turkey and Israel that have developed countermeasures and systems adapted to this kind of warfare, especially in air defense systems and UAVs, are poised to take advantage of higher demand for such platforms. That those systems have been combat-proven in multiple theaters only reinforces their appeal. In addition to meeting the core security requirements of Middle East countries, regional suppliers can allow the purchasers to add another diversifying layer of partnership atop the West, China, or Russia. Already, Israel is making inroads in Gulf and European defense markets.[64] If regional suppliers can propose technology transfers that meet the expectations of their clients, they could rapidly acquire significant positions in the regional market.

Policy Recommendations

The United States and other Western states can take the following steps to secure their interests and counter Moscow amid Russia's weakening grasp on the arms market:

- **Prepare Ukraine's defense industry to compete in traditional Russian markets.** During the Cold War, Ukraine was home to a large swath of the Soviet Union's defense industrial base.[65] This fostered an industry with most of its materiel—platforms, munitions, spare parts—created in the Russian mold. For countries around the world reliant on Russian arms shipments to keep their militaries operational, a robust Ukrainian defense industry manufacturing similar components could be an alternative. Such a maneuver is obviously not feasible while the conflict persists: Ukraine's remaining defense companies have scattered production and focused on simple components such as artillery shells to contribute to the war effort.[66] And Ukraine's eventual postwar defense industry will undoubtedly look different as the country's military incorporates more Western equipment into its arsenal. But Western supporters of Ukraine should plan ways to support Kyiv in a postwar environment in which Ukraine can achieve larger-scale production and perhaps begin to export platforms into traditional Russian markets, thereby depriving Russia of export markets while advancing Ukraine's own interests.

- **Establish interagency red lines on China's presence in partner countries, and convey these red lines to partners.** China is one of the world's fastest-growing arms exporters and will undoubtedly look to exploit the arms market gap left by Russia's invasion. Already, Chinese platforms have made inroads in the Middle East and North Africa. On top of sales, China's economic and security investments abroad pose their own unique challenges to the United States and partner countries. Chinese activity has already discouraged countries from simultaneously making deals with U.S. firms. Yet to date, there is no single consensus opinion within the U.S. government, let alone between Washington and its Western partners, as to what constitutes a "red line" in a country's relationship with China and thus precludes deeper security cooperation. This lack of baseline parameters destabilizes traditional U.S. security partnerships and creates an opportunity for China to expand its footprint. The United States needs to reach a common interagency understanding on precise red lines with regard to a country's relationship with China, and then convey these red lines clearly to partners. Such a policy of transparency would likely give the United States the best chance at maintaining its status as the "partner of choice" in the region and around the world.

- **Establish long-term security cooperation plans with partners in the region.** Many of the largest arms importers and defense spenders in the Middle East and North Africa are traditional U.S. partners that have purchased heavily from the United States. Yet in recent years, America's

hold on the market has wavered as recipients chafe at long delays, usage restrictions, and political turbulence between administrations and with Congress. The increased attention on great power competition and availability of alternative suppliers has accelerated this phenomenon. If the United States wants to demonstrate a long-term commitment to defense and security relationships in the region, it should work with countries on crafting joint five-, ten-, and fifteen-year defense acquisition strategies. Washington has already done this on five-year timetables with select partners.[67] Such strategies could anticipate future defense needs in areas typically associated with delays and backlogs, such as air defense or fighter aircraft, and ensure that U.S. partners and their militaries avoid any gap in capabilities. Such strategies should take congressional views into consideration in order to navigate potential political turbulence. In doing so, the United States can demonstrate its long-term commitment to its partners' security in the region.

- **Support efforts to strengthen the European defense industrial base.** As Western states seek to fill the gap left by diminishing Russian arms exports, Europe in particular faces two additional challenges—fragmentation and underinvestment in the continent's defense industry. These shortcomings lead to unnecessary intra-European competition in external markets and hamper efforts to intensify production in the Ukraine context. Beyond the question of arms sales, a strong European defense industrial base is one component—together with NATO's readiness—of Europe's defense and sovereignty, whose advancement are in long-term U.S. interests as America focuses more on the Indo-Pacific. The most suitable tool to strengthen and rationalize the European defense industrial base is the European Union. The United States should reassess its traditional reluctance on the matter, and embrace efforts led by member states and by the EU Commission to fund the European defense industrial base and implement joint acquisitions mechanisms.

Conclusion

The war in Ukraine is perhaps the opening gambit in a new world defined by great power competition. Defense spending is up, arms sales are increasing, and new military relationships are being forged. As the effects of Russia's invasion spread far beyond the battlefield, the United States and other Western countries will have opportunities to take advantage of Russia's weakened position. Arms and arms-related sales have historically been a key driver of the Russian economy; if Washington and other Western capitals want to exact a heavier strategic cost than Moscow's poorly planned and ill-executed invasion has already wrought, then they must work together to avoid squandering such an opportunity. The Ukraine invasion will create a gap in the market for both traditional and newer suppliers to fill. How that gap is filled will create partnerships that last decades, boost select economies, and help decide how the next conflict is fought. ❖

NOTES

1 Richard Connolly and Cecilie Sendstad, *Russia's Role as an Arms Exporter* (London: Royal Institute for International Affairs, 2017), https://www.chathamhouse.org/sites/default/files/publications/research/2017-03-20-russia-arms-exporter-connolly-sendstad.pdf.

2 Cullen Hendrix, "Russia's Boom Business Goes Bust," *Foreign Policy*, May 3, 2023, https://foreignpolicy.com/2023/05/03/russia-arms-sales-weapons-exports-worldwide-ukraine-war/; "Surge in Arms Imports to Europe, While U.S. Dominance of the Global Arms Trade Increases," Stockholm International Peace Research Institute, March 13, 2023, https://www.sipri.org/media/press-release/2023/surge-arms-imports-europe-while-us-dominance-global-arms-trade-increases. While SIPRI data is useful for identifying trends in arms transfers for the sake of this report, the methodology behind it has been questioned by some analysts: see "Nominal Spending Figures Understate China's Military Might," *Economist*, May 1, 2021, https://www.economist.com/graphic-detail/2021/05/01/nominal-spending-figures-understate-chinas-military-might; and Michael Kofman and Richard Connolly, "Why Russian Military Expenditure Is Much Higher Than Commonly Understood (as Is China's)," War on the Rocks, December 16, 2019, https://warontherocks.com/2019/12/why-russian-military-expenditure-is-much-higher-than-commonly-understood-as-is-chinas/.

3 *Russian Arms Sales and Defense Industry*, Congressional Research Service, October 14, 2021, https://crsreports.congress.gov/product/pdf/R/R46937.

4 *Russian Arms Sales and Defense Industry*, Congressional Research Service, October 14, 2021, https://crsreports.congress.gov/product/pdf/R/R46937.

5 European Commission, "Sanctions Adopted Following Russia's Military Aggression Against Ukraine," https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures/sanctions-adopted-following-russias-military-aggression-against-ukraine_en.

6 U.S. Department of the Treasury, "Targeting Key Sectors, Evasion Efforts, and Military Supplies, Treasury Expands and Intensifies Sanctions Against Russia," February 24, 2023, https://home.treasury.gov/news/press-releases/jy1296.

7 Yuko Seki and Shota Fujii, "Russia 'Buying Back' Arms Parts Exported to Myanmar and India," Nikkei, June 5, 2023, https://asia.nikkei.com/Politics/Ukraine-war/Russia-buying-back-arms-parts-exported-to-Myanmar-and-India.

8 Max Bergmann et al., *Out of Stock? Assessing the Impact of Sanctions on Russia's Defense Industry* (Washington DC: Center for Strategic and International Studies, 2023), https://www.csis.org/analysis/out-stock-assessing-impact-sanctions-russias-defense-industry.

9 "H.R.3364—Countering America's Adversaries Through Sanctions Act," 115th Congress (2017–18), https://www.congress.gov/bill/115th-congress/house-bill/3364/text.

10 Lesley Wroughton and Patricia Zengerle, "U.S. Sanctions China for Buying Russian Fighter Jets, Missiles," Reuters, September 20, 2018, https://www.reuters.com/article/us-usa-russia-sanctions/u-s-sanctions-china-for-buying-russian-fighter-jets-missiles-idUSKCN1M02TP; Amanda Macias, "U.S. Sanctions Turkey over Purchase of Russian S-400 Missile System," CNBC, December 14, 2020, https://www.cnbc.com/2020/12/14/us-sanctions-turkey-over-russian-s400.html; Paul Iddon, "CAATSA or PESA: Why Have These Countries Decided Against Acquiring Russia's Su-35 Fighter?" *Forbes*, January 11, 2022, https://www.forbes.com/sites/pauliddon/2022/01/11/caatsa-or-pesa-why-have-these-countries-decided-against-acquiring-russias-su-35-fighter/?sh=4e7bade86204.

11 Sudhi Ranjan Sen and Adrija Chatterjee, "Russian Arms Sales to India Stall on Fears over U.S. Sanctions," Bloomberg, April 21, 2023, https://www.bloomberg.com/news/articles/2023-04-21/russian-arms-sales-to-india-stall-due-to-fears-over-us-sanctions#xj4y7vzkg.

12 Bergmann et al., *Out of Stock?* https://www.csis.org/analysis/out-stock-assessing-impact-sanctions-russias-defense-industry.

13 Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2023), 74–75.

14 Sebastien Roblin, "America Is Slapping Cannons on Trucks to Help Ukraine Stop Russia's Killer Drones," *Popular Mechanics*, April 21, 2023, https://www.popularmechanics.com/military/weapons/a43533561/us-gun-trucks-for-ukraine-stop-russia-drones/.

15 "World Military Expenditure Reaches New Record High as European Spending Surges," Stockholm International Peace Research Institute, April 24, 2023, https://bit.ly/43VnvyX.

16 Michel Rose and Clotaire Achi, "Macron Boosts French Military Spending by over a Third to 'Transform' Army," Reuters, January 20, 2023, https://www.reuters.com/business/aerospace-defense/frances-macron-proposes-big-hike-military-spending-2024-2030-2023-01-20/; "Poland to Ramp Up Defense Budget to 4% of GDP," Deutsche Welle, January 30, 2023, https://www.dw.com/en/poland-to-ramp-up-defense-budget-to-4-of-gdp/a-64555544; Michael Nienaber and Kamil Kowalcze, "Germany to Hike Defense Budget by up to €10 Billion in 2024," Bloomberg, February 15, 2023, https://www.bloomberg.com/news/articles/2023-02-15/germany-to-lift-defense-spending-by-up-to-10-billion-next-year.

17 Jon Grevatt and Andrew MacDonald, "South Korea Proposes 4.6% Increase in 2023 Defence Budget," *Janes*, September 2022, https://www.janes.com/defence-news/news-detail/south-korea-proposes-46-increase-in-2023-defence-budget; William Sposato, "Japan's Defense Plans Are Big, Popular, and Expensive," *Foreign Policy*, April 10, 2023, https://foreignpolicy.com/2023/04/10/japan-defense-budget-china-north-korea-military/; Max Blenkin, "Australian Budget: Historic Defense Spending, Plus AU$1.2B on U.S.-Made Missiles," *Breaking Defense*, May 9, 2023, https://breakingdefense.com/2023/05/australian-budget-historic-defense-spending-plus-au1-2b-on-us-made-missiles/.

18 International Institute for Strategic Studies, *The Military Balance 2023: The Annual Assessment of Global Military Capabilities and Defence Economics* (London: IISS/Routledge, 2023), https://www.iiss.org/publications/the-military-balance/the-military-balance-2023; Agnes Helou, "Saudi Arabia, Qatar See Sharp Jump in Military Spending in the Middle East: Report," *Breaking Defense,* April 28, 2023, https://breakingdefense.com/2023/04/saudi-arabia-qatar-see-sharp-jump-in-military-spending-in-the-middle-east-report/.

19 Doug Cameron, "U.S. Struggles to Replenish Munitions Stockpiles as Ukraine War Drags On," *Wall Street Journal*, April 29, 2023, https://www.wsj.com/articles/u-s-push-to-restock-howitzer-shells-rockets-sent-to-ukraine-bogs-down-f604511a.

20 Sabine Siebold and Andrew Gray, "NATO to Increase Targets for Ammunition Stockpiles as War Depletes Reserves," Reuters, February 14, 2023, https://www.reuters.com/world/europe/natos-stoltenberg-we-plan-increase-targets-ammunition-stockpiles-2023-02-13/.

21 Tony Bertuca, "DoD 'Refocuses' Industrial Base Task Force on Supply Chain Security," Inside Defense, May 1, 2023, https://insidedefense.com/daily-news/dod-refocuses-industrial-base-task-force-supply-chain-security.

22 See, e.g., Paula Alvarez-Couceiro, "Europe at a Strategic Disadvantage: A Fragmented Defense Industry," War on the Rocks, April 18, 2023, https://warontherocks.com/2023/04/europe-at-a-strategic-disadvantage-a-fragmented-defense-industry/.

23 Associated Press, "First Delivery of S. Korean Heavy Weapons Comes to Poland," December 6, 2022, https://apnews.com/article/europe-business-poland-seoul-south-korea-6d7a06d58323ef77fd4ce3024110e0e8.

24 Douglas Hamilton and Charles Aldinger, "EU Force Could Spell NATO's End, Cohen Says," *Washington Post*, December 6, 2000, https://www.washingtonpost.com/archive/politics/2000/12/06/eu-force-could-spell-natos-end-cohen-says/534c01b8-00b7-483c-b5d1-aed36b19a7b5/; Alvarez-Couceiro, "Europe at a Strategic Disadvantage," https://warontherocks.com/2023/04/europe-at-a-strategic-disadvantage-a-fragmented-defense-industry/; Paul McLeary and Suzanne Lynch, "The U.S. Wants Europe to Buy American Weapons; The EU Has Other Ideas," Politico, June 14, 2023, https://www.politico.eu/article/us-europe-buy-american-weapons-military-industry-defense/.

25 Marcin Zaborowski, *Poland and European Defence Integration,* Policy Brief (European Council on Foreign Relations, 2018), https://ecfr.eu/publication/poland_and_european_defence_integration/.

26 U.S. Department of Defense, *Military and Security Developments Involving the People's Republic of China 2019,* annual report to Congress, https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019_CHINA_MILITARY_POWER_REPORT.pdf.

27 SIPRI Arms Trade Register, accessed May 2023.

28 SIPRI Arms Trade Register, accessed May 2023.

29 Zaheena Rasheed, "How China Became the World's Leading Exporter of Combat Drones," Al Jazeera, January 24, 2023, https://www.aljazeera.com/news/2023/1/24/how-china-became-the-worlds-leading-exporter-of-combat-drones; Dusan Stojanovic, "Serbia Shows Off New Chinese Anti-Aircraft Missile System," *Defense News*, May 6, 2022, https://www.defensenews.com/training-sim/2022/05/07/serbia-shows-off-new-chinese-anti-aircraft-missile-system/.

30 Ezgi Akin, "Turkey's Defense Exports Reach Record Levels in 2022, Erdogan Says," Al-Monitor, January 9, 2023, https://www.al-monitor.com/originals/2023/01/turkeys-defense-exports-reach-record-levels-2022-erdogan-says; Stephen Witt, "The Turkish Drone That Changed the Nature of Warfare," *The New Yorker*, May 9, 2022, https://www.newyorker.com/magazine/2022/05/16/the-turkish-drone-that-changed-the-nature-of-warfare.

31 SIPRI Arms Trade Top List Tables, accessed May 2023.

32 SIPRI Arms Trade Top List Tables, accessed May 2023; Kotaro Hosokawa, "South Korea's Defense Industry Doubles Overseas Orders," Nikkei, November 27, 2022, https://asia.nikkei.com/Business/Aerospace-Defense-Industries/South-Korea-s-defense-industry-doubles-overseas-orders.

33 Brad Lendon and Gawon Bae, "President Yoon Wants South Korea to Become One of World's Top Weapons Suppliers," CNN, August 17, 2022, https://www.cnn.com/2022/08/17/asia/south-korea-arms-exports-yoon-intl-hnk-ml/index.html.

34 Jaroslaw Adamowski, "Poland Inks Deal for FA-50 Light Attack Aircraft from South Korea," *Defense News*, September 17, 2022, https://www.defensenews.com/global/europe/2022/09/17/poland-inks-deal-for-fa-50-light-attack-aircraft-from-south-korea/.

35 Norman Goh, "Malaysia Buys South Korea Fighter Jets as ASEAN Arms Market Grows," Nikkei, March 7, 2023, https://asia.nikkei.com/Politics/Defense/Malaysia-buys-South-Korea-fighter-jets-as-ASEAN-arms-market-grows.

36 Emmanuel Fabian, "Israeli Arms Sales Hit New Record of $11.3 Billion in 2021—with 7% to Gulf," *Times of Israel*, April 12, 2022, https://www.timesofisrael.com/israeli-arms-sales-hit-new-record-of-11-3-billion-in-2021/.

37 Brandon Kinne, "Agreeing to Arm: Bilateral Weapons Agreements and the Global Arms Trade," *Journal of Peace Research* 53, no. 3 (May 2016), https://www.jstor.org/stable/43920595.

38 "Turkey Is the Arms Industry's New Upstart," *Economist*, February 12, 2022, https://www.economist.com/europe/2022/02/12/turkey-is-the-arms-industrys-new-upstart; Nazlan Ertan, "Turkey, Kazakhstan Sign Joint Production Accord for Drones," Al-Monitor, May 11, 2022, https://www.al-monitor.com/originals/2022/05/turkey-kazakhstan-sign-joint-production-accord-drones; Burak Ege Bekdil, "Turkey and Ukraine to Coproduce TB2 Drones," *Defense News*, February 4, 2022, https://www.defensenews.com/global/europe/2022/02/04/turkey-and-ukraine-to-coproduce-tb2-drones/.

39 "Egypt Signs Major Arms Deal with South Korea," Al-Monitor, February 8, 2022, https://www.al-monitor.com/originals/2022/02/egypt-signs-major-arms-deal-south-korea; Jeremy Binnie, "Egypt's AOI Confirms Agreement to Produce South Korean Jet Trainers," *Janes*, January 18, 2023, https://www.janes.com/defence-news/news-detail/egypts-aoi-confirms-agreement-to-produce-south-korean-jet-trainers.

40 Reuters, "India, Egypt Will Seek to Deepen Military Co-operation—Foreign Secretary," January 25, 2023, https://www.reuters.com/world/india/india-egypt-will-seek-deepen-military-co-operation-foreign-secretary-2023-01-25/.

41 Suchitra Karthikeyan, "What Are the Key Defence Projects Under 'Make in India' Scheme," *The Hindu*, April 26, 2022, https://www.thehindu.com/news/national/make-in-india-defence-manufacturing-push-projects-need-explained/article65348645.ece.

42 Shehesh Alex Philip, "How France Is Ready to Help India Diversify from Russia—Build Fighters and Submarines," *The Print*, January 22, 2023, https://theprint.in/defence/how-france-is-ready-to-help-india-diversify-from-russia-build-fighters-to-nuclear-submarines/1328965/.

43 Alexander Cornwell, "Saudi Defence Firm SAMI Targets $5 Billion Annual Revenue by 2030," Reuters, February 22, 2021, https://www.reuters.com/article/emirates-defence-sami-int/saudi-defence-firm-sami-targets-5-billion-annual-revenue-by-2030-idUSKBN2AM0P0.

44 Katie Paul, "Saudi State-Owned Defence Company SAMI Taps Rheinmetall Executive as CEO," Reuters, October 31, 2017, https://www.reuters.com/article/saudi-defence/saudi-state-owned-defence-company-sami-taps-rheinmetall-executive-as-ceo-idUSL8N1N62AM; "Saudi Arabia Signs Agreement to Manufacture Russian Weapons

Locally," Al Arabiya, October 5, 2017, https://english.alarabiya.net/en/News/gulf/2017/10/05/Saudi-Arabian-Military-Industries-signs-agreement-to-manucafture-Russian-weapons-locally-.html.

45 Agnes Helou, "UAE Launches 'Edge' Conglomerate to Address Its 'Antiquated Military Industry,'" *Defense News*, November 6, 2019, https://www.defensenews.com/digital-show-dailies/dubai-air-show/2019/11/06/uae-launches-edge-conglomerate-to-address-its-antiquated-military-industry/.

46 Albert Vidal, "IDEX 2023: UAE's Defense Contracts Emphasizes [*sic*] Local Production," Gulf International Forum, April 22, 2023, https://gulfif.org/idex-2023-uaes-defense-contracts-emphasizes-local-production/.

47 Agnes Helou, "UAE Cancels €800m Military Helicopter Deal with Airbus: Government Official," *Breaking Defense*, May 9, 2023, https://breakingdefense.com/2023/05/uae-cancels-e800m-military-helicopter-deal-with-airbus-government-official/.

48 "UK Defence and Security Export Statistics: 2020," Gov.uk, October 26, 2021, https://www.gov.uk/government/statistics/uk-defence-and-security-exports-for-2020/uk-defence-and-security-export-statistics-for-2020.

49 Richard Aboulafia, "Aero Markets: Climbing out of a Pit Beats Falling into One," National Aeronautic Association, February 28, 2022, https://naa.aero/wp-content/uploads/2022/02/The-Great-Aero-Recovery-Webinar-Slides.pdf.

50 TASS: Russian News Agency, "Aircraft Made Up 50% of Russia's Arms Exports Last year, Says Defense Official," March 12, 2021, https://tass.com/defense/1265359.

51 C. Todd Lopez, "F-16 Training, Aircraft, to Fill Ukraine's Mid-Term, Long-Term Defense Needs," U.S. Department of Defense, May 23, 2023, https://www.defense.gov/News/News-Stories/Article/Article/3405085/f-16-training-aircraft-to-fill-ukraines-mid-term-long-term-defense-needs/.

52 Karel Janicek, "Slovakia Joins Poland in Agreeing to Give Fighter Jets to Ukraine," *NewsHour*, PBS, March 17, 2023, https://www.pbs.org/newshour/world/slovakia-joins-poland-in-agreeing-to-give-fighter-jets-to-ukraine.

53 "Lockheed Martin Announces Successful First Flight of F-16 Block 70 Aircraft," news release, January 24, 2023, https://news.lockheedmartin.com/2023-01-24-Lockheed-Martin-Announces-Successful-First-Flight-of-F-16-Block-70-Aircraft.

54 SIPRI Arms Trade Register, accessed May 2023.

55 Reuters, "Russia Ships S-300 Air Defence Missiles out of Syria—Satellite Images," August 29, 2022, https://www.reuters.com/world/russia-ships-s-300-air-defence-missiles-out-syria-satellite-images-2022-08-29/.

56 David Des Roches, "We Need It Yesterday: Air-Defense Missile Sales in a Period of Maximum Demand," Middle East Institute, August 9, 2022, https://www.mei.edu/publications/we-need-it-yesterday-air-defense-missile-sales-period-maximum-demand.

57 Selcan Hacaoglu, "Turkey May Not Need Russia's S-400 Missile Defense, Manufacturer Says," Bloomberg, March 14, 2023, https://www.bloomberg.com/news/articles/2023-03-14/turkey-may-not-need-russia-s-s-400-missile-defense-company-says#xj4y7vzkg.

58 H. I. Sutton, "Suspected Ukrainian Explosive Sea Drone Made from Recreational Watercraft Parts," USNI News, October 11, 2022, https://news.usni.org/2022/10/11/suspected-ukrainian-explosive-sea-drone-made-from-jet-ski-parts.

59 U.S. Department of Defense, "Assistant Secretary of Defense for Strategy, Plans, and Capabilities Dr. Mara Karlin's Remarks at the Third Annual Middle East Institute CENTCOM Conference (As Prepared)," May 24, 2023, https://www.defense.gov/News/Speeches/Speech/Article/3406446/assistant-secretary-of-defense-for-strategy-plans-and-capabilities-dr-mara-karl/.

60 SIPRI Arms Trade Register, accessed May 2023.

61 Joyce Lee and Josh Smith, "Inside South Korea's Race to Become One of the World's Biggest Arms Dealers," Reuters, May 29, 2023, https://www.reuters.com/business/aerospace-defense/inside-south-koreas-race-become-one-worlds-biggest-arms-dealers-2023-05-29/.

62 Dion Nissenbaum and Warren Strobel, "Moscow, Tehran Advance Plans for Iranian-Designed Drone Facility in Russia," *Wall Street Journal*, February 5, 2023, https://www.wsj.com/articles/moscow-tehran-advance-plans-for-iranian-designed-drone-facility-in-russia-11675609087.

63 Pieter Wezeman, Justine Gadon, and Siemon Wezeman, "Trends in International Arms Transfers, 2022," fact sheet, Stockholm International Peace Research Institute, March 2023, https://www.sipri.org/publications/2023/sipri-fact-sheets/trends-international-arms-transfers-2022; IISS, *Military Balance 2023*, https://www.iiss.org/publications/the-military-balance/the-military-balance-2023.

64 Linda Gradstein, "Israeli Arms Sales Soar as Ukraine War Rages," Voice of America, December 22, 2022, https://www.voanews.com/a/israeli-arms-sales-soar-as-ukraine-war-rages-/6887888.html.

65 Thomas Laffitte, "Ukraine's Defense Industry and the Prospect of a Long War," Foreign Policy Research Institute, September 21, 2022, https://www.fpri.org/article/2022/09/ukraines-defense-industry-and-the-prospect-of-a-long-war/.

66 Alistair MacDonald, "Ukraine's Arms Industry Survives Russian Onslaught to Hit Back," *Wall Street Journal*, May 1, 2023, https://www.wsj.com/articles/ukraines-arms-industry-survives-russian-onslaught-to-hit-back-c5c168cd.

67 "DGMT Project Updates—November 2018," Institute for Security Governance, November 29, 2018. https://instituteforsecuritygovernance.org/-/dgmt-project-updates-november-2018.

The Authors



GRANT RUMLEY is the Goldberger Fellow with The Washington Institute's Diane and Guilford Glazer Foundation Program on Great Power Competition and the Middle East, specializing in military and security affairs. He served from 2018 to 2021 as an advisor for Middle East policy in the Office of the Secretary of Defense and authored the recent Institute study *China's Security Presence in the Middle East*.



LOUIS DUGIT-GROS, a 2021–23 visiting fellow at The Washington Institute, is a French diplomat and member of the Ministry for Europe and Foreign Affairs. The third active-duty French diplomat to hold an Institute visiting fellowship, he has served as a press officer for the French embassy in Morocco, a political advisor for Libya, and a desk officer for Qatar and Oman at ministry headquarters in Paris.

THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY
1111 19TH STREET NW, SUITE 500 | WASHINGTON, DC 20036
WWW.WASHINGTONINSTITUTE.ORG
©2023 THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY. ALL RIGHTS RESERVED.

March 3rd, 2025

The Honorable French Hill
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hill, Ranking Member Waters, and Members of the Committee:

Thank you for the opportunity to submit a statement for the record related to the hearing entitled "Examining Policies to Counter China' on Tuesday, February 25, 2025. China poses serious challenges to the United States, but Washington's policy responses over the last two administrations have been woefully inadequate.

Attached to this letter is a blog post titled, "Chinese Ownership of U.S. Farmland: Separating the Wheat from the Chaff", which offers concrete policy recommendations for outcompeting China economically in the 21st century.

Sincerely,

Scott Lincicome
Vice President
General Economics and Herbert A. Stiefel Center for Trade Policy Studies
Cato Institute

Cato Institute • 1000 Massachusetts Ave., N.W. • Washington, D.C. 20001 • (202) 842-0200

Fax: (202) 842-3490 • www.cato.org

CATO INSTITUTE® BLOG

APRIL 3, 2023 10:23AM

Chinese Ownership of U.S. Farmland: Separating the Wheat from the Chaff

By **Scott Lincicome** and Ilana Blumsack

Heightened U.S.-China economic and geopolitical tensions have produced numerous congressional proposals to forcibly decouple the two economies, ostensibly on national security grounds. **Several such proposals** would severely restrict or even ban Chinese ownership of U.S. farmland, due to the aforementioned tensions and the fact that farmland purchases by Chinese nationals or companies have increased in recent years.

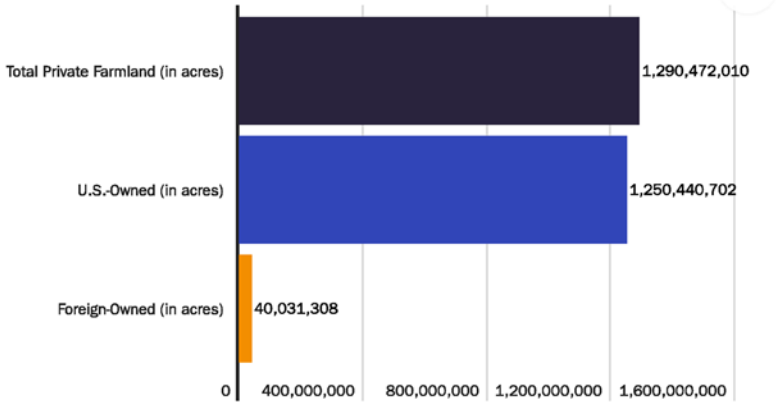
Surely, foreign governments' or government-controlled entities' purchases of certain U.S. land (e.g., near sensitive military installations) can raise legitimate national security concerns that might warrant federal oversight or intervention. Fortunately, there's little current indication that foreign farmland purchases – even by Chinese entities – justify the type of broad-based government restrictions that some in Congress are contemplating.

For starters, recent increases in foreign and Chinese ownership need to be put into proper perspective. While the amount of U.S. agricultural land owned by foreigners **doubled** between 2009–2019, the latest federal government data (for 2021) **show** that these parcels still account for just *3.1 percent* of all private farmland in the United States (see Figure 1). The

United States Department of Agriculture (USDA) defines foreign ownership as both land owned solely by foreigners, as well as land jointly owned by American and foreign investors.

Figure 1

Only 3.1 percent of private U.S. farmland was foreign-owned in 2021

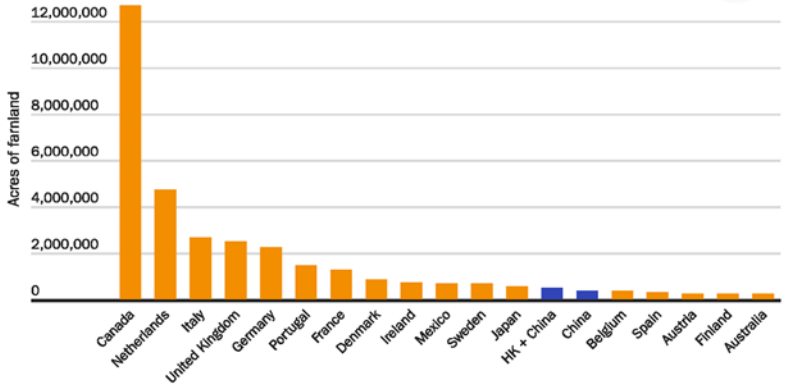


Source: Mary Estep, et. al., *Foreign Holdings of U.S. Agricultural Land Through December 31, 2021* (Washington: U.S. Department of Agriculture, 2022), Report 1. U.S.-owned farmland determined by subtracting foreign-owned farmland from the total.

Of this sliver of private U.S. agricultural land, moreover, Chinese entities remain a tiny player. As Figure 2 shows, in fact, Chinese entities own *less than 1 percent* of all foreign-owned farmland, while most of the land is owned by companies and individuals located in nations closely allied with the United States, such as Canada (30 percent), the Netherlands (12 percent), Italy (6 percent), the U.K. (6 percent), and Germany (6 percent). Including Hong Kong in China's totals doesn't much change these results – it's still just 1.2 percent of all foreign-owned farmland. As Tori Smith of the American Action Forum **notes**, China ranks tenth among foreign nations in the value of their U.S. farmland, behind Japan and Sweden, and well behind Canada, the Netherlands, and Germany.

Figure 2

China owned less U.S. farmland than Japan or Sweden in 2021



Note: Select countries shown here. Foreign-owned farmland determined by adding the total holdings for "X country" and "U.S./X country." "Other Non-Agriculture" holdings were then subtracted from the total to exclude non-farmland.
Source: Mary Estep, et. al., *Foreign Holdings of U.S. Agricultural Land Through December 31, 2021* (Washington: U.S. Department of Agriculture, 2022), Report 6.

Overall, these totals mean that China or China and Hong Kong combined accounted for a trivial *0.03 or 0.04 percent*, respectively, of all private U.S. agricultural land in 2021 (see Figure 3). To put that into perspective: If all private U.S. agricultural land were a gallon of milk, Chinese holdings would fill a whopping... *quarter of a teaspoon*.

Figure 3: **Chinese-owned farmland is just 0.039 percent of all private farmland in the U.S**.



Source: Mary Estep, et. al., *Foreign Holdings of U.S. Agricultural Land Through December 31, 2021* (Washington: U.S. Department of Agriculture, 2022), Reports 1 and 6.

This does not scream "national security crisis."

Furthermore, there are several reasons why even these paltry totals likely overstate the threat posed by Chinese ownership of U.S. farmland. First, as Cato adjunct scholar Dan Griswold points out in a forthcoming op-ed, most of the "Chinese" land at issue is "other agricultural" land, not actual cropland or forest, and most of this "other" land is owned by a Hong Kong-based private company following the 2013 acquisition of U.S. pork producer Smithfield. While controversial at the time, the acquisition was **reviewed and approved** by the U.S. government's inbound investment-screening body, the Committee on Foreign Investment in the United States (CFIUS), and has raised no serious land-related concerns in the last decade.

Second, it's not entirely clear why Chinese holdings of U.S. farmland are, in general, problematic. Most obviously, the Chinese government cannot steal the land, and the U.S. government could (and probably would) expropriate it in times of war or other national emergencies. Furthermore, absent an exponential (and wholly unrealistic) increase in Chinese land holdings, there would remain hundreds of millions of acres of U.S. land – farmland or

otherwise – *not* under Chinese control. This **includes** 640 million acres of land owned by the federal government, **millions** of which are already used by American ranchers for cattle grazing. Indeed, thanks to scientific and technological innovations that have **tripled** agricultural productivity (meaning we produce much more food on the same amount of land) since 1948, Americans' own farmland needs continue to decline.

All this being said, specific foreign land holdings could raise national security concerns, and there is some possible room for improvement in this regard. In particular, data on foreign-owned farmland near high-security sites, such as military installations, could be improved. As the Center for Strategic and International Studies **noted** in 2021, for example, the only federal law regarding data on foreign agricultural holdings is the Agricultural Foreign Investment Disclosure Act (AFIDA), which relies on self-reported data from foreign entities. Additionally, AFIDA-reported data is not checked by USDA for accuracy, and the agency rarely penalizes companies for failing to report data. Others have **reported** on similar shortcomings with the current farmland data.

Also, U.S. investment screening rules could be updated to ensure that CFIUS can review foreign farmland purchases near military installations. For example, Chinese agriculture company Fufeng recently **purchased** land 15 miles from Grand Forks Air Force Base, even though the Air Force **wrote** that it viewed the acquisition as a national security threat. CFIUS, however, **concluded** it didn't have jurisdiction over the purchase. (Ultimately, the Grand Forks, N.D. city government **stopped** the corn mill proposed at the site, although Fufeng still owns the land.)

Given these two issues, it may be appropriate for Congress to improve government data on foreign-owned farmland and to ensure that real national security issues can be remedied. Some legislation, such as the **FARM Act**, the **Protecting Military Installations and Ranges Act**, and the **SOIL Act**, have proposed reforms in this regard, though each could be improved in certain other respects. Given the legal, economic, and practical concerns raised by the federal government broadly restricting private land transactions (ones usually involving American citizens), such actions shouldn't be considered until more narrowly-targeted measures are implemented, data enhancements and other improvements are made, and additional problems are revealed. In the meantime, however, there's little reason for serious concern about the vast majority of foreign farmland holdings, including the quarter-teaspoon held by China.

RELATED TAGS

Defense and Foreign Policy, Trade Policy, China

This work is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Alliance for Peacebuilding

Statement for the Record
Examining Policies to Counter China
House Committee on Financial Services
Hearing Held Tuesday, February 25th at 10am ET

March 3, 2025

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services

Dear Ranking Member Waters,

We at the Alliance for Peacebuilding (AfP), on behalf of our 225+ members working in 181 countries to prevent conflict and build peace, thank you for the opportunity to submit a statement for the record related to the hearing entitled, "Examining Policies to Counter China" on Tuesday, February 25, 2025. Conflict prevention and peacebuilding not only promotes stability and prosperity around the world, but also advances U.S. national security, political, economic, and domestic interests amidst strategic geopolitical power competition with China. However, the current foreign assistance freeze under the Trump Administration undermines life-saving peacebuilding programs around the world—and makes America less safe, less strong, and less prosperous, particularly given how vital peacebuilding programs are to serving the U.S. national interest and countering Chinese influence. Please see the following articles and reports below.

1. **Conflict prevention assistance makes America safer, stronger, and more prosperous in its competition with China.**

Conflict prevention not only promotes stability and prosperity around the world, but also advances U.S. national security, political, economic, and domestic interests amidst strategic geopolitical power competition—the ongoing contest for influence with states like China. The Chinese government often pursues its own interests in a way that actively undermines U.S. national interests and global stability and prosperity by reshaping the international system, expanding territorial claims, and securing control of critical minerals and natural resources. Concurrently, many states avoid choosing to align with either the U.S. or China, which can be a missed opportunity for the U.S. to forge new or grow stronger partnerships. Prioritizing conflict prevention and peacebuilding policies, programs, and aid across sectors can preserve U.S. resources and support U.S. strategic efforts; as costly, acute crises are prevented, more resources

can be devoted to other U.S. national security, political, and economic objectives that stem threats to the homeland and advance domestic priorities.

Representative Young Kim highlighted how China will fill the void left by U.S. foreign assistance at the House Foreign Affairs Committee's *The USAID Betrayal* hearing:

> *China is watching and is waiting for the chance to fill any U.S. vacuum and already, there have been many reports of Chinese Communist Party officials signaling their willingness to replace USAID in Nepal and [taking over] de-mining activities in Cambodia and these are just the instances that we know about. Even critics of USAID acknowledge the critical soft power of targeted and efficient programming.*

A small investment in peacebuilding and prevention provides enormous returns on U.S. safety, security, and prosperity and the American people. Robust conflict prevention and resolution assistance in conflict-affected and fragile states can lead to sustainable efforts led by local stakeholders, reduce the need for costly U.S. humanitarian and security interventions, save taxpayers money, and increase U.S. security and prosperity. Efforts that promote democracy and good governance, human rights, and social cohesion can mitigate the influence of U.S. competitors, increase access to additional U.S. military bases around the world, and build a strong cadre of trade and security allies and partners. Peace and security and violent prevention efforts create more stable societies and states, giving people safety, security, and trust in their governments, and eliminate drivers of migration and violent extremism.

2. **The freeze on U.S. foreign aid has weakened America's ability to counter China's influence.**

While reform and review are the prerogative of any Administration, without clear processes, communication, and leadership, this abrupt halt to U.S. foreign aid is sowing chaos, harming innocent civilians, jeopardizing lives and livelihoods, and emboldening malign actors like China.

During the first day of the new Administration, President Trump issued an Executive Order (EO) pausing U.S. foreign development assistance for 90 days, including new obligations and disbursement of funds to foreign countries and implementing non-governmental organizations, international organizations, and contractors, pending reviews for "programmatic efficiency and consistency with United States foreign policy." Later that week, the State Department ordered an immediate pause on current and new foreign aid spending, including a stop-work order for existing grants and contracts, pending a review within 85 days (90 days since the issuance of the original EO). In response to a lawsuit by the Aids Vaccine Advocacy Coalition and the Global Health Council, a federal court ruled on February 13th that the Trump Administration must temporarily lift the funding freeze on existing foreign assistance programs. The ruling requires the government

to immediately stop any suspensions or pauses that are preventing the distribution and obligation of foreign assistance funds for contracts, grants, cooperative agreements, loans, or other awards that existed prior to January 19th. In response to the ruling, the Trump Administration largely did not unfreeze aid and continued to terminate programs, claiming the authority to do so.

On February 20th, a federal court extended the temporary restraining order until March 10th and reiterated that the Administration must lift its blanket freeze and resume payments. The judge also ordered the Administration to pay foreign aid contractors and grantees for work performed before February 13th by 11:59 pm February 26th. On February 26th, the Trump Administration asserted it had completed the foreign assistance review, resulting in the termination of 5,800 USAID awards (with 500 USAID awards retained) and 4,100 State Department awards (with 2,700 State Department awards retained), but would not be able to meet the deadline for payments. Late the evening of February 26th, the Supreme Court paused the order to pay by midnight until it could review the case in more detail and required the foreign aid implementers to submit a response by noon on February 28th.

While every administration has the right to conduct a review of spending and programs, the full-scale stop-work order and blanket termination of the vast majority of foreign aid programs is a wrecking ball approach that undermines America's ability to counter adversaries and prevent and reduce conflict and violent extremism. With the nearly complete dismantling of USAID, the State Department will be burdened with advancing both U.S. diplomacy and development, the latter of which is outside its remit. The State Department lacks the administrative capacity, personnel, expertise, and authority to effectively distribute foreign assistance. This chaotic, confusing, and opaque process is completely destroying the ability of the U.S. Government to prevent and address conflict and violent extremism and is making America less safe, less secure, and less prosperous. While reforms could improve the delivery of foreign aid, the new Administration must immediately rescind these orders and terminations and advance a good faith approach to securing America's role in the world and countering adversaries like China.

3. **The freeze on U.S. foreign aid has undermined prevention-oriented laws that are essential mechanisms to counter Chinese influence.**

Freezing all foreign assistance runs afoul of key prevention-oriented laws, such as the Global Fragility Act (GFA), the Women, Peace, and Security (WPS) Act, and the Elie Wiesel Genocide and Atrocities Prevention Act (EWGAPA). The GFA is a game-changing law that provides the State Department, USAID, and the Department of Defense (DoD) with flexible funding and a 10-year mandate to develop and implement an overarching whole-of-government approach to peacebuilding, conflict prevention, foreign assistance, and diplomacy strategies in at least five selected priority countries/regions. The WPS Act seeks to ensure women's meaningful leadership in peace and security processes, facilitate their active participation in efforts to prevent, mitigate, and resolve conflict, and elevate their contributions to post-conflict and disaster reconstruction. EWGAPA, co-sponsored by Senator Rubio, which required a whole-of-government atrocity

prevention strategy, atrocity and conflict prevention training for U.S. foreign service officers in at-risk contexts, and annual report to Congress. These laws are vital vehicles to advance the U.S. interest, forge robust and beneficial partnerships, support complementary programming that promotes burden-sharing between the U.S. and its allies, and make the government more effective and streamlined through their interagency coordinated approaches. Most importantly, halting peacebuilding programs actively benefits China as a U.S. competitor, who will take advantage of the vacuum left by the U.S. to advance its own interests at the cost of the American national interest.

Foreign assistance is a valuable soft diplomacy tool that advances U.S. security interests, costs less than future interventions, is a crucial part of the U.S. economy, and counters China's growing influence in strategic regions of the world. Foreign assistance makes America safer, stronger, and more prosperous.

Bibliography:

- *Court Extends Order Lifting Trump Administration's Foreign Aid Freeze*, Devex, February 21, 2025.
- *Economics of Peace*, Institute for Economics and Peace.
- Elie Wiesel Genocide and Atrocities Prevention Act, January 2019.
- *Global Development in the Era of Great Power Competition*, Center for Strategic & International Studies, March 24, 2022.
- The Global Fragility Act, December 2019.
- *Great-Power Competition*, Oxford Research Encyclopedia of International Studies, January 31, 2023.
- *Great Power Competition and Conflict in Africa*, RAND, July 13, 2023.
- *HDP Nexus and Conflict Sensitivity: Changing the Aid System for Good?*, Swiss Peace, 2023.
- *How China is Pursuing a New World Order Among the Geopolitical Ruins*, Clingendael, February 27, 2024.
- *Inside the U.S.-China Rivalry: Great Power Competition in the Middle East and North Africa*, Carnegie Endowment for International Peace, September 12, 2024.
- *Judge Orders Trump Administration to Unfreeze Existing Aid Programs*, Devex, February 14, 2025.
- *Locally-Led Peacebuilding: From Policy to Action, Alliance for Peacebuilding*, Alliance for Peacebuilding, May 2022.
- *Non-Profits Ask Judge to Hold U.S. Officials in Contempt for Defying Foreign Aid Order*, Reuters, February 19, 2025.
- *Partnerships for Peace: The Global Fragility Act*, CSIS, July 25, 2024.
- *Questions for the Record: Examining Policies to Counter China*, Alliance for Peacebuilding, February 21, 2025.

- *State Department Issues Stop-Work Order on U.S. Aid*, Devex, January 24, 2025.
- *Status Quo No More: How the New Administration Can Prevent and Resolve Conflict*, Alliance for Peacebuilding, December 2024.
- *Territorial Disputes in the South China Sea*, Council on Foreign Relations, September 17, 2024.
- *Trump Administration Hasn't Complied With Order to Halt Foreign Aid Freeze, Judge Says*, NBC, February 20, 2025.
- *Trump Ordered to Temporarily Lift USAID Freeze and Allow Foreign Aid Funding*, The Guardian, February 14, 2025.
- *The United States, China, and the "New Non-Aligned" Countries*, Brookings Institution, February 2023.
- *U.S.-China Relations in 2024: Managing Competition Without Conflict*, CSIS, January 3, 2024.
- *U.S. Exempts Security Funds From Aid Freeze — but Little for Humanitarian Programs*, Reuters, February 21, 2025.
- *The U.S. Needs to Recommit to Conflict Prevention*, Brookings Institution, December 19, 2023.
- Women, Peace, and Security Act, October 2017.

45 Rockefeller Plaza | New York | NY 10111 +1 (646) 428-5382 | cjpa.us



February 27, 2025

Dear Chairman Hill and Ranking Member Waters,

We at CJPA Global Advisors LLC thank you for the opportunity to submit a statement for the record related to the hearing entitled, "**Financial Services Committee Examines Policy Tools to Outcompete China.**"

The issue highlighted here is that the U.S. should focus on strengthening trade and investment relationships with the Latin American and Caribbean (LAC) region, rather than restricting their partners' ability to engage in free trade or establish their own connections. This approach would help the U.S. improve its stance and reputation in the region. The key concern is striking a balance between promoting partnership and avoiding restrictive policies that limit others' autonomy. Please see the following policy recommendations along with articles we at CJPA have made regarding this issue.

1. **Align International Policy Frameworks:** Press institutions like the World Bank to follow models like the Inter-American Development Bank by abandoning per capita income exclusions, thereby broadening support for critical development initiatives and reinforcing U.S. influence in the region.

2. **Empower the DFC, US Export-Import Bank, and others to operate in middle and high-middle-income countries**. Currently, the DFC is restricted from working in Barbados, Bahamas, Panama, Guyana and some Eastern Caribbean countries due to their designated high-income status. It is essential that the US should modify DFC's mandate to allow for more flexibility to work in such countries.

3. **Increase diplomatic presence in the region**. China is more successful diplomatically than the US because the country has permanent embassies stationed in smaller countries such as Dominica or Antigua and Barbuda. Not having embassies in these countries further reinforces the perception that the US does not prioritize the Caribbean. Last year, the US opened a new embassy in the Solomon Islands, recognizing the importance of the small yet strategically important South Pacific islands. US policymakers should do the same with respect to their Caribbean partners or, at minimum, set up pseudo-consulate staffed with just a few Foreign Service Officers. However, according to the same senior CARICOM official, enhancing the American embassy presence in the Caribbean must be done "with purpose" and should appropriately balance optics with the actual benefits to the US and Caribbean nations.

4. **Leveraging Sovereign Loan Guarantees**. Sovereign Loan Guarantees (SLGs)135 are instruments whereby the US government guarantees private lenders that a foreign government's borrowing will be repaid, thereby allowing borrowers to access loans at interest rates nearly as low as those enjoyed by the US. When low- and middle-income countries access international capital, they often are required to pay interest rates significantly above those for established sovereign borrowers like the US. The differences in interest rates applied to different borrowers, or "spread," reflects the risk levels associated with lending to each borrower China's BRI has provided billions of dollars in direct economic support to

45 Rockefeller Plaza | New York | NY 10111 +1 (646) 428-5382 | cjpa.us

governments and government-sponsored entities in developing countries since it was launched in 2013, at a time when just under 4% of US foreign assistance136 went directly to counterpart governments.

5. **US should collaborate with DFI's and support venture capital funds in the Caribbean**. In May of 2024, Jamaica completed its first venture capital fund140, originating from the Boosting Innovation Growth and Entrepreneurship Ecosystem (BIGEE) program – a Government of Jamaica (GOJ) five-year, US$25-million project financed by the IDB, with the DBJ as the sponsoring agency. BIGEE aims to promote sustainable and robust growth among start-ups and micro, small and medium-sized enterprises (MSME) in Jamaica. The program has been supported by a non-reimbursable grant of US$8.2 million from the European Union. The investors in the fund include DBJ, PanAfrican Capital Holdings, Joe Matalon, and the Spaceship Collective, a company owned by Afrobeats global star Burna Boy. By investing in venture capital funds, the US can leverage Jamaica's private capital ecosystem, which already encompasses real estate funds, mezzanine funds, private equity funds (targeting more mature companies than venture capital), an infrastructure fund, and loan funds, among others.

Sources:

- "China's BRI and the US Response: Contest in the Caribbean," by Earl A. Carr Jr. and Leland Lazarus, Hinrich Foundation, 6/11/2024. https://www.hinrichfoundation.com/research/wp/us-china/contest-in-the-caribbean/

- "How U.S. and Chinese Influence In Central America Affects the Panama Canal" by Earl A. Carr, Forbes, 2/18/2025 https://www.forbes.com/sites/earlcarr/2025/02/18/reimagining-us--chinese-influence-in-central-america-critical-implications-for-the-panama-canal/

- "From Trump to Biden and Beyond: Reimagining US-China Relations." Edited Book Volume, by Earl A. Carr Jr., Palgraves Publishing, 2021. https://www.trumptobiden.com/

TRANSPARENCY INTERNATIONAL U.S.
fighting corruption, promoting democracy

Transparency International U.S.
1100 13th St NW
Suite 800
Washington, DC 20005
Tel: +1 (202) 642-1515
info-us@transparency.org
us.transparency.org

February 25, 2025

The Honorable French Hill
Chairman
U.S. House Committee on Financial Services

The Honorable Maxine Waters
Ranking Member
U.S. House Committee on Financial Services

Re: Statement for the Record—"Examining Policies to Counter China"

Dear Chairman Hill and Ranking Member Waters,

On behalf of Transparency International U.S. ("TI US"), thank you for the opportunity to submit for inclusion in the record this statement regarding the Committee's hearing entitled "Examining Policies to Counter China." TI US is part of the largest global coalition dedicated to fighting corruption. With over 115 national chapters worldwide, Transparency International ("TI") partners with businesses, governments, and citizens to promote transparency and to develop and implement effective measures to tackle and deter corruption.

We offer this statement in order to bring attention to the dangers posed by China's use of illicit finance to U.S. public safety, national security, foreign policy, and economic interests, and to urge four actions from this Committee that will protect these interests as well as ensure the integrity of the U.S. financial system—especially ahead of the United States's forthcoming, 2026 country evaluation by the Financial Action Task Force ("FATF").

1. **Support the Trump Administration in its ongoing implementation of the bipartisan Corporate Transparency Act ("CTA").**

The tools provided by the CTA—which the Trump Administration is not only currently implementing via the Treasury Department, but currently defending across multiple lawsuits via the U.S. Department of Justice (DOJ)—present sincere opportunities for the U.S. Government to disrupt China's illicit financial operations. The CTA will end the ability of Chinese criminals to abuse anonymous companies to move, hide, and launder the proceeds of their crimes, by requiring certain companies formed or registered in the U.S. to report their true, or "beneficial", owners to a confidential database housed at the Treasury Department. In 2020, the Center for a New American Security, a leading U.S. national security think tank, determined that requiring such beneficial ownership information "will limit the ability of China to set up anonymous front companies in the United States to purchase U.S. assets or technology and otherwise threaten critical sectors, data, or infrastructure."[1]

Yet the ultimate effectiveness of the CTA continues to depend on whether it is appropriately implemented. We encourage the Committee to work closely with the Trump Treasury Department, and FinCEN in particular, to ensure the full and robust implementation of this law. A failure to do so would not only reopen a key channel for Chinese illicit financial activity into the United States, but leave the U.S.

---

[1] *See* Ely Ratner et al., "Rising to the China Challenge," Center for a New American Security, Jan. 28, 2020, available at https://www.cnas.org/publications/reports/rising-to-the-china-challenge.

vulnerable to a noncompliant determination from FATF, which includes the establishment of a beneficial ownership registry in its recommendations.

2. **Support the Trump Administration in its implementation and enforcement of new anti-money laundering ("AML") rules for the residential real estate and investment adviser sectors.**

The residential real estate and investment adviser sectors remain significant vulnerabilities in our nation's AML framework. Both sectors have long been identified as vulnerable to exploitation by corrupt and other illicit actors seeking to launder funds and evade detection. Corrupt and other criminal actors frequently exploit real estate transactions to obscure the origins of illicit funds, while a lack of appropriate AML requirements for investment advisers have permitted billions in suspect funds to hide in the United States. For example, in January of last year, one of the most prominent Chinese private equity and venture capital firms operating in the U.S. was placed on the annual "Chinese Military Company" list.[2] This is the first time such a prominent investment company has been placed on the list for funding Chinese military development,[3] and can trigger designation by the U.S. Treasury.[4]

With new rules for each sector set to take effect later this year, appropriate implementation and funding for these frameworks will be essential to safeguarding the integrity of the U.S. financial system from Chinese illicit finance as well as to ensuring that the United States can be deemed compliant with the relevant FATF standards.

3. **Provide the Trump Administration with new authorities to crack down on the enablers of Chinese illicit finance.**

Multiple indictments from the DOJ reveal how Chinese criminal organizations have relied on U.S.-based corporate service providers to launder drug proceeds—particularly from fentanyl sales—through U.S. financial networks. For example, the Zheng drug trafficking organization manufactured and shipped deadly fentanyl analogues and 250 other drugs to some 37 U.S. states, with drugs sold by the group directly tied to the fatal overdoses of two people in Ohio.[5] The traffickers used anonymous companies that were formed in Massachusetts as they mailed, repackaged, and redistributed the drugs across the country.[6] And in February 2022, a New York man pled guilty to helping launder over $650 million worth

---

[2] U.S. Department of Defense, "DOD Releases List of People's Republic of China (PRC) Military Companies in Accordance with Section 1260H of the National Defense Authorization Act for Fiscal Year 2021," Jan. 31, 2024, available at https://www.defense.gov/News/Releases/Release/Article/3661985/dod-releases-list-of-peoples-republic-of-china-prc-military-companies-in-accord.

[3] Echo Wong, "China private investment firms face growing U.S. scrutiny, analysts say," Nikkei Asia, Feb. 9, 2024, available at https://asia.nikkei.com/Politics/International-relations/US-China-tensions/China-private-investment-firms-face-growing-U.S.-scrutiny-analysts-say.

[4] Note that, unlike American companies, Chinese-owned companies are required by their government to support the military through their Military-Civil Fusion ("MCF") policy. MCF is the elimination of barriers between the civilian research and commercial sectors and the military and defense industrial sectors, with the goal of developing the People's Liberation Army ("PLA") into a "world-class military" by 2049. *See* U.S. Department of State, "Military-Civil Fusion and the People's Republic of China," available at https://www.state.gov/wp-content/uploads/2020/05/What-is-MCF-One-Pager.pdf.

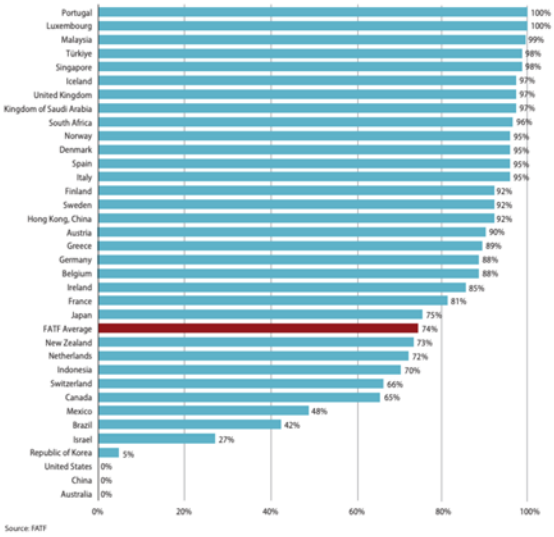
[5] *See* U.S. Department of Justice, "Two Chinese Nationals Charged with Operating Global Opioid and Drug Manufacturing Conspiracy Resulting in Deaths," Aug. 22, 2018, available at https://www.justice.gov/opa/pr/two-chinese-nationals-charged-operating-global-opioid-and-drug-manufacturing-conspiracy; *see also* U.S. Department of Justice, "Fujing Zheng Indictment," Aug. 17, 2018, available at https://www.justice.gov/opa/press-release/file/1089101/download.

[6] *Id.*

of illegal narcotics proceeds through bank accounts associated with shell companies in multiple U.S. states before wiring funds back to entities in China.[7]

The intermediaries—or "gatekeepers" to the U.S. financial system—who provide such financial services to criminal networks, including forming or registering a company, setting up a trust, or managing money, currently have no legal obligation to perform even the most basic AML checks on their clients, including performing basic background checks on those clients, flagging suspicious transactions made by those clients, or even knowing who their corporate clients actually are. Just last summer, the FATF reported that the United States "does not have requirements to cover any of the gatekeeper sectors"—meaning lawyers, accountants, trust and company service providers, and real estate agents—and that "these sectors are required to implement none of the preventive measures that have been required by the FATF Standards since 2023."[8] As a result, the FATF placed the United States below countries such as Saudi Arabia and equal to only China and Australia in having zero-percent compliance.[9]

Figure 1. FATF Members' Scores for FATF's Gatekeeper Recommendations



Source: FATF

---

[7] *See* U.S Department of Justice, "Queens Man Admits Orchestrating $653 Million Money Laundering Conspiracy, Operating Unlicensed Money Transmitting Business, and Bribing Bank Employees," Feb. 22, 2022, available at https://www.justice.gov/usao-nj/pr/queens-man-admits-orchestrating-653-million-money-laundering-conspiracy-operating.

[8] The Financial Action Task Force, "Horizontal Review of Gatekeepers' Technical Compliance Related to Corruption," July 2024, 55, available at https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/HRGTC.pdf.coredownload.inline.pdf.

[9] *See* Transparency International Australia, "Gatekeeper Professions Now Included in Historic Laws to Combat Money Laundering," Nov. 28, 2024, available at https://transparency.org.au/gatekeeper-professions-money-laundering/.

Since then, Australia has adopted comprehensive AML requirements for gatekeepers.[10]

To prevent Chinese criminal networks from abusing our financial system, and to help prevent a forthcoming noncompliant determination by FATF, we strongly encourage the Committee to prioritize passing and implementing a bipartisan measure aimed at finally eliminating these loopholes known as the ENABLERS Act, which was included in last spring's "China Bill" and is supported by the Republican Study Committee.

4. **Provide the Trump Treasury Department, and in particular FinCEN, with adequate resources for combating money laundering and countering the financing of terrorism.**

FinCEN plays a central role in detecting and preventing China's illicit financial activities inside the United States, yet remains chronically and critically underfunded. Strengthening FinCEN's capabilities will be essential to ensuring the effectiveness of the above reforms, and must be a top priority for this Committee.

The threats posed by Chinese illicit finance are severe and growing. Full implementation of the CTA, strong implementation of the forthcoming rules for the residential real estate and investment adviser sectors, providing the Trump Administration with new authorities to crack down on the enablers of crime, and increased resources for FinCEN are all necessary steps in this fight. We urge the Committee to work hand-in-hand with the Trump Administration in accomplishing each.

Thank you for the opportunity to provide these materials. If you have any questions, or for additional information on TI US's work in this regard, please contact Scott Greytak, Director of Advocacy for TI-US, at sgreytak@transprency.org.

Respectfully submitted,

Scott Greytak
Director of Advocacy, Transparency International U.S.

Gary Kalman
Executive Director, Transparency International U.S.

---

[10] *See* Transparency International Australia, "Gatekeeper Professions Now Included in Historic Laws to Combat Money Laundering," Nov. 28, 2024, available at https://transparency.org.au/gatekeeper-professions-money-laundering/.

Center for American Progress
1333 H Street NW, Suite 100E
Washington, DC 20005
202.682.1611
americanprogress.org

February 21, 2025

The Honorable French Hill, Chair
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building Washington, DC 20515

The Honorable Maxine Waters, Ranking Member
Committee on Financial Services
U.S. House of Representatives
4340 O'Neill House Building Washington, DC 20515

Subject: Submission for the Record – Hearing on "Examining Policies to Counter China"

Dear Chair Hill and Ranking Member Waters:

The Center for American Progress appreciates the opportunity to submit this statement and supporting materials for the record for the February 25 hearing titled "Examining Policies to Counter China."

In light of the Committee's plan to assess China's economic practices and their implications for U.S. financial stability, trade, and national security, CAP wishes to bring to the attention of the committee relevant policy analysis and recommendations, drawing from CAP's 2024 report, *A Progressive, Principled, and Pragmatic Approach Toward China Policy*. Please find chapters pertaining to *trade*, *technology*, *military competition*, *and China's actions on the global stage* attached to this letter.

A core thesis of the report is the urgent need for the United States to outcompete China rather than simply slowing its rise. This includes making investments to help the United States win the competition for next generation technologies. We have seen in just a few short years the transformational impact of the Inflation Reduction Act and the CHIPS and Science Act, in terms of catalyzing private sector investment in critical technologies, creating high-paying jobs for Americans and advancing U.S. technological leadership. We need to continue and expand on those successes. Another critical tool in our competition toolkit must be a functional Defense Production Act (DPA).

Finally, one of the United States' most powerful assets in its competition with China is our corps of China experts in government – diplomats, trade negotiators, intelligence analysts, technology experts, and others. The Trump Administration is unilaterally disarming at this moment of acute competition by firing experts and freezing the intake of future talent to our foreign affairs and technical agencies.

Thank you for your leadership in addressing these important issues. CAP appreciates your consideration of our submission and look forward to continued engagement on these critical matters.

Sincerely,
Alan Yu
Senior Vice President, National Security and International Policy
Center for American Progress

Executive Summary: A Progressive, Principled, andPragmatic Approach toward China Policy

Meeting the foreign policy challenge of the 21st century

By Dave Rank, Alan Yu, and Michael Clark

The U.S. relationship with China will be one of this generation's defining foreign policy challenges. A key part of the challenge will be discussing the issues without falling back on simplistic, outdated, or inaccurate generalizations.

There are few historical parallels of great power rivals as deeply integrated as the United States and China. They have the world's two largest economies; they are the world's largest military spenders; and they both are increasingly in competition with each other. As the world's two largest exporters, their two-way trade exceeded $750 billion in 2022, even as commercial ties frayed and (not coincidentally) the multilateral trading system came under deep stress.

Indeed, on issue after issue—from AI to social media and from Taiwan to Ukraine—sharp differences in values and interests create friction between Washington and Beijing. These frictions will play out in how we trade; how our technological ecosystems interact; and how we manage military competition. At the same time, U.S.-China relations cannot and should not be based solely on competition. On a range of critical issues—from climate change to illegal narcotics—cooperation will have tangible benefits for Americans and, often, for people in China and the rest of the world.

The principles behind a sound China policy

Smart U.S. policy toward China needs to be based on principles that align with the interests of people and the values of our system. As Washington formulates our approach to competition with the People's Republic of China (PRC), we should look to policies that are:

- **Progressive:** Our policy should advance the interests of ordinary Americans by improving their opportunities, wages and working conditions and reducing the risk of conflict and military involvement abroad—burdens of which they would disproportionately bear.
- **Principled:** We should have confidence in our values and be forthright in speaking when China violates basic human rights. We should not try—and would fail if we did—to emulate the fear and coercion that are the hallmarks of autocrats. We will succeed by being better Americans, at home and abroad.

- **Pragmatic:** China does many things at home; around the world; and in its relations with the United States that don't align with our values or are contrary to our interests. But the United States has limited time, attention, and money, so we have to focus on the truly vital. No matter its provenance or pedigree, if a policy has not worked, we should do something else.

- **Farsighted:** Our children would not forgive us if our approach to China results in a world devastated by climate change or war; U.S. workers immiserated by a race-to-bottom economics; or American values eroded by racism or undemocratic actions.
- **Collaborative:** Our partners around the world are a major source of American strength. Sustaining that influence requires that we listen to their views, understand their needs, and take into account their concerns.
- **Evidence-based:** The United States should base our policies on facts rather than fear, hope, or ideological assumptions.
- **Humble:** Humility about the limits of American power is a hedge against unsustainable commitments abroad. The United States spent 20 years, a trillion dollars, and more than 2,000 American lives in Afghanistan and had little impact on its direction. We have far less influence on China. The United States brings its strongest influence to itself, so that is where we should focus our energies and our resources.

Recurring themes

The extraordinary breadth of the U.S.-China agenda means policymakers need a wide range of tools to respond. But certain themes run through each of the eight baskets:

- **U.S. work starts at home.** If we are serious about competing with China, we need to get serious about making the investments that will allow us to do so.
- **There is no conflict between strong and smart.** Even as we compete vigorously, we should not seek confrontation. Indeed, preventing conflict should be a major focus of U.S. diplomacy with Beijing.
- **We should be confident in our system.** Our democratic values set us apart from China; make us stronger at home; and more attractive as an ally and partner abroad.
- **Our concern is the behavior of the Chinese government and Communist Party.** As we pursue policies to address Beijing's actions, we must make clear—in word and deed—that our focus is not ordinary Chinese or people of Chinese heritage.
- **We need to talk.** Our preeminent positions in the global economy; the complexity of the issues before us; and the consequential risks of misunderstanding require direct, regular U.S.- China senior-level exchanges by the administration and Congress.

The issues

What follows is not an effort to assess every aspect of the U.S.-China relationship; map out every connection between every issue; or respond to every headline. Instead, it is an attempt to define the overarching challenges we face in eight broad areas: trade, technology, climate change, military competition, Taiwan, human rights, China's role in the world, and a cooperation agenda.

Trade: Decades of U.S. trade diplomacy aimed to right the impacts of China's unfair trade practices have done little to correct the commercial imbalances, which contributed to deindustrialization in the United States and a hollowing of the American middle class.

- China has a long legacy of conducting unfair trade practices such as massive export subsidies and state-sponsored intellectual property theft, as well as illegal activities like its use of forced labor. And we must take those on. But just blaming China obscures the impact of bad

U.S. trade and economic policy decisions over the last several decades.

- We must make transformational investments in the U.S. industrial base and workers, focusing on sectors where we want to establish or maintain global leadership.
- Experience shows that China will not "play fair" or change its ways, so modernized enforcement tools will play a key role in a long-term, strategic competition.

Technology: Technology will be at the heart of U.S.-China competition, as semiconductors, AI, and other technologies reshape our economies and our militaries.

- The U.S. government needs to make transformational domestic investments in key technologies and our tech workforce. In addition, the United States needs tools and other resources to protect our existing advantages in critical technologies.
- The United States needs new general technology regulations and must work with foreign partners to set rules for the digital economy in line with democratic values.

Taiwan: Washington can manage Taiwan Strait tensions, even as China's actions raise risks and concern—through military deterrence; direct engagement with Beijing; and continued diplomatic efforts to pull third countries into the conversation.

- We have an interest in Taiwan's success given its status as a fellow democracy. Its dominance in advanced semiconductors also means we have a significant economic stake in Taiwan's security.
- We should reinforce an equilibrium in which Taiwan improves its resiliency even as Beijing continues to believe there is a long-term path to "reunification." This may leave all sides somewhat dissatisfied, but it is far preferable to the alternative.

- In concrete terms, that means the U.S. government—both the executive branch and Congress—should prioritize effectiveness and impact over symbolism and stunts.

Military competition: China is the only competitor to the United States with the intent and—increasingly—the capacity to reshape the global order. The United States faces the challenge of a rising China from a position of strength, even as China's military grows.

- We can meet the military challenge without increasing the defense budget by capitalizing on existing strengths, spending smarter, and rethinking procurement.
- We must reinforce our alliances—a key security and geopolitical advantage.
- The United States needs to manage risks by maintaining dialogue with China's military, including on emerging issues such as cyber and AI.

Human rights: China's human rights situation has deteriorated markedly under Xi Jinping, even as China touts its "model" of autocratic governance abroad.

- We should shine light on China's human rights abuses—as our values require us to do— while recognizing our influence on how Beijing treats its citizens may be limited.

- We need to push back firmly against the increasing incidence of transnational repression by Chinese officials, particularly when it happens in the United States.
- If the United States does not lead on human rights internationally, we cede the field to Beijing's profoundly different—and illiberal—vision.

China's role in the world: As China's economic power has grown, so has its ambition to shape the global order to its liking. The United States needs to provide (and invest in) an alternative vision and help our allies and partners resist Chinese bad behavior.

- The United States is right to be concerned about China's vision for the world and should push back against a Chinese model that makes people less free; drives up debt in the developing world; and undermines American interests.
- Our alliances multiply our influence and reduce the risk of conflict. We should help our partners resist coercion and strengthen their democratic institutions.
- The United States cannot just warn countries not to borrow from China; we need to offer real alternatives. It is impossible to beat something with nothing.

Climate change: The world will not avoid catastrophic climate change if China and the United States—the world's largest greenhouse gas emitters and technology leaders—do not lead by accelerating climate action. This requires cooperation, even as we compete.

- The United States, with its international political heft, technical expertise, and climate history with China needs to employ all levers to press China for stronger action.

- Policymakers will need to weigh climate, economic, and security benefits and risks of allowing Chinese products in the U.S. clean-energy transition. We need to prioritize the

interests of American workers but full decoupling is not an option given China's dominance over key technologies and supply chains.

- U.S.-China competition can be a positive force if we "race to the top" to meet our domestic—as well as the rest of the world's—clean energy needs.

Cooperation: As the two most consequential countries in the world—and with certain shared interests—the United States should be confident in cooperating with China, especially when it advances U.S. interests, even as we compete in many areas.

- We cannot allow U.S.-China relations to be defined solely by competition. On issues such as stopping the flow of fentanyl and other illegal drugs, we need to cooperate when we can to advance U.S. national interests and the interests of ordinary Americans.
- Cooperating is a way to advance mutual interests—not to do favors for the other. It is against our interests to refuse to cooperate because we disagree with China about many things.

Meeting the central foreign policy challenge of the 21st century will require the United States to be smart and strong, to invest in itself, and to be ready to talk as well as to compete with China. CAP lays out a framework for policymakers and the public to rally around.

Acknowledgements

The authors would like to thank Joanna Lewis, Neysun Mahboubi, Ryan Mulholland, D.L. McNeal, Leo Banks, Will Beaudouin, Emily Benson, Robert Benson, Scott Busby, Jessica Chen Weiss, Vivek Chilukuri, Adam Conner, Courtney Federico, Laura Kilbury, Leland Lazarus, Maggie Lewis, James Millward, Samm Sacks, Megan Shahi, Cecilia Han Springer, Yun Sun, Erica Thomas, Mike Williams, and others for their contributions to this report

Trade: A Progressive, Principled, and Pragmatic Approach toward China

By CAP China working group on Trade

The United States must respond to China's unfair and harmful trade practices—including its use of subsidies, trade barriers, intellectual property (IP) theft, and forced labor. With smart, principled actions, the United States can maximize the benefits of trade with China and position its workers and companies for long-term, strategic success. This starts by making transformational investments in the industrial base, and by modernizing our toolkit to enforce U.S. trade laws more strongly.

Key assessments and recommendations

- Outcompeting China must be part of a broader strategy that draws on offensive and defensive tools to boost U.S. global competitiveness.
- The first order of business is to make transformational investments in the U.S. industrial base and workers. The United States should identify sectors where we want to develop or maintain global leadership and then create a plan to build and secure that leadership.
- The United States cannot expect China to play fair or change its ways. We, therefore, need modern trade policy tools capable of winning a long-term, strategic competition. This includes authorities to manage trade in strategic sectors without the need to demonstrate injury.
- Despite ongoing competition, the United States should always be ready to talk to China about commercial and economic issues. Failure to communicate is a recipe for miscalculation and rising economic conflict, with negative impacts on American workers, manufacturers, and consumers.

Context: China's unfair and harmful trade practices and a U.S. strategic response

China has used nonmarket practices, including subsidies, trade barriers, IP theft, and other illegal activities (e.g., forced labor) to help fuel its rise to become an economic power and the world's leading supplier of manufactured goods. Americans are concerned about China's commercial behavior and want a response. At the same time, while China's trade practices have certainly contributed to the decline in U.S. manufacturing and a hollowing of the middle class, they have also provided a foil that obscures the very real impact of poor U.S. trade policy decisions and a commitment to trickle-down economics that has, too often, failed the American worker. A more

effective trade policy must therefore include more than traditional topics such as tariff rates, sanctions, and purchase commitments. It must prepare our entire economy (and the economies of U.S. partners and allies) for a lasting competition with China that positions our workers, companies, and people to succeed well into the future.

The role of Congress

Congress will have an important role to play in any strategy—both in appropriating funds to invest in American competitiveness and in updating the trade tools needed to respond to Chinese abuses and to manage trade in strategic industries. Perhaps equally important, Congress should avoid an across-the-board import tariff or repeal of permanent normal trade relations (PNTR) for China, either of which would be far too imprecise to compel China to act differently and would merely serve as a tax on working-class American families.

Invest in America: reshore, increase capacity, and lead key industries

The most important way to counter China's abusive trade behavior is to invest in U.S. competitiveness. The CHIPS and Science Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act have spurred investments that have reoriented global production trends in industries such as semiconductors, renewable energy, and electric vehicles, positioning the United States as a leader for years to come. But more is needed. Congress should fund efforts to move manufacturing capacity from adversarial markets to the United States, prioritizing sectors that rely too much on Chinese production and, thus, pose higher risks to U.S. economic resilience. We also should expand programs such as AM Forward, which helps deploy 3D printing in small-and-medium-sized manufacturers, and bolster Manufacturing USA centers by providing them funding to upgrade local manufacturing facilities.

The United States should identify foundational technologies where it wants to create or maintain global leadership; develop a plan to achieve that leadership; and then invest the money needed to succeed. High on that list should be electric vehicles, batteries, green steel, quantum computing, artificial intelligence, and biotech. Each sector-specific plan should include a research and development component as well as measures to ensure that any product developed with the help of federal R&D investments is made in America by U.S. workers. Federal investments in **production facilities should be conditioned on the recipient's commitment to the highest labor** standards, support for a unionized workforce, and ongoing workforce training. In some instances, federal investment in production facilities to support a more resilient, more competitive supply chain in a key strategic industry may be warranted. This could require a change in the locations where Defense Production Act investments can be located as well as a more strategic use of investment resources by the Development Finance Corporation (DFC).

For electric vehicles, it will be important to support U.S. manufacturers in the U.S. market, including by using trade enforcement tools to keep out dumped and illegally produced EVs. This includes working closely with key trading partners to ensure that EVs produced with forced labor or with illegal nonmarket subsidies do not flow through their markets as a backdoor to the United

States. Importantly, in exchange for tariff and other trade protections, Washington must ensure that U.S. auto manufacturers maximize the pace in which they transition to EV production and do not weaken benefits for American workers.

Modernize the trade enforcement toolkit

The United States must increase its determined efforts to counter China's nonmarket practices, use of forced labor, and unfair domestic subsidies. Congress must give federal agencies enforcement tools to move faster; coordinate more effectively with partners and allies; and close loopholes that let Chinese imports skirt enforcement. To start, Congress should close the de minimis loophole that lets imports under $800 avoid inspection, allowing Customs and Border Protection to inspect packages from nonmarket economies that it deems at a significant risk of including products made with forced labor or posing danger to U.S. consumers.

The executive branch also needs new tariff authorities so it can act on behalf of strategic industries without the need to demonstrate injury or the threat of injury. In a long-term, strategic competition with China it may be advantageous to address trade in certain sectors proactively—and, perhaps, by doing more than just leveling the playing field. Congress should also consider updating procedures for petitioners to request trade protection, including by allowing new types of evidence to demonstrate the threat of import competition (such as projections of potential damages) or by allowing firms in the supply chain of a larger original equipment manufacturer to request trade protection if subsidized imports of a finished good will hurt their ability to sell component parts to manufacturers in the U.S. market.

Create a forum to address commercial and trade issues

Dialogue will also be important to reduce the risk of miscalculation. The United States and China both stand to benefit from a strong, efficient global economy. Despite ongoing competition, it will thus be important to find opportunities to work with China on issues like freedom of navigation, high seas commercial piracy, and electronic shipping documentation. The Biden administration should invite a bipartisan group of governors and members of Congress to join an expanded U.S.-China Commercial Issues Working Group, presenting China with a unified front of American interests.

Technology Competition: A Progressive, Principled, and Pragmatic Approach toward China

By CAP China working group on Technology

As the United States competes with China for technology leadership, we must make transformational domestic investments in key technologies and workforce, install proportionate guardrails to protect our national security and current technological edge, and work with partners to set rules that are consistent with our shared democratic values.

Key assessments and recommendations

- As the United States competes with China for tech leadership, we must play both offense and defense. On offense, we need to make transformational domestic investments in key technologies and our tech workforce.
- On defense, we need proportionate guardrails to protect U.S. national security and current advantages in critical technologies. As defensive tools such as export controls play a larger role in managing technology competition with China, the United States will need the personnel and other resources to enforce these policies effectively.
- The United States needs a strong domestic data protection regime and must work with international partners to set rules for the digital economy consistent with democratic values.

Context: U.S.-China technology race: The economic and security imperatives

Technology competition is central to the U.S.-China relationship and has both national security and economic dimensions. Technologies such as semiconductors and artificial intelligence have **the potential to accelerate China's already rapid military moderni**zation and will also drive growth in an increasingly digitized world. The digital economy in the United States accounted for about 10 percent of GDP in 2022, employs approximately 8 million Americans, and is growing far faster than the economy as a whole. While we lead the world in many critical technologies, Chinese companies are increasingly competitive—and in some cases exceed U.S. capacity—in sectors such as clean energy, telecommunications, legacy chips, internet, and e-commerce and payments.

The role of Congress

Congress can set a strategic vision for U.S. technology leadership that invests at home and advances U.S. global leadership in technology development, use, and trade. Congress should adequately fund agencies responsible for advancing U.S. technology leadership and managing competition with China. It should also use its oversight power to ensure executive branch policies, such as export controls, do not cause undue harm to long-term U.S. competitiveness and that U.S. strategy is based on cooperation with allies and partners. The lack of federal data security and privacy law means the European Union and individual U.S. states, primarily California, now set global rules for U.S. tech companies.

Investing in U.S. technology leadership

U.S. technology leadership begins at home. We should continue to invest in critical and emerging technology areas (as we did with the internet and GPS), which create high-paying American jobs. We should enhance supply chain resiliency for critical goods—for which we need uninterrupted supply—by capitalizing on our existing strengths, including our unique innovation ecosystem and drawing on successes and lessons of the CHIPS and Science Act and Inflation Reduction Act (IRA). Clean energy and chips have been the focus of investments to date; we need similar R&D investments in biotech; public AI infrastructure (i.e., computational, data, software, model, and training resources available to the public); and quantum technologies.

Building a technology workforce

A skilled workforce is essential to U.S. leadership, but we suffer from chronic shortages of workers prepared for technology careers. U.S. STEM scores consistently rank far below those of other advanced democracies. Our priority must be to invest in education at all levels, including training and registered apprenticeship programs; partnering with industry to develop specific critical skills; and building stronger education-industry pipelines in critical sectors. We also need to modernize our immigration system so we can continue to attract highly skilled workers and retain those educated here to grow our economy instead of sending their talents overseas to compete with us.

Protecting U.S. technologies

The United States leads in "force multiplier" fields such as semiconductors, AI, and quantum information systems that give us an edge in other critical technologies as well. U.S. policy is to maintain as large a lead as possible in these technologies, given the difficulty in distinguishing between their civilian and military applications. The corollary concern is that any advance of

China's capabilities in these areas is a de facto national security threat even if they may also have commercial benefits. The new approach has been seen most notably in the administration's effort to freeze China's advances in chips, AI, and supercomputing. These measures can only delay China's advances—for example, see Huawei's release of a phone using an advanced chip produced by a Chinese chip manufacturer. We need to support U.S. research in these areas to maintain our lead.

Improving defensive tools, such as export controls, will not help if we do not have the personnel and systems to implement them. Congress needs to boost U.S. export control capabilities. The budget for the Commerce Department's Bureau of Industry and Security, which administers export controls, has remained flat in real terms for over a decade, even as the export control workload has boomed in response to China's rise and Russia's invasion of Ukraine.

The United States cannot—and should not try to—degrade Chinese capacity in less advanced technologies. Doing so would alienate us from international partners, whose cooperation we need to meet the China challenge and would have minimal effect on Chinese capabilities. Instead, for lagging technologies such as legacy chips, we will need policies to ensure that we do not let those products enter into sensitive applications in the U.S. market (i.e., in critical infrastructure) and that we have a secure, diversified source of supply from other producers.

Creating a high-standard regulatory environment

Global technology leadership will require smart, nimble regulatory frameworks, in addition to private sector innovation and public sector investments. The United States has had an overly permissive approach to technology regulation, even as the wide range of harms of the internet-based economy have become evident, from data (in)security; (the lack of) data privacy; (minimal) online safety; harmful impacts on civil rights, workers and economic concentration; and widespread misinformation and disinformation. CAP outlines a roadmap for Congress to address these well-known issues and create a regulatory framework that can nimbly address concerns from generative AI or other online services.

While TikTok has dominated the data security debate, restricting one foreign-owned social media app in the U.S. market is insufficient to address broader concerns over foreign-owned apps or general abuses from digital platforms. Among other things, the United States needs comprehensive frameworks for data privacy to let individuals control how their data is collected and used; data security to prevent adversary actors from exploiting bulk data; and adequate tools and policies to identify malign content manipulation and determine how best to respond. A February 2024 executive order (EO) proposed the first-ever limits on the collection and sale of bulk amounts of sensitive personal data on U.S. persons to countries of concern (e.g., China). Although a step in the right direction, the EO does not affect privacy outside of its narrow

construction and is not a substitute for data privacy legislation or regulation. Congress should codify the EO and address data privacy issues.

The United States should lead in setting rules of the road for the digital economy, including cross-border trade in digital goods and services. Digital trade agreements are an opportunity to set global digital trade rules that are consistent with U.S. interests and values and that advance core progressive issues such as online safety and consumer protection. A U.S. digital trade strategy should balance the economic benefits of open data flows with the need for data security.

AI safety and stability

Frontier AI systems, such as ChatGPT, are increasingly able to mimic certain aspects of human cognition. While the transformative potential of these systems may lead to innovation across the technology landscape, they already show potential for harm across a range of areas such as democracy and election administration, civil rights, and labor protections. Mitigating such risks requires cooperation from governments across the world. The United States and China are far and away the leaders in AI research, and we need to work together bilaterally and multilaterally. One concrete opportunity would be to build off of the work begun with the 2023 Bletchley Declaration by Countries Attending the AI Safety Summit—to develop norms to address the harms already emerging from the use of these systems and to avoid catastrophic risk. CAP recommends **numerous policy solutions to harness AI's societal benefits while simultaneously** mitigating its risks.

Clean energy technologies

Ambitious investments in clean energy tech and manufacturing are essential to balancing derisking and the urgent need for climate action. We should continue to strive to maintain a diversity of clean energy sources, transition quickly to U.S. or friendly sources of supply, and avoid creating a new dependency on China. But meeting our climate transition goal will require using some Chinese clean energy technologies in the U.S. domestic market, at least in the near term. However, we should not accept Chinese technologies when doing so would endanger national security or the domestic economy. We also must remain focused on addressing nonmarket practices that lead to oversupply of Chinese clean energy technologies.

Biotechnology

Breakthroughs in gene sequencing, biological engineering, and more could soon transform everything from medicine and manufacturing to the food, fuel, and fibers we use every day.

Securing U.S. biotechnology leadership requires a systemic approach, including robust public and private investment to scale a domestic biomanufacturing base, streamlined regulation from the Departments of Agriculture, Health and Human Services, and the Food and Drug Administration, and reforms to allow researchers and innovators to better tap U.S. biodata while protecting privacy and civil rights. The United States should also seek to lead the international debate about ethical biotechnology development and applications.

Military Competition: A Progressive, Principled, and Pragmatic Approach toward China Policy

By CAP China working group on Military Competition

The United States can meet the China military challenge by capitalizing on existing strengths, spending smarter, and reinforcing our alliances – not increasing the defense budget.

Key assessments and recommendations

- China has demonstrated its commitment to long-term military competition with the United States through its defense spending, military operations, and official statements from its leaders.
- The U.S. response should be measured, confident, and fiscally sustainable, building on our significant existing advantages to deter conflict and avoid a costly and wasteful arms race.
- Washington does not need to increase defense spending to meet the challenge; the United States can sustain our military advantage by purposefully getting our house in order. That means fiscal discipline through streamlined appropriations and procurement and enhancing efforts to revamp the defense industrial base and drive strategic innovation.
- Eliminating inefficiencies that hinder readiness and strategic investments will empower the Pentagon to be more targeted and resourceful in fostering rapid, scalable, and sustainable innovation; and promoting advanced manufacturing.
- The United States should continuously reinforce our alliances—a key security and geopolitical advantage—by enhancing cooperation; sharing the costs of defense investments; and more deeply integrating our defense industrial supply chains.
- **At the same time, the United States needs to maintain dialogue with the People's Liberation** Army (PLA)—particularly on topics such as maritime, space, cyber, nuclear, and AI—to reduce the risk of miscalculation or unintended conflict.

Context: The China military challenge

China is the only competitor to the United States with the intent and, increasingly, the capacity to **reshape the international order. China's defense budget has grown on average by 7.5 percent a** year over the past decade, totaling $233 billion in 2024. **In fact, this figure understates Beijing's** spending, as that core budget figure does not include its space program, provincial military base

operations, dual use R&D, and certain other costs. Moreover, while the United States has global commitments, China concentrates its military capabilities in the Indo-Pacific.

Nonetheless, the United States faces this challenge from a position of strength. Our armed forces are better equipped, better led, more experienced, and are strengthened further by alliances throughout the Indo-Pacific and globally. Even with China's rapid spending hikes, the U.S. defense budget remains more than double China's—both in absolute spending and as a percentage of GDP.

At stake is the post-WWII security architecture that has enabled the region's extraordinary economic growth, benefiting the United States; its allies and partners; as well as China itself. More concretely, China's efforts to dominate the South China Sea would give it control over a strategic waterway through which a substantial amount of global trade passes. Its nuclear buildup creates the prospect of a new arms race.

The role of Congress

Congress and the Biden administration agree on the China challenge. However, they now need to act on this consensus by prioritizing and redirecting defense resources strategically and efficiently to sustain long-term competition. Policymakers can do this even in a constrained budget environment. A critical prerequisite is to return to the normal appropriations cycle. This means moving away from continuing resolutions, which lead to uncertainties and inefficiencies that undermine readiness and complicate timely and strategic investments in our defense capabilities.

Another key part of preparing to compete with China is improving the Pentagon's financial management and efficiency, which can then give policymakers the information required and clarity to decide where, when and how to allocate resources and make investments. To ensure accountability, Congress must demand full, transparent audits of the Pentagon's budget. The Department of Defense's failure to pass its annual audit for six consecutive years underscores the urgent need for Congress to pass the Audit the Pentagon Act of 2023, which enjoys bipartisan support.

Reshaping defense thinking

The United States holds a military edge over China in various areas but relying solely on long-standing advantages will not guarantee long-term peace and stability. We need to invest in practical battlefield technology and revamp our advanced manufacturing sector to build a defense ecosystem that can adapt to evolving military challenges; remain resilient and adaptable; pursue innovative and affordable solutions; and deter adversaries without escalating tensions. This vision would also signify a commitment to revitalizing the U.S. advanced manufacturing sector and its workforce.

A prime example of this new approach is the Replicator Initiative, which emphasizes leveraging American technological innovation to maintain military superiority over our adversaries. This initiative focuses on deploying relatively low-cost, expendable autonomous systems such as drones. The Pentagon has faced challenges in rolling out, scaling production, and integrating these promising systems into the existing military structure, thus demonstrating the complexity of adopting new ideas and innovating on a large scale.

The Russia-Ukraine conflict illustrates a practical application of this approach—one that has direct implications for the situation in the South China Sea. In the Black Sea, relatively cheap Ukrainian drones have rendered much of the Russian fleet inoperable. We should apply this lesson to the South China Sea, where U.S. and Chinese maritime interests intersect and our fleets interact most directly. Rather than race to ensure that the U.S. Navy has more ships than the PLA Navy (an exercise that would be costly and risky, and that fails to take into account our advantages in terms of the size, sophistication, and armaments or the number of vessels our allies and partners could field), we should look for lower-cost ways to make clear to Beijing the futility of an expensive ship building spree.

Rebuilding our defense workforce

A key aspect of this endeavor is to position the defense industrial sector as a center for innovation and societal advancement accessible to all Americans. Investing in a skilled defense workforce presents an opportunity to engage and recruit a new generation of workers, and to retrain and upskill individuals from traditional manufacturing backgrounds, including those transitioning from the fossil fuel industry, veterans, and recent graduates. Congress can help by supporting and funding new regional defense innovation hubs and enhancing university science and technology programs.

Washington should prioritize projects in economically disadvantaged areas and foster partnerships with community colleges, historically Black colleges and universities, Hispanic serving institutions, and other minority serving institutions to ensure equitable reach of these **initiatives, tap new innovative partners, and build resiliency in the Pentagon's partner pool. This** approach assures that the benefits of defense spending are shared widely.

Reassuring our allies and partners

The U.S. approach to military competition with China must prioritize our alliances and partnerships. Countries such as Japan, South Korea, Australia (both bilaterally and through AUKUS), the Philippines, and others share our values and our concerns about the increasingly assertive PLA. The March 2024 renewal of funding for the Compact of Free Association—which has been the cornerstone of the U.S. presence in the Pacific for almost half a century—was a welcome and important signal to our Pacific allies.

China may perceive these partnerships as part of a containment strategy, but they need not be provocative to be effective. Joint military exercises play a significant role, but less conspicuous

efforts to bolster defense cooperation and interoperability; integrate regional defense industries; broaden access to defense technologies; and improve logistical support frameworks are also vital. Our partners also share responsibility to uphold these relationships, contribute to mutual defense efforts, support the defense industrial base, and invest in innovation and procurement.

Regularizing U.S.-China military-to-military dialogue

Increased military competition makes it even more important that the U.S. and Chinese militaries talk, to manage tensions as they operate in close proximity, prevent miscommunication, and avert conflicts. The United States and China also need to put in place rules to manage disagreements in areas such as maritime, space, cyber, nuclear, and AI. This is not just a bilateral issue; countries around the world would be affected by conflict and so expect the United States to engage in continuous, constructive dialogue.

Thus, China's use of military dialogue as leverage—halting talks to signal displeasure or attempting to influence U.S. policies, such as arms sales to Taiwan—may score tactical points but raises the risk of miscommunication and misunderstanding and undermines its reputation globally. Similarly, calling Beijing out when it shuts down communication channels is not just the responsible thing to do—it also bolsters the U.S. image as a responsible actor.

China's Actions on the Global Stage: A Progressive, Principled, and Pragmatic Approach

By CAP China working group on China on the Global Stage

The United States must push back against China's growing and—often problematic—role in global affairs by drawing on the strength of our democratic system, offering real alternatives, and countering a model that makes people less free, drives up debt in the developing world, and undermines American interests.

Key assessments and recommendations

- **The United States' global network of alliances multiplies our influence and reduces the risk** of conflict. As part of that effort, the United States must help our partners resist coercion and strengthen democratic institutions.
- Washington must offer a positive partnership that allies and partners can rely on, including when they face PRC economic coercion, cyberattacks or malicious influence efforts.
- **You can't beat something with nothing. The United States cannot just warn countries not to** borrow from China; we have to offer real alternatives.
- If we want international organizations to reflect U.S. values and protect U.S. interests, Washington needs to offer real solutions to update and modernize them in a way that meets the needs of workers and the environment. We then have to invest the high-level attention, and in the people, needed to make those reforms happen.

Context: A picture of China's growing global influence

China's economic growth and increased assertiveness abroad under President Xi Jinping challenge U.S.—and global—security and prosperity. Beijing is expanding its global influence by courting the Global South and playing an increasingly active role in multilateral organizations. China has lent more than $1.3 trillion to developing countries since 2015, largely to finance infrastructure. In recent years, however, questionable loans and political blowback have led Beijing to scale back its ambitions. Meanwhile, the United States spends less than 0.2 percent of GDP and less than 1 percent of the federal budget on U.S. foreign assistance—far less than almost any other wealthy nation.

The role of Congress

No partner will have confidence in U.S. assurances in the face of autocracy if Congress does not sustain support for Ukraine. Less immediately, providing an alternative to PRC financing—and thus Beijing's influence—requires continued congressional support for U.S. development entities such as the Development Finance Corporation and USAID. More generally, it is important that influential voices in Congress make the case for increased U.S. international diplomatic leadership, including a robust development finance and assistance strategy. Congress can also push to increase State Department funding to expand U.S. leadership in multilateral organizations, where China is waging a long-term strategy to change global norms and standards in line with its interests in such areas as telecommunications, law enforcement cooperation, and human rights.

The role of partners and allies

When the United States looks around, it sees partners, allies, and friends. However, for China, its neighbors are a collection of rivals, nervous hedgers, wobbly quasi-clients. The United States' global network of alliances and partnerships is an extraordinary asset and the collective security they provide has made the world—and the United States—safer, more secure, and more prosperous. But these relationships need constant tending, particularly given efforts by isolationist Republicans to undermine them. The most urgent need is to support Ukraine. Partners, particularly in the Indo-Pacific, would see a Washington failure to help Kyiv as a sign they cannot rely on the United States and could embolden China, notably since Xi Jinping and Vladimir Putin announced their "no limits partnership" on the eve of Russia's 2022 invasion of Ukraine.

China's malign cyber operations

China is home to a cesspool of malicious cyber actors, including government agencies; hacker groups with government ties; as well as a purely criminal element that target U.S. critical infrastructure and support Chinese influence and misinformation efforts at home and abroad. The United States needs to harden its own infrastructure, work with the private sector to help it protect itself; and expand intelligence cooperation with other countries that have been targets of attacks emanating from China.

PRC economic coercion

The PRC frequently puts pressure on foreign governments with which it disagrees by restricting access to its market; manipulating supply chain vulnerabilities; and targeting private companies from the "offending" country that are operating in China. The United States must continue in earnest its work with partners to reduce supply chain dependencies on China; identify vulnerabilities; and address bottlenecks before they lead to economic disruption. The Indo-Pacific Economic Framework Supply Chain Crisis Response Network demonstrates how the United States and its partners can communicate and respond faster to crises, including Chinese economic coercion.

U.S.-China competition on development assistance leadership

China has made massive infrastructure investments in the developing world, drawing on both expertise built over decades and a network of state-owned banks and construction companies. This Belt and Road Initiative (BRI) has led to a host of problems: over-leveraging some countries, delivering substandard work with limited developmental impact, and nontransparent processes. Perhaps most pernicious, Beijing's authoritarian surveillance model has found eager customers among aspiring dictators.

However, it is a mistake to dismiss the BRI as simply "debt trap diplomacy," particularly since recipient country officials and citizens often note that Chinese money is the only game in town. With the world facing at least an $18 trillion infrastructure financing gap, warnings of Chinese commercial behavior are pointless—if not patronizing—until the United States and its partners can offer a competitive alternative. The Partnership for Global Infrastructure Investment (PGI)—which seeks to mobilize $200 billion for infrastructure investment in low- and middle-income countries by 2027—is a step in the right direction but will need sustained commitment; significantly higher funding levels; and continued senior-level attention to succeed.

China and the Global South

Beijing depicts itself as the defender of the developing world, standing up to a so-called U.S.-led club of former imperial powers. China's leaders have convened and expanded groups of non-Western countries such as BRICS (Brazil, Russia, India, China, and South Africa) and, since October 7, worked to contrast U.S. policy toward Israel with what they characterize as China's peaceful approach to foreign relations. Still, developing-world views of the United States have mainly improved under President Biden, despite widespread disapproval of the Netanyahu government's military actions in Gaza and deep concerns about the possibility of a second Trump administration. Moreover, there are upper limits to China's appeal, given—among other reasons—Beijing's role in stymieing progress on developing world debt relief; its largely extractive approach to trade; and its track record of using economic coercion in political disputes.

The United Nations and other multilateral organizations

U.S. diplomatic resources have not kept pace with the growth of China's ambitions to be the dominant player in multilateral organizations, particularly the U.N. For example, PRC nationals lead four of the 15 U.N. specialized agencies—including those responsible for agricultural policy, international telecommunications, and civil aviation—all of which are critical U.S. national-interest issue areas. In contrast, U.S. citizens lead three and the United States is a member of only 12 of the 15. At lower, working levels, the disparities are, if anything, even more stark. China's delegations dwarf those of the United States and any other country at conferences and meetings that set myriad rules that guide how governments, business, scientists, and others routinely interact. The United States cannot compete if it is not in the room—and it cannot be in

the room unless the State Department has funds to staff these roles and Congress presses to make it a priority.

Written Statement of

Celina B. Realuyo[1]
Adjunct Professor
The George Washington University Elliott School of International Affairs

on

U.S. Efforts to Counter Illicit Fentanyl Trafficking and Related Money Laundering by the People's Republic of China

at a Hearing on

"Examining Policies to Counter China"

before the

U.S. House of Representatives Financial Services Committee

February 25, 2025

[1] The views expressed in this testimony are that of the author and do not necessarily reflect the views of the George Washington University, William J. Perry Center for Hemispheric Defense Studies, National Defense University, or the Department of Defense.

Introduction

Thank you Chairman Hill, Ranking Member Waters, and members of the House Financial Services Committee for the opportunity to testify today on "U.S. efforts to Counter Illicit Fentanyl Trafficking and Related Money Laundering by the People's Republic of China" at this hearing on "Examining Policies to Counter China."

The People's Republic of China (PRC) is the United States' most consequential opponent and pacing challenge and projects its influence through the diplomatic, military, information, cyber, and economic instruments of national power. On the economic front, China has been engaged in aggressive investment and commercial projects to secure new markets, access strategic resources like critical minerals and develop critical infrastructure like ports, the Panama Canal and 5G networks to expand their global Belt and Road Initiative across the world.

Today, I would like to focus on another economic activity - China's role in the illicit fentanyl trade with the Mexican cartels and China's increasing involvement in money laundering. As I have testified before Congress on previous occasions, I believe that the PRC and the Mexican cartels are waging an asymmetrical war against the U.S. through the drug trade, killing thousands of Americans and consuming vast public and private sector resources in the prevention, treatment and supply interdiction aspects of drug addiction. In 2023, a majority of the more than 100,000 annual drug overdose deaths in the U.S. were attributed to illicit fentanyl, supplied by Mexican transnational criminal organizations with China as the primary source for illicit fentanyl, precursor chemicals and pill pressing equipment.[2] Sadly, drug overdoses continue to be the leading cause of death of Americans aged 18-45.

This testimony will examine the role of the PRC in the illicit fentanyl trade on the supply side of the enterprise and the laundering of proceeds for the Mexican cartels, describe recent U.S. measures taken to interdict fentanyl flows and designate, sanction and bring to justice Chinese and Mexican drug traffickers and financiers and offer

[2] Office of the Director of Intelligence, 2024 Annual Threat Assessment, p.36, https://www.odni.gov/files/ODNI/documents/assessments/ATA-2024-Unclassified-Report.pdf

recommendations to further counter the role of the PRC in the flows of illicit fentanyl into the U.S. and related money laundering.

The Role of China in the Illicit Fentanyl Trade

China has played a central role in the global fentanyl epidemic, primarily as the supplier of fentanyl and precursor chemicals used by Mexican transnational criminal organizations to manufacture illicit fentanyl that ends up in the U.S. While the PRC has taken some actions to curb illicit fentanyl trafficking, Chinese chemical companies, underground banking networks, and shipping operations remain deeply involved in the fentanyl trade.

China is the principal source country of illicit fentanyl and fentanyl-related compounds in the U.S., according to U.S. Customs and Border Protection. Fentanyl analogs and precursor chemicals used to make fentanyl are illicitly manufactured in Chinese labs and then sold on the Darknet and shipped in bulk to the U.S. and Mexico. After the Mexican government cracked down on poppy cultivation and heroin production, the Mexican cartels shifted from producing heroin to synthetic drugs like fentanyl and methamphetamine, which are easier and cheaper to manufacture and far more profitable than plant-based drugs. The PRC-Mexican cartel connection grew when Chinese traffickers increased fentanyl precursor sales to Mexican cartels that established networks of manufacturing plants, or "pill mills" of synthetic drugs.[3]

The DEA estimates that a kilogram (about 2.2 pounds) of powdered fentanyl from China can fetch a few thousand dollars, and if the powders are transformed into hundreds of thousands of counterfeit pills, it can bring in millions of dollars of profits through street sales, making fentanyl one of the most profitable illicit drugs. It costs about $0.30 to manufacture a fentanyl-laced pill in a laboratory in Mexico that can fetch up to $20 on the streets of New York. Fentanyl trafficking into the United States generally follows one of two pathways:

---

[3] Lauren Greenwood and Kevin Fashola, "Illicit Fentanyl from China: An Evolving Global Operation" U.S.-China Economic and Security Review Commission, August 21, 2012, https://www.politico.com/f/?id=0000017e-7dee-d8d6-a3fe-ffef55460004

1. direct purchase of fentanyl from China by U.S. individuals for personal consumption or domestic distribution and
2. cross-border trafficking of fentanyl and fentanyl-laced drugs from Mexico by transnational criminal organizations and smaller criminal networks. [4]

The PRC has been accused of weaponizing and capitalizing on the fentanyl crisis in the U.S. as the supplier of chemicals to the Mexican cartels and as the preferred money launderers for these transnational criminal organizations. The Chinese criminal networks are profiting from the illicit fentanyl business cycle, generating income from the export of fentanyl and precursor chemicals to the Mexican cartels at the front end of the business and then earning a percentage by laundering the drug proceeds for the cartels at the back end. As such, the PRC remains on the U.S. list of "Major Drug Transit or Major Illicit Drug Producing Countries" per Presidential Determination that identifies countries that are a significant direct source of precursor chemicals used in the production of certain drugs and substances significantly affecting the United States.[5]

In April 2024, the Select Committee on the China Communist Party published its report on "The CCP's Role in the Fentanyl Crisis" that determined the PRC government, under the control of the CCP:

1. Directly subsidizes and incentivizes the manufacturing and export of illicit fentanyl materials and other synthetic narcotics through tax rebates. Many of these substances are illegal under the PRC's own laws and have no known legal use worldwide.
2. Gave monetary grants and awards to companies openly trafficking illicit fentanyl materials and other synthetic narcotics.
3. Holds ownership interest in several PRC companies tied to drug trafficking.
4. Fails to prosecute fentanyl and precursor manufacturers. Rather than investigating drug traffickers, PRC security services have not cooperated with U.S. law

[4] FinCEN Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids, August 21, 2019, https://www.fincen.gov/sites/default/files/advisory/2019-08-21/Fentanyl%20Advisory%20FINAL%20508.pdf

[5] Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2025 Memorandum for the Secretary of State, September 15, 2024, https://www.federalregister.gov/documents/2024/09/24/2024-21951/presidential-determination-on-major-drug-transit-or-major-illicit-drug-producing-countries-for

enforcement and have even notified targets of U.S. investigations when they received requests for assistance.

5. Allows the open sale of fentanyl precursors and other illicit materials on the extensively monitored and controlled PRC internet. A review of just seven e-commerce sites found over 31,000 instances of PRC companies selling illicit chemicals with obvious ties to drug trafficking. Undercover communications with PRC drug trafficking companies (whose identities were provided to U.S. law enforcement) revealed an eagerness to engage in clearly illicit drug sales with no fear of reprisal.
6. Strategically and economically benefits from the fentanyl crisis. The fentanyl crisis has helped CCP-tied Chinese organized criminal groups become the world's premier money launderers, enriched the PRC's chemical industry, and had a devastating impact on Americans.[6]

These findings by the Select Committee underscore the need to understand the threat from China and devise strategies and policies to counter PRC involvement in illicit fentanyl flows and the laundering of drug proceeds.

Chinese Money Laundering Methods Related to the Fentanyl Trade

The People's Republic of China (PRC) is a global hub for money laundering. The U.S. government estimates at least $154 billion in illicit proceeds move through the PRC annually.[7] Over the past five years, Chinese money laundering rings have been increasingly moving the drug proceeds of the Mexican cartels earned in the U.S. Since China's financial regulators limit private individuals from handling more than $50,000 in foreign currency, there is massive Chinese demand for U.S. dollars. This pent-up demand

[6] The Select Committee on the Strategic Competition between the United States and the Chinese Communist Party, "The CCP's Role in the Fentanyl Crisis," April, 16, 2924, https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/The%20CCP%27s%20Role%20in%20the%20Fentanyl%20Crisis%204.16.24%20%281%29.pdf

[7] United States Department of State Bureau for International Narcotics and Law Enforcement Affairs International Narcotics Control Strategy Report Volume 2: Money Laundering, March 2024, https://www.state.gov/wp-content/uploads/2025/01/2024-INCSR-Vol-2-Money-Laundering-Accessible-Version.pdf

for dollars from China and the cartels' need to unload U.S. dollar proceeds creates this unholy alliance between Chinese money launderers and the Mexican cartels. They engage in a broad spectrum of mechanisms to move and obfuscate the origins of drug proceeds such as bulk cash smuggling, trade-based money laundering, mirror swaps, cryptocurrencies like Bitcoin and Tether, digital payment platforms like WeChat Pay and Alipay, shell companies and real estate.

In February 2020, the U.S. Department of the Treasury described Chinese money launderers as "key threats" and vulnerabilities in the U.S. financial system. A December 2020 Reuters investigation found Chinese money launderers have come to dominate the international money laundering market. In April 2021, the Department of Justice reported that three individuals pleaded guilty to their involvement in a conspiracy to launder at least $30 million of drug proceeds combined throughout the U.S. on behalf of foreign drug trafficking organizations, including Mexico's Sinaloa Cartel. These guilty pleas are the result of a nearly four-year investigation into the relationship between foreign drug trafficking organizations and Asian money laundering networks in the United States, China, Mexico, and elsewhere. The defendants converted drug proceeds into Chinese and Mexican currency through a variety of methods, including "mirror swaps" in which financial transactions in the U.S. are used to trigger the release of equivalent funds into bank accounts in China, with those funds then being used to purchase Chinese goods that are subsequently sold by merchants in Latin American countries, including Mexico.[8]

How does this money laundering scheme work? The Mexican cartels operatives in the U.S. provide the U.S. dollars they received from selling fentanyl to a broker working for a Chinese money-laundering ring in the U.S. Through the Chinese messaging app We Chat, the brokers advertise the cash to people in China who could use the money on U.S. soil like for real estate. Once a Chinese buyer of the U.S. dollars is identified that person transfers the equivalent in Chinese yuan, plus a hefty commission, to a bank account in China belonging to the money launderers. The Chinese customer then receives access to the cash bought in the U.S. The cartel's money, now clean, is sitting in the

[8] U.S. Department of Justice, April 14, 2021 Press Release, Three Members of Transnational Money Laundering Network Pleaded Guilty to Aiding Foreign Drug Trafficking Organizations, https://www.justice.gov/usao-edva/pr/three-members-transnational-money-laundering-network-pleaded-guilty-aiding-foreign-drug

Chinese money broker's bank account in China. The money can then get back to the cartel in a couple of ways. It can be used to buy fentanyl precursors for the cartel, starting the cycle again. Or, the yuan can be used to buy Chinese manufactured goods that are then shipped to Mexico and sold for pesos, which are then handed to the cartels for a fee.[9]

In June 2024, the Department of Justice indicted 24 defendants implicated in a multi-year investigation by the DEA known as "Operation Fortune Runner" that uncovered a partnership between Sinaloa Cartel associates and a Chinese criminal syndicate operating in Los Angeles. This investigation determined that the Sinaloa Cartel laundered more than $50 million in drug proceeds through Chinese underground money exchanges.[10] Lead defendant Edgar Joel Martinez-Reyes and others allegedly used established techniques, including trade-based money laundering, "structuring" assets to avoid federal financial reporting requirements, and the purchase of cryptocurrency, to repatriate the funds to Mexico for the cartel.[11] Following DOJ's announcement, China and Mexico took law enforcement actions to arrest fugitives named in the indictment who had fled the United States.

The Mexican cartels have turned to Chinese money launderers because they are much more efficient and charge far less for their services, and the Chinese desperately need access to U.S. dollar hard currency. For years, the Mexican cartels that supply the U.S. market with cocaine, heroin and fentanyl smuggled truckloads of bulk cash to Mexico, where they used banks and exchange houses to move the money into the formal financial system. They also employed middlemen, often Colombian or Lebanese specialists who charged as much as 18% commission, to launder their billions.[12] Those methods were costly, time consuming and exposed the stockpiled cash to risks like

---

[9] Patricia Kowsmann, Dylan Tokar and Brian Spegele, "How Dirty Money From Fentanyl Sales Is Flowing Through China," *Wall Street Journal*, February 18, 2025, https://www.wsj.com/world/china/china-fentanyl-trade-network-9685fde2?mod=hp_lead_pos5

[10] Department of Justice Press Release, Federal Indictment Alleges Alliance Between Sinaloa Cartel and Money Launderers Linked to Chinese Underground Banking, June 18, 2024, https://www.justice.gov/archives/opa/pr/federal-indictment-alleges-alliance-between-sinaloa-cartel-and-money-launderers-linked

[11] Institute for Financial Integrity, "Collaboration Between Chinese Money Laundering Organizations & Drug Cartels: A Growing Threat to the Global Financial System," August 28, 2024, https://finintegrity.org/collaboration-between-chinese-money-laundering-organizations-drug-cartels/

[12] Sebastian Rotella and Kirsten Berg, "How a Chinese American Gangster Transformed Money Laundering for Drug Cartels," *ProPublica*, October 11, 2022, https://www.propublica.org/article/china-cartels-xizhi-li-money-laundering

damage, robbery, confiscation. Therefore, Chinese criminal networks are now the preferred money launderers for drug proceeds. Chinese money laundering schemes offer a mechanism for Mexican cartels to access profits while limiting exposure and risk. Chinese money launderers leverage encrypted mobile communications apps like WeChat Pay and Ali Pay to move vast sums of money from the United States to China then back to Mexico with great speed, discretion and efficiency.[13] As the drug trade and money laundering becomes increasingly digitalized, governments will need to build capacity to follow the money trail and digital footprints to detect, dismantle and deter illicit fentanyl trafficking and money laundering networks.

Recent Developments in U.S. Efforts to Counter the Fentanyl Epidemic

Over the past year, there have been important developments in curbing illicit fentanyl flows from China and Mexico on the interdiction, law enforcement, sanctions and international fronts. According to the Department of Homeland Security (DHS), the U.S. government has been busy breaking up drug cartels and disrupting illicit supply chains globally; intercepting drugs and chemicals at our borders and ports of entry; keeping fentanyl out of our communities through state and local partnerships; and identifying and deploying new technology to fight fentanyl.[14] On the interdiction front, DHS reported 21,889 pounds of fentanyl seized by U.S. Customs and Border Patrol (CBP), the equivalent of 1.1B doses, valued at $55.4M in 1,116 seizure events in fiscal year 2024.[15]

For the first time since 2018, the United States has seen a decrease in drug overdose deaths. According to the Centers for Disease Control, the U.S. saw a 14.5% decrease in overdose deaths from June 2023 through June 2024. The DEA has seen a

[13] Drazen Jorgic, "Special Report: Burner Phones and Mobile Banking Apps: Meet the Chinese Brokers Laundering Mexican Drug Money," *Reuters*, December 3, 2020, https://www.reuters.com/article/us-mexico-china-cartels-specialreport/special-report-burnerphones-and-banking-apps-meet-the-chinese-brokers-laundering-mexican-drug-money-idUSKBN28D1M4

[14] Department of Homeland Security Fact Sheet: DHS Shows Results in the Fight to Dismantle Cartels and Stop Fentanyl from Entering the U.S., July 31, 2024, https://www.dhs.gov/archive/news/2024/07/31/fact-sheet-dhs-shows-results-fight-dismantle-cartels-and-stop-fentanyl-entering-us

[15] Customs and Border Patrol, Drug Seizure Statistics, https://www.cbp.gov/newsroom/stats/drug-seizure-statistics.

decrease in the potency of fentanyl pills for first time since 2021. The latest DEA laboratory testing indicates 5 out of 10 pills tested in 2024 contain a potentially deadly dose of fentanyl that is down from 7 out of ten pills in 2023.[16] Changes in the potency of fentanyl-laced drugs, stepped-up interdiction, new trafficking trends and the increased availability of naloxone (or NARCAN) the life-saving opioid overdose reversal medication might account for the decrease in overdose deaths.[17] While this is a promising trend regarding fentanyl, we need watch the proliferation of more powerful and lethal synthetic drugs like the zombie drug, xylazine known as "tranq" and nitazenes in the illicit drug markets in the U.S.

On the sanctions front, Treasury's Office of Foreign Assets Control (OFAC) has been implementing Executive Order 14059, officially known as "Imposing Sanctions on Foreign Persons Involved in the Global Illicit Drug Trade" issued on December 15, 2021. OFAC has sanctioned over 290 foreign nationals and entities involved in the illicit fentanyl supply chain, including: PRC-based suppliers of fentanyl precursor chemicals and manufacturing equipment; chemical brokers based in the PRC, Mexico, and other jurisdictions; Mexico-based manufacturers, smugglers, and traffickers of illicit fentanyl and other synthetic opioids; and money launderers who obfuscate the illicit proceeds sustaining the supply chain.[18]

On the law enforcement front, there were significant arrests of Mexican and Chinese nationals to dismantle fentanyl trafficking networks, including that of Sinaloa Cartel co-founder, Ismael "El Mayo" Zambada and Joaquin Guzmán López, son of "El Chapo" Guzmán on July 25, 2024. On October 24, 2024, the Justice Department

---

[16] DEA, *Third Annual National Family Summit on Fentanyl Highlights Progress in Fight to Save Lives*, November 15, 2024, https://www.dea.gov/press-releases/2024/11/15/deas-third-annual-national-family-summit-fentanyl-highlights-progress#:~:text=According%20to%20the%20CDC%2C%20the,potentially%20deadly%20dose%20of%20fentanyl

[17] White House, FACT SHEET: Biden-Harris Administration Announces New Actions to Counter the Scourge of Fentanyl and Other Synthetic Drugs, July 31, 2024, https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2024/07/31/fact-sheet-biden-%e2%81%a0harris-administration-announces-new-actions-to-counter-the-scourge-of-fentanyl-and-other-synthetic-drugs/

[18] FINCEN Advisory, Supplemental Advisory on the Procurement of Precursor Chemicals and Manufacturing Equipment Used for the Synthesis of Illicit Fentanyl and Other Synthetic Opioids, June 20, 2024, https://www.fincen.gov/sites/default/files/advisory/2024-06-20/FinCEN-Supplemental-Advisory-on-Fentanyl-508C.pdf

announced charges against eight China-based companies and eight individuals allegedly responsible for trafficking precursor chemicals that cartels use to manufacture lethal fentanyl. DOJ informed that the People's Republic of China Ministry of Public Security assisted in this investigation.[19]

On December 18, 2024, Southern District of New York and the DEA charged Chinese national Xiang Gao, Ukrainian national Oleksandr Klochkov, and Latvian national Igors Kricfalusijs with conspiring to distribute fentanyl and methamphetamine in the U.S., conspiring to import fentanyl precursor chemicals and a methamphetamine precursor chemical with intent to manufacture fentanyl and methamphetamine in the U.S., importing a fentanyl precursor chemical, and conspiring to commit money laundering. The three were arrested in Morocco by Moroccan authorities on April 17, 2024, were extradited to the U.S. on December 11, 2024.[20] This case illustrates the global reach of the illicit fentanyl trade and need for international cooperation to bring traffickers to justice.

On the legislative front, the FEND Off (Fentanyl Eradication and Narcotics Deterrence) Act was signed into law on April 24, 2024, to combat the fentanyl epidemic by increasing sanctions, law enforcement powers, and financial tracking of fentanyl-related money laundering. It was particularly aimed at illicit fentanyl traffickers in Mexico and precursor chemical producers in China. This law allows the U.S. government to target the entire fentanyl supply chain and sanction opioid traffickers and money launderers in both countries. Key provisions of the FEND Off Fentanyl Act include:

1. Declaring international fentanyl trafficking a national emergency
2. Requiring sanctions on key members of transnational criminal organizations involved in fentanyl trafficking
3. Enabling the use of forfeited assets from fentanyl traffickers for law enforcement efforts

---

[19] Department of Justice Press Release, China-Based Chemical Manufacturing Companies and Employees Indicted for Alleged Fentanyl Manufacturing and Distribution, October 24, 2024, https://www.justice.gov/archives/opa/pr/china-based-chemical-manufacturing-companies-and-employees-indicted-alleged-fentanyl

[20] Department of Justice Press Release International Drug Traffickers Indicted On Charges Of Importing And Distributing Fentanyl And Methamphetamine Precursor Chemicals, December 18, 2024, https://www.justice.gov/usao-sdny/pr/international-drug-traffickers-indicted-charges-importing-and-distributing-fentanyl

4. Enhancing enforcement of sanctions violations

5. Allowing the Treasury Department to use special measures to combat fentanyl-related money laundering.[21]

On the international front, President Biden and President Xi Jinping of the PRC announced on November 15, 2023, the resumption of bilateral counternarcotics cooperation focused on reducing the flow of precursor chemicals fueling illicit fentanyl and synthetic drug trafficking. As part of this resumed cooperation, the PRC issued a law enforcement notice to its domestic industry advising on the enforcement of laws and regulations related to trade in precursor chemicals and pill press equipment, took regulatory and law enforcement action against dozens of PRC-based synthetic drug and chemical precursor suppliers, and resumed the submission of chemical incidents to the International Narcotics Control Board's global information sharing database.[22] The U.S.-PRC Counternarcotics Working Group met on January 30, 2024 and July 31, 2024 to coordinate on law enforcement actions; address the misuse of precursor chemicals, pill presses, and related equipment to manufacture illicit drugs; target the illicit financing of TCO networks; engage in multilateral fora; and share information to build a common understanding of the dynamic illicit threat posed by synthetic drugs. While the PRC has been more cooperative in law enforcement investigations with the U.S. against fentanyl traffickers in 2024, China still needs to do more to curb the flow of illicit fentanyl and precursor chemicals that feed the drug trade.

Latest Actions to Combat the Fentanyl Crisis by the Trump Administration

Upon his inauguration on January 20, 2025, President Trump embarked on fulfilling his campaign promise to enhance border security to stop the flow of illicit fentanyl and migrants into the United States through a series of executive actions. His counternarcotics and border security policies are reminiscent of the policies pursued

[21] Senate Banking Committee, Fentanyl Eradication and Narcotics Deterrence (FEND) Off Fentanyl Act, https://www.banking.senate.gov/imo/media/doc/fend_off_fentanyl_-_one_pager2.pdf

[22] The White House, "Readout of the U.S.-PRC Bilateral Counternarcotics Working Group Inaugural Meeting" (Jan. 30, 2024); The White House, "FACT SHEET: Biden-Harris Administration Continues Progress on Fight Against Global Illicit Drug Trafficking" (Nov. 16, 2023).

under his first Administration that capitalized on the diplomatic, law enforcement and economic instruments of national power. Early executive actions included the designation of the Mexican cartels as Foreign Terrorist Organizations and the imposition of trade tariffs on Canadian, Chinese and Mexican imports.

Foreign Terrorist Organization Designation: On January 20, 2025, President Trump issued an executive action titled "Designating Cartels and Other Organizations as Foreign Terrorist Organizations and Specially Designated Global Terrorists." This executive action directs the secretary of state, in consultation with the secretaries of the Treasury and Homeland Security, the attorney general, and the director of national intelligence to make a recommendation regarding the Foreign Terrorist Organization (FTO) and/or Specially Designated Global Terrorist designation of any cartel or other organization under this umbrella within fourteen days. The executive action also directs the attorney general and secretary of Homeland Security to take steps as necessary to expedite the removal of those who may be designated pursuant to this executive action.

According to the White House, international cartels constitute a national security threat beyond that posed by traditional organized crime, with activities encompassing:

(i) convergence between themselves and a range of extra-hemispheric actors, from designated foreign-terror organizations to antagonistic foreign governments;

(ii) complex adaptive systems, characteristic of entities engaged in insurgency and asymmetric warfare; and

(iii) infiltration into foreign governments across the Western Hemisphere.

The Cartels have engaged in a campaign of violence and terror throughout the Western Hemisphere that has not only destabilized countries with significant importance for our national interests but also flooded the United States with deadly drugs, violent criminals, and vicious gangs. Other transnational organizations, such as Tren de Aragua (TdA) and La Mara Salvatrucha (MS-13) pose similar threats to the United States.

The Cartels have engaged in a campaign of violence and terror throughout the Western Hemisphere that has not only destabilized countries with significant importance for our national interests but also flooded the United States with deadly drugs, violent criminals, and vicious gangs.

The Cartels functionally control, through a campaign of assassination, terror, rape, and brute force nearly all illegal traffic across the southern border of the United States. In certain portions of Mexico, they function as quasi-governmental entities, controlling nearly all aspects of society. The Cartels' activities threaten the safety of the American people, the security of the United States, and the stability of the international order in the Western Hemisphere. Their activities, proximity to, and incursions into the physical territory of the United States pose an unacceptable national security risk to the United States.

(b) Other transnational organizations, such as Tren de Aragua (TdA) and La Mara Salvatrucha (MS-13) pose similar threats to the United States. Their campaigns of violence and terror in the United States and internationally are extraordinarily violent, vicious, and similarly threaten the stability of the international order in the Western Hemisphere.

(c) The Cartels and other transnational organizations, such as TdA and MS-13, operate both within and outside the United States. They present an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States. He hereby declared a national emergency, under IEEPA, to deal with those threats.[23]

On February 20, 2025, the State Department designated Tren de Aragua, Mara Salvatrucha, Cartel de Sinaloa, Cartel de Jalisco Nueva Generacion, Carteles Unidos, Cartel del Noreste, Cartel del Golfo, and La Nueva Familia Michoacanaas foreign terrorist organizations (FTOs).[24] Now associates of the Mexican cartels such as Chinese suppliers of fentanyl and precursor chemicals and Chinese money launderers could be charged with "material support of terrorism." Title 18 U.S.C. § 2339A outlaws providing material support or resources for the commission of any of several designated federal crimes that a terrorist might commit or attempting or conspiring to such support or

[23]The White House Executive Action "Designating Cartels And Other Organizations As Foreign Terrorist Organizations And Specially Designated Global Terrorists," January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/designating-cartels-and-other-organizations-as-foreign-terrorist-organizations-and-specially-designated-global-terrorists/

[24] U.S. Department of State Public Notice: 12672 Foreign Terrorist Organization Designations of Tren de Aragua, Mara Salvatrucha, Cartel de Sinaloa, Cartel de Jalisco Nueva Generacion, Carteles Unidos, Cartel del Noreste, Cartel del Golfo, and La Nueva Familia Michoacana, February 20, 2025, https://public-inspection.federalregister.gov/2025-02873.pdf

assistance. Title 18 U.S.C. § 2339B outlaws providing material support or resources to a designated foreign terrorist organization or attempting or conspiring to do so.[25] The FTO designation and material support of terrorism statute could investigate purveyors of fentanyl and precursor chemicals, brokers, chemists, distributors and money launderers and prosecute those who aid and abet the cartels in drug trade.

Trade Tariffs: On February 1, 2025, President Trump declared that the extraordinary threat posed by illegal aliens and drugs, including deadly fentanyl, constitutes a national emergency under the International Emergency Economic Powers Act (IEEPA). He announced that until the crisis is alleviated, the U.S. is implementing a 25% additional tariff on imports from Canada and Mexico and a 10% additional tariff on imports from China. Energy resources from Canada will have a lower 10% tariff. President Trump is taking bold action to hold Mexico, Canada, and China accountable to their promises of halting illegal immigration and stopping poisonous fentanyl and other drugs from flowing into our country. Tariffs are a powerful, proven source of leverage for protecting the national interest. President Trump is using the tools at hand and taking decisive action that puts Americans' safety and our national security first. As of this writing, the 10% tariff on Chinese imports has been implemented while the tariffs on Canadian and Mexican imports have been postponed by one month. The orders make clear that the flow of contraband drugs like fentanyl to the United States, through illicit distribution networks, has created a national emergency, including a public health crisis. PRC officials have failed to take the actions necessary to stem the flow of precursor chemicals to known criminal cartels and shut down money laundering by transnational criminal organizations.[26] Trade tariffs represent an economic instrument of national power in President Trump's arsenal to change the behavior of Canada, China and Mexico to secure the border and curb drug trafficking.

---

[25] Congressional Research Service, "Terrorist Material Support: A Sketch of 18 U.S.C. § 2339A and § 2339B," August 15, 2023, https://sgp.fas.org/crs/natsec/R41334.pdf

[26] Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China, February 1, 2025, https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/

Conclusion and Recommendations

The PRC plays a critical role in the illicit fentanyl trade and related money laundering from their match made in heaven with the Mexican cartels. Illicit fentanyl producers, traffickers and their money launderers are exploiting increasing demand, porous borders and cyberspace to further expand their operations around the world. Therefore, the U.S. must double down on measures to stem the flow of illicit fentanyl that continues to kill tens of thousands of Americans each year. The U.S. must intensify domestic and international efforts to counter the PRC in illicit fentanyl flows and money laundering through the reduction of drug demand and supply, narcotics detection and interdiction and anti-money laundering measures. Therefore, the U.S. should:

1. Task the U.S. Departments of Treasury and Justice to continue to designate, sanction and indict Chinese fentanyl traffickers and money launderers and bring them to justice.
2. Prosecute Chinese illicit fentanyl and precursor chemical traffickers and money launderers who collaborate with the Mexican cartels under the "material support of terrorism" statute once the cartels are designated as FTOs (Foreign Terrorist Organizations).
3. Maintain the PRC on the list of "Major Drug Transit or Major Illicit Drug Producing Countries" and use the prospect of delisting as an incentive to promote counternarcotics cooperation and prosecutions of Chinese producers and brokers of fentanyl and precursor chemicals and money launderers.
4. Hold the PRC accountable for the export of fentanyl and pre-cursor chemicals and request reports on specific law enforcement actions against illicit fentanyl manufacturers and traffickers. If the PRC does not demonstrate good faith in countering illicit fentanyl flows, the U.S. should maintain and even ratchet up tariffs and apply multilateral diplomatic pressure from partner countries also suffering from drug trafficking.
5. Establish a Joint Task Force to Counter Opioids (JTF—CO) that reports to the Attorney General and National Security Council, charged with effective prioritization of targets for coordinated, interagency action against the entire

fentanyl ecosystem to include suppliers, financiers and their facilitators. This was proposed by the Select Committee on the CCP in April 2024 and would place all intelligence, investigative, economic, trade, and enforcement resources and mechanisms under a unified command.

6. Require that PRC-based applications possibly involved in money laundering and the fentanyl trade should be required to register as money services businesses.
7. Strengthen anti-money laundering (AML) requirements for cryptocurrency transactions and require all crypto exchanges to comply with KYC regulations and report high-risk transactions perhaps related to fentanyl trafficking.
8. Assign more human, financial and technology resources to detect, intercept and disrupt fentanyl and money flows to our borders across the U.S. government and secure appropriate funding from Congress.
9. Task the intelligence community to leverage signals, financial and digital intelligence to better understand and target Chinese illicit fentanyl trafficking and money laundering networks. They are exploiting the cyber-physical domain including cryptocurrencies to move drugs and money and manage their global supply chains.
10. Decrease illicit drug demand in the U.S. through expanded treatment and prevention programs, educating all Americans of the deadly dangers from fentanyl-laced counterfeit drugs and opioids that are marketed online.

Ranking Member Waters:

Mr. John Miller

1. Which of the following options best describes your self-identified race? (you may choose more than one)

a. White or Caucasian

2. Which of the following options best describes your gender identity?

b. Man

1. The Biden administration seemed to seek out ways to bridge the competitive divide between the U.S. and China, for example, by working collaboratively with the Chinese government to improve anti-money laundering standards and compliance. Do you believe that such effort to find collaborative opportunities is worthwhile, and if so, can you recommend areas where the U.S. and China could improve cooperation?
Response: While the national and economic security threats presented by China are real and well-documented, they should not preclude the United States from seeking out collaborative opportunities where they make sense or otherwise seeking to improve U.S.- China cooperation. Your question acknowledges some efforts by the Biden administration to work collaboratively with the Chinese. I think it's also worth pointing out that the first Trump administration sought to collaborate with China, negotiating the Phase One economic and trade agreement which amongst other things sought to strengthen the protection and enforcement of intellectual property in China, as did the Obama administration, which in 2015 negotiated a U.S.-China cybersecurity agreement that included provisions on information sharing. While these efforts of the past three administrations may not have achieved all of their goals, pursuing such cooperation with China may still be worthwhile, particularly on the economic and trade fronts. Sustained dialogue between the United States and China could help provide greater certainty to U.S. companies seeking to understand how to operate in the United States and markets globally, including clarity in how they can access the Chinese market without impairing U.S. national or economic security.

2. How important are the U.S. Export-Import Bank's programs, particularly for small U.S. exporters that want to compete with Chinese firms around the globe? What recommendations do you have to improve American businesses' chances to compete with China's heavily subsidized industries?
Response: We want to encourage the uptake of U.S. technology around the world. Helping U.S. companies export technology products and services will strengthen U.S. economic security. Successful policies can help revitalize and strengthen supply chains and allow businesses operating in the United States to leverage the global landscape to advance the competitiveness of their products and services. One specific example we explore in our economic security paper

is critical minerals, including how to create a more resilient critical minerals supply chain, whether that is through permitting reform to increase domestic sourcing, trade agreements with allies like Canada that have import mineral deposits like lithium, or technological solutions like recapture.

CLEARPATH

Submitted by Ranking Member Waters:

QUESTION:

1. *Which of the following options best describes your self-identified race? (you may choose more than one)*
    a. *White or Caucasian*
    b. *Black or African American*
    c. *Hispanic/Latinx*
    d. *Asian*
    e. *Middle Eastern/North African*
    f. *Choose not to answer*
    g. *Prefer to self-describe (please specify)*

ANSWER:

I am White or Caucasian (a.).

QUESTION:

2. *Which of the following options best describes your gender identity?*
    a. *Woman*
    b. *Man*
    c. *Non-binary*

[4] https://www.bcg.com/publications/2022/usa-competitive-advantage-in-key-emerging-clean-tech

CLEARPATH

d. Transgender Man
e. Transgender Woman
f. Choose not to answer
g. Prefer to self-describe (please specify)

ANSWER:
I am a Man (b.)

QUESTION:

3. The Biden administration seemed to seek out ways to bridge the competitive divide between the U.S. and China, for example, by working collaboratively with the Chinese government to improve anti-money laundering standards and compliance. Do you believe that such effort to find collaborative opportunities is worthwhile, and if so, can you recommend areas where the U.S. and China could improve cooperation?

ANSWER:
Finding areas of collaboration and creating partnerships with other countries is always a worthwhile goal. For example, since the U.S. does not have domestic supplies or production capabilities for some critical minerals, it must work with other countries to ensure its own supply chain. However, it is important that the U.S. is able to collaborate with countries that share similar goals and priorities. Related to energy one area where this is challenging is related to the protection of U.S. company intellectual property from Chinese actors. There have been numerous examples of China stealing private company data related to energy technologies, effectively undercutting America on its own innovations. While there could be opportunities for the U.S. to work with China related to energy, it would be important to ensure that this does not put U.S. companies at a further competitive disadvantage.

The following correspond to questions posed by Ranking Member Waters"

Ranking Member Waters:

Mr. John Cassara

1. Which of the following options best describes your self-identified race? (you may choose more than one)
    a. White or Caucasian
    b. Black or African American
    c. Hispanic/Latinx
    d. Asian
    e. Middle Eastern/North African
    f. Choose not to answer
    g. Prefer to self-describe (please specify)

2. Which of the following options best describes your gender identity?
    a. Woman
    b. Man
    c. Non-binary
    d. Transgender Man
    e. Transgender Woman
    f. Choose not to answer

Prefer to self-describe (please specify)

1. The question about my race is not relevant. My race has nothing to do with my testimony or area of expertise.

2. The question about my gender identity is not relevant. My gender has nothing to do with my testimony or area of expertise.

3. The Biden Administration, like the Trump Administration, supported the passage and enactment of the Corporate Transparency Act of 2020, which is intended to prevent the abuse of anonymous shell companies—such as those used to hide the ownership or control of U.S.-based real estate purchases by sanctioned Iranian, Russian, or Chinese persons or to obscure the ownership of ships transporting unrefined oil from Iran to Chinese teapot refineries. However, Trump is now working to gut the law, which raises concerns about its impact on critical national security tools like CFIUS reviews, sanctions enforcement, and anti-money laundering efforts. How important is it for the U.S. and allied nations to adopt and enforce transparency measures like beneficial ownership registries and anti-corruption laws to prevent bad actors from exploiting our financial systems?

I believe it is very important for the U.S. to adopt and enforce transparency measures like beneficial ownership registries and anti-corruption laws. Over the last 30 years, I have seen the U.S. and the international community enact a series of laws, rules and regulations

designed to bolster our anti-money laundering and counter-terrorist finance (AML/CFT) capabilities. I believe access to beneficial ownership information is the last major enforcement tool necessary to finally being able to follow the hidden money and value trails.

The U.S. has been justifiably criticized by the Financial Action Task Force (FATF) and other international bodies for not having beneficial ownership information. In fact, according to the 2022 worldwide Financial Secrecy Index, the U.S. is the worst country in the world or most complicit in helping individuals hide their finances from the rule of law.

The Corporate Transparency Act (CTA) is not perfect. In my opinion, it has a number of flaws. But it is an overdue first step in the right direction. Some of the flaws could have been remedied or adjusted by the way that FinCEN enforces the CTA.

Regarding corruption, I am deeply saddened by the increasing levels of corruption within the United States. Beneficial ownership information will be a vital tool in helping to provide the transparency needed to investigate and expose corruption.

4. The Biden administration seemed to seek out ways to bridge the competitive divide between the U.S. and China, for example, by working collaboratively with the Chinese government to improve anti-money laundering standards and compliance. Do you believe that such effort to find collaborative opportunities is worthwhile, and if so, can you recommend areas where the U.S. and China could improve cooperation?

I do not believe the government of China is serious about improving AML standards and compliance. Per my written testimony, I believe what I call CCP/Inc. is the largest transnational criminal actor in the world today and is also responsible for approximately one-half of illicit proceeds generated worldwide annually as measured by specified unlawful activities.

While there have been some recent incremental improvements in joint Chinese / U.S. law enforcement cooperation, the Chinese government's overall assistance in countering drug trafficking between China, Mexico, and the U.S. is very limited. For the most part, the Chinese government simply rejects China's responsibility. Beijing's position is that it is

up to other governments to enforce their own laws without recognizing its complicity in non-enforcement across various cross-border crimes.

China's law enforcement engagement in multi-nation forums is also problematical. There are also serious concerns about China's financial institutions and their response to global AML/CFT countermeasures. Chinese banks have a weak culture of AML/CFT compliance as witnessed by investigations into various Chinese banks' involvement in international money laundering.

Meanwhile, China does not hesitate to ask for law enforcement assistance from other nations – particularly in identifying and returning its dissidents.

I believe that China may become involved in meaningful cooperation only in areas that are in its interest. Combatting forms of trade fraud and capital flight are two examples.

5. Can we effectively fight the cartels or identify material support under the administration's new Foreign Terrorist Organization (FTO) designations of those cartels if we do not have the federal agency staff – such as bank examiners, criminal investigators, and federal prosecutors – to enforce our financial crime laws and regulations?

I believe the weak link in our AML/CFT efforts, including the new Foreign Terrorist Organization (FTO) designations of drug cartels, is insufficient enforcement. In fact, the bottom line with AML/CFT is enforcement. We can have robust laws, rules, and regulations. We can have great financial intelligence and analysis. We can say that technology is our force multiplier. But in the final analysis, it always comes down to law enforcement at the street level to make cases. There are no shortcuts.

Our law enforcement needs more resources and they need the political mandate to use them to follow the money and value trails. As I have discussed elsewhere, we also need to change the incentives for law enforcement. Instead of concentrating on "disruption," or going after the product (illegal narcotics, for example) or people (criminals), we need to finally emphasize going after the money. Outside of crimes of passion, criminals, criminal organizations, and FTOs are motivated by and dependent on, money. Take away money and we take away their lifeblood. Unfortunately, the metrics indicate we have done a terrible job of that. The statistics that matter (forfeitures and successful prosecutions), show that we are successful less than one percent of the time. In other words, we are "a decimal point away from total failure."

FRENCH HILL, AR
CHAIRMAN

MAXINE WATERS, CA
RANKING MEMBER

United States House of Representatives
One Hundred Nineteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Questions for the Record
Full Committee Hearing, entitled "Examining Policies to Counter China"
February 25, 2025

Ranking Member Waters:

Mr. Martin Mühleisen

1. Which of the following options best describes your self-identified race? (you may choose more than one)
    a. White or Caucasian
    b. Black or African American
    c. Hispanic/Latinx
    d. Asian
    e. Middle Eastern/North African
    f. Choose not to answer
    g. Prefer to self-describe (please specify)

2. Which of the following options best describes your gender identity?
    a. Woman
    b. Man
    c. Non-binary
    d. Transgender Man
    e. Transgender Woman
    f. Choose not to answer
    g. Prefer to self-describe (please specify)

3. The Biden administration seemed to seek out ways to bridge the competitive divide between the U.S. and China, for example, by working collaboratively with the Chinese government to improve anti-money laundering standards and compliance. Do you believe that such effort to find collaborative opportunities is worthwhile, and if so, can you recommend areas where the U.S. and China could improve cooperation?

Questions for the Record
For Full Committee Hearing, entitled "Examining Policies to Counter China" February 25, 2025

Dr. Rush Doshi
Assistant Professor of Security Studies, Georgetown University Walsh School of Foreign Service
C.V. Starr Senior Fellow and Director of the China Strategy Initiative, Council on Foreign Relations

1. Which of the following options best describes your self-identified race?

Asian

2. Which of the following options best describes your gender identity?

Man

3. The Biden Administration, like the Trump Administration, supported the passage and enactment of the Corporate Transparency Act of 2020, which is intended to prevent the abuse of anonymous shell companies—such as those used to hide the ownership or control of U.S.- based real estate purchases by sanctioned Iranian, Russian, or Chinese persons or to obscure the ownership of ships transporting unrefined oil from Iran to Chinese teapot refineries. However, Trump is now working to gut the law, which raises concerns about its impact on critical national security tools like CFIUS reviews, sanctions enforcement, and anti-money laundering efforts. How important is it for the U.S. and allied nations to adopt and enforce transparency measures like beneficial ownership registries and anti-corruption laws to prevent bad actors from exploiting our financial systems?

The Corporate Transparency Act (CTA) is a cornerstone of that effort. CTA is essential for the United States and its allies to prevent the exploitation of our financial systems by malign actors.

The People's Republic of China (PRC) has used shell companies to evade U.S. restrictions. Without information on beneficial ownership, foreign actors can easily mask their involvement in sensitive transactions, undermining enforcement of sanctions, export controls, investment restrictions, and anti-money laundering laws. The CTA was specifically designed to close these loopholes by requiring companies to disclose their true, beneficial owners to make it far more difficult for, in this case, hostile governments to pursue actions against American interests.

Recent efforts to undermine the CTA—potentially exempting up to 99.8 percent of reporting entities—would dramatically weaken one of our most effective tools for identifying and disrupting these networks.[1] It would represent a significant step backward in the fight against fentanyl trafficking, global money laundering, tax evasion, and foreign influence operations.

---

[1] "Treasury Exempts 99 Percent of Entities from Ownership Reporting, Gutting Landmark Anti-Money Laundering Law: Just the FACTs 03/06/25," Newsletter, FACT Coalition, March 6, 2025, https://thefactcoalition.org/just-the-facts-03-06-25/.

4. The Biden administration seemed to seek out ways to bridge the competitive divide between the U.S. and China, for example, by working collaboratively with the Chinese government to improve anti-money laundering standards and compliance. Do you believe that such effort to find collaborative opportunities is worthwhile, and if so, can you recommend areas where the U.S. and China could improve cooperation?

While finding collaborative opportunities with China is important, we must approach such efforts with a clear-eyed view of our national interests and how China views its own interests, as well. Recent developments in U.S.-China cooperation on anti-money laundering (AML) present both opportunities and challenges that require careful consideration.

The Joint Treasury-PBOC Cooperation and Exchange on Anti-Money Laundering agreement, announced during Secretary Yellen's visit to China in April 2024, marks a step towards addressing shared financial security concerns. This initiative, which included regular meetings between U.S. Treasury and Chinese PBOC officials under the Biden administration, focuses on critical areas such as cryptocurrency regulation, financial technology enforcement, and real estate transaction monitoring. While it's unclear whether the Trump administration will continue to operate under this agreement, such U.S.-China cooperation is worthwhile as it targets issues that affect both nations. But at the same time, the reality is China could do more, too.

As I indicated in recent testimony to the House Homeland Security Committee, PRC underground banks help cartels launder Fentanyl profits. These banks take hard dollars from the cartels in America and provide them pesos in Mexico; they then sell those dollars to Chinese citizens who want their cash out of China and take renminbi in China as compensation. These transactions do not require the actual flow of funds across borders. Money laundering generally occurs on apps like WeChat that the PRC government monitors for dissidents and presumably could also better monitor for money laundering.

In addition, the United States and China could increase information sharing, consider how to address risks from new financial technologies, and coordinate efforts on trade-based money laundering.

5. Can we effectively fight the cartels or identify material support under the administration's new Foreign Terrorist Organization (FTO) designations of those cartels if we do not have the federal agency staff – such as bank examiners, criminal investigators, and federal prosecutors – to enforce our financial crime laws and regulations?

Without adequate staffing in these areas, we risk a gap between our policy intentions and our ability to execute them effectively. This potentially limits our capacity to disrupt cartel operations and their financial networks.

6. How should the U.S. react to the potential risks posed by China's digital currency push, in the context of global de-dollarization? What disadvantages to the American economy

and financial system can be anticipated if the world proceeds with wholesale CBDC projects while America refuses to even consider a CBDC?

De-dollarization is probably unlikely in the near future. Even so, the United States needs to be proactive in addressing attempts to gradually erode the dollar's global role and should take China's digital currency push seriously.

The risks of the U.S. not pursuing a CBDC while other nations, particularly China, advance are potentially significant. Already, U.S. sanctions could be weakened by China's Cross-Border Interbank Payment System (CIPS). On top of that risk, a digital yuan could allow countries to bypass traditional financial channels. Moreover, over the long-run, as more nations use China's digital currency – perhaps for clearance and settlement – the U.S. could see its global financial influence wane. It is possible that technology could help China achieve leapfrog advantages, perhaps particularly in the developing world, even if its lack of an open capital account and deep and liquid capital markets complicates its ability to put forward a true alternative to the dollar.

7. How important are the U.S. Export-Import Bank's programs, particularly for small U.S. exporters that want to compete with Chinese firms around the globe? What recommendations do you have to improve American businesses' chances to compete with China's heavily subsidized industries?

The U.S. Export-Import Bank (EXIM) is a critical part of the U.S. national security toolkit, dating back to its initial origins in the Cold War. It helps U.S. exporters compete globally, particularly against heavily subsidized Chinese firms. In the course of doing so, it also helps create options for foreign countries that may not wish to rely on PRC-produced goods.

China's state-driven industrial policy, exemplified by initiatives like Made in China 2025, leverages subsidies, state-backed financing, and industrial policies to dominate global markets, often disadvantaging American businesses. EXIM's programs, such as export credit insurance and working capital guarantees, provide essential support to small businesses by mitigating risks associated with international trade and ensuring access to financing. Put simply, they help level the playing field with PRC companies. Expanding EXIM's budget and mandate would allow for broader support of small businesses and strategic industries critical to U.S. competitiveness, such as advanced manufacturing and technology.

To counter the PRC, the United States needs to work with others. The U.S., combined with its partners and allies, has three-times China's GDP, half of all global manufacturing, more than twice China's likely military spending, twice China's patents and top-cited publications, and massive market power. Together, we can weather the "second China shock," reindustrialize, and lead in technology. The U.S. also needs new institutions, such as a federal industrial investment bank that can make long-term loans, take equity in strategic industries, coordinate with private capital, and fund reshoring from China to the U.S. or allied countries. Washington also needs to change private sector incentives and consider tax policies to encourage shareholders to hold equity positions for longer. The U.S. would also benefit from sustained or increased levels of basic science research funding. Finally, the U.S. needs to play defense. To maintain its

technological lead, Washington requires stronger export controls, research protection, and regulation of inbound and outbound investment.

Rep. Davidson:

I. Outbound Investment Considerations

Before entering Congress, I operated businesses in Ohio, and I remember when the Dodd-Frank Act suddenly required me to track down the sourcing of various metals I used to Central Africa – an impossible task for me and thousands of other companies throughout the U.S. If the government had just said, "It is illegal to source from Smelter A and Supplier B," that would have been one thing. That's how our sanctions work, and I could have complied. But Dodd-Frank forced small businesses like mine to do the federal government's work. Now we have outbound investment proposals for China that would also move away from our sanctions framework and create all kinds of compliance questions for the private sector.

1) Mr. Miller, how do your member companies view this?

Response: ITI appreciates U.S. Department of the Treasury's efforts to scope proposed outbound investment tools appropriately, and we acknowledge and support the U.S. government's objectives and responsibility to protect national security. However, we remain concerned with the breadth of the proposed rule and believe it extends beyond the intended scope and stated objectives. This broad scope creates excessive burdens for U.S. companies and individuals and imposes requirements that may be impossible to meet given the rule's ambiguities.

The existing financial sanctions regime has been effective because Treasury has access to the information necessary to determine which entities are of national security concern.

This is far preferable to placing the onus on companies to make national security judgments. As you note Congressman, the breadth of Treasury's outbound investment rule will require companies to conduct extensive due diligence prior to pursuing any investments, which may be challenging if not impossible, given ambiguities contained throughout the draft rules. For example, these obligations appear to apply even in situations where individuals are part of a larger non-U.S. entity or are ancillary to investments of potential interest - a scenario in which neither U.S. capital nor "intangible"

U.S. benefits are provided.

This broad scope creates substantial diligence and compliance obligations for both individuals and the entities employing them such as understanding technical details of investment targets, discerning citizenships and nationalities of potentially involved entities and individuals, and accessing sensitive company information—all prior to determining whether the investment would be permissible under U.S. law. While our companies have a

number of suggestions for improving the Treasury program, one specific improvement I can recommend is that Treasury (or any congressional action on outbound investment screenings) exempt all intracompany transactions between a U.S. person and a subsidiary, irrespective of the nature of the transaction.

II. Export Control Authorities

I also serve on the House Foreign Affairs Committee (HFAC), as do several other colleagues on Financial Services. HFAC has jurisdiction over export controls, and I was hoping you could offer your take on the Biden Administration's use of these authorities.

2) Mr. Miller, how should Congress and/or the Administration properly use export controls as a tool to address China?

Response: Export controls are an important tool for promoting economic security but should not be utilized in a way that hinders U.S. technological competitiveness, supply chain resiliency, or the U.S. government's access to leading technologies. It is important to ensure that export controls, and other review authorities, are tailored to realize national and economic security objectives by ensuring robust stakeholder engagement during their development and implementation, providing sufficient transition periods, and are scoped to address clearly identified national security objectives.

In contrast, overly broad controls on technology products will undermine and limit the ability of companies to participate in the global marketplace, which will then disrupt the virtuous cycle of private-sector R&D investments made possible by revenues from sales of U.S. products to a diverse customer base in overseas markets. The Biden administration's "small yard, high fence" philosophy towards controlling the global flow of technology, while well intended, illustrates such an overly broad approach as it was poorly scoped and failed to focus on a manageable subset of the information technology stack.

Additionally, export controls are most effective in achieving their national security goals when they are multilateral, yet the Biden administration's approach was too often unilateral. Historically, export controls have been most effective when implemented as multilateral tools amongst allies to limit access by adversaries to dual-use technology.

Unilateral controls, in contrast, will likely be ineffective because the controls will disproportionately if not exclusively hurt U.S. companies while at the same time the controlled technology may still be available from other sources.

As the Bureau of Industry and Security and the broader Trump administration devise their plan to utilize export controls to advance economic and national security objectives, ITI strongly urges a robust stakeholder engagement during their development and implementation, providing sufficient transition periods, targeting the controls on clearly identified national security objectives, and working with partners and allies on a multilateral approach.

III. DeepSeek and Data Export Controls

3) Mr. Miller, when companies with direct links to the PRC, such as DeepSeek and TikTok, have capabilities obtaining Americans data for the application of state-sponsored espionage, what are some important considerations for Congress when contemplating data export controls?

Response: It is important to ensure that export controls, and other review authorities, whether seeking to control technologies or data, are tailored to realize national and economic security objectives by ensuring robust stakeholder engagement during their development and implementation, providing sufficient transition periods, and are scoped to address and based on clearly identified national security objectives.

While we agree it is imperative to safeguard Americans' data, I do want to point out that export controls have not historically applied to data, which is integral to U.S. and global commercial activity and trade as well as a key driver of innovative data-driven technologies such as artificial intelligence. ITI and our members have long supported he need for a comprehensive federal privacy law in the United States as the strongest and most comprehensive way to protect Americans' personal data, and I reassert that support here.

While I recognize that a privacy law is not typically thought of as a national security measure, any contemplated export controls should not be considered in isolation from efforts to advance strong, preemptive federal privacy legislation that provides a unified, national framework of responsible data business practices that is aligned with global standards. A federal privacy law would provide clear baseline data governance rules for all

actors handling personal identifiable information (PII), including sensitive data, and in all contexts – including in situations where actors are potentially transferring data overseas. It would be the most effective and efficient way to minimize, secure, and safeguard the use of American's personal data and is the most comprehensive means to close the "front door" national security threat and align data governance practices with likeminded international partners.

During the final weeks of the Biden administration, the U.S. Department of Justice rushed to finalize a rule pursuant to a previously issued Executive Order on Provisions Pertaining to Preventing Access to Americans' Bulk Sensitive Personal Data and Government-Related Data by Countries of Concern. This overly complex rule seeks to implement new national security and privacy rules governing what is ultimately the same data, at least in part, that would be covered by a comprehensive federal privacy law, which will inevitably lead to conflicting, duplicative, or confusing requirements should Congress pass such a law. A federal privacy law could include a more structured and coherent mechanism to restrict the international transfer of certain types of personal information than this approach or new data export controls, so I would encourage Congress in the first instance to advance a privacy law as the preferred approach of protecting U.S. citizens' data.

CLEARPATH

ClearPath
300 New Jersey Ave NW
Suite 800
Washington, DC 20001

March 19, 2025

Questions for the Record
U.S. House Committee on Financial Services
Full Committee Hearing, entitled "Examining Policies to Counter China"
February 25, 2025

Questions for the Record to:
Nicholas McMurray
Managing Director of International and Nuclear Policy
ClearPath, Inc.

Submitted by Rep. Downing:
QUESTION:
Under the previous administration, Joe Biden saw affordable and reliable energy as the problem in favor of Green New Deal priorities, using regulators to discourage lending and investment to fossil fuel companies. Montana is the 6th largest coal-producing state in the U.S. Coal-fired power plants provide the largest share of electricity generation in Montana.

1. *Can you explain why the previous Administration's green energy policies, like cancelling the Keystone XL pipeline, pausing LNG exports ban, slow-walking oil and gas leases, and Electric Vehicle mandates pushed other countries to rely increasingly on China for energy?*

ANSWER:
China is aggressively expanding its influence in global energy markets by financing and constructing large-scale projects. China takes an all-of-the-above energy approach, including nuclear energy, oil and gas infrastructure, renewable projects, critical minerals, and others that entrench reliance on their state-owned enterprises. For example, in 2024, China started construction on about 94.5 GW of domestic coal capacity,[1] while at the same time invested $940 billion in clean energy.[2] Also last year, China set a record for new power projects started overseas.[3]

[1] https://www.reuters.com/business/energy/chinas-2024-coal-power-construction-hits-10-year-high-researchers-say-2025-02-13/
[2] https://www.reuters.com/world/china/chinas-clean-energy-investments-nearing-scale-global-fossil-investments-2025-02-19/
[3] https://www.powermag.com/coal-continues-to-lead-chinas-record-levels-of-power-generation/

CLEARPATH

U.S. policies need to make it easier to build and sell all types of energy. If the U.S. is not maximizing its energy exports, countries will turn to China and other competitors. Not only is this a strategic imperative, it's also an enormous economic opportunity for American clean energy companies, with some estimates suggesting export opportunities reaching $330 billion annually by 2050.[4]

To achieve the goal of domestic energy security and global energy dominance, the government must provide a predictable environment for developers — one where long-term, stable policy frameworks help unlock private investment. For example, improving the federal permitting process should increase investor confidence by creating clear and consistent pathways to market. Additionally, the government has provided support to the private sector through targeted tax credits and demonstration programs like those created by the first Trump Administration under the *Energy Act of 2020*. These programs provide financial stability and encourage the scaling of new technologies like nuclear energy, carbon capture, geothermal, and more that can deliver reliability, affordability, and emissions reductions.

Maintaining an all of the above approach to supporting new technologies is necessary to ensure American energy dominance, which is fundamental to our national security but also to the Administration's goal of reindustrializing American industry.

Rep. Downing:

Questions for Mr. Miller:

China is our Number One competitor, and the Chinese Communist Party has chosen an economic path of centralized control and coercion. Take digital assets, where the CCP is pushing its own central bank digital currency, which will be used not for innovation but for surveillance and stopping dissent. The United States has a real opportunity to lead the race in this technology by passing clear laws governing the treatment of digital assets and payment stablecoins which will encourage these innovative companies to do business and create jobs here.

1. Can you discuss why the United States must be the most welcoming environment for entrepreneurship and innovation, particularly in the emerging technologies space?

Response: The U.S. technology lead over China should not be taken for granted. DeepSeek's release of its R1 model is an important reminder to not ignore the reality that Chinese companies are in fact innovative. Some commentators have even suggested that DeepSeek underscores that "necessity is the mother of invention," pointing out that attempts to build walls around U.S. technology may in fact be spurring Chinese innovation to work around such restrictions. That is why U.S. economic security policy should not over-index on protecting security but must always also consider the economic and innovation promoting dimensions of such policies.

One of the primary goals of U.S. technology policy should be to make sure U.S. technology is ubiquitous and available globally – cementing the U.S. leadership position enhances U.S. economic security. The foundation of the current dominant position that the United States has achieved in emerging technologies goes back to an effective, fit for purpose, and stable policy and regulatory environment. Successful policies must enable companies to better compete globally – opening new markets for companies as they derisk their supply chains. Unsuccessful policies, such as overly broad controls on technology products, will undermine and limit the ability of companies to participate in the global marketplace, disrupting the virtuous cycle of private-sector R&D investments made possible by revenues from sales of U.S. products to a diverse customer base in overseas markets. Such policies could additionally have the unintended effect of making the United States and its companies a less attractive partner on research and development activities, for domestic investment, or as a vendor and provider of technology and technology enabled services.

It is difficult to overstate the importance of foreign markets to U.S. companies and foreign sales. For the United States to succeed, these companies need to play on the global stage and sell to the global market. To illustrate the impacts of foreign markets on innovation, consider the following example: typically, a technology company might achieve 60% of its revenue from non-U.S. sales, and churn 20% of its total revenue back into R&D. If this hypothetical technology company earns $100B in global sales revenue, and $60B comes from outside the United States, and 20% of that amount is $12B, what this means is that

$12B worth of R&D to fuel that company's innovation is subsidized by foreign markets. When we consider that there are hundreds of thousands of tech companies operating in the United States, we can see how these R&D numbers can mushroom into a truly staggering amount of money all of which supports the innovation that drives continued U.S. leadership and economic security.

Venture capital is also a critical ingredient for entrepreneurship and the success of the American tech sector as it provides early stage support for start-ups that have grown into household name businesses and allows companies to quickly scale innovation.

Maintaining and strengthening a pro-investment regulatory environment is also essential for continued U.S. technology leadership.

Hearing

"Examining Policies to Counter China"

U.S. House Committee on Financial Services

February 25, 2025

Questions for the Record

Written follow up questions for John A. Cassara

The following correspond to questions posed by Rep. Downing:

Questions for Mr. Cassara

According to the Drug Enforcement Agency, drug overdoses are the leading cause of death of Americans aged 18-45, with fentanyl responsible for nearly 70% of overdoses. Fentanyl trafficking does not just affect southern border states, it affects every state, particularly rural communities.

1. Can you explain how Chinese-sourced fentanyl makes its way across the southern border into northern border states like Montana?

I do not have access to current tactical intelligence regarding the distribution chain of Chinese-sourced fentanyl products from the southern border to northern border states like Montana. Generally speaking, Chinese precursor chemicals are routed to Mexico. Working with Chinese technicians, cartels like Sinaloa and Jalisco New Generation manufacture it into fentanyl in clandestine labs. Most of the fentanyl and fentanyl-laced products are then smuggled into the U.S. through ports of entry, hidden in cargo shipments, stuffed into vehicle compartments, or carried by individual drug couriers. Once in the U.S., the drug is easily distributed throughout the U.S. via trucking hubs and our interstate highway system. Fentanyl is far more problematic for law enforcement to intercept because it is easier to disguise and/or hide compared to a drug like cocaine.

2. Are you concerned about Chinese-sourced fentanyl flowing across the northern border from Canada?

I am concerned about Chinese-sourced fentanyl flowing across our northern border from Canada. Official statistics released by both Canada and U.S. agencies show that the percentage of fentanyl smuggled from Canada into the U.S. is minor in comparison to Mexico. Unfortunately, the statistics are undoubtedly skewed because Canadian origin fentanyl and fentanyl products are not easily intercepted because of weak Canadian detection and enforcement. There have been disclosures of so-called "fentanyl super labs hidden in rural areas.

They are easily supplied by Canadian transportation hubs— shipping, rail, and trucking networks saturated with organized crime."

> According to analysis by FinTRAC (the Canadian financial intelligence unit – equivalent to FinCEN in the U.S.), Chinese produced fentanyl is becoming an increasing issue of concern. FinTRAC's analysis discloses that in Canada, "Criminals are laundering their illicit funds from opioid trafficking though cash smurfing, trade-based money laundering, flow-through account activity and the use of underground banking. Traffickers also use nominees to launder their illegal funds and to conceal the beneficial ownership." In my written testimony, I also discuss the convergence of trade-based money laundering a underground financial systems as one of the preferred methodologies to launder the illicit proceeds involved in fentanyl trafficking. Discussing the growing fentanyl challenge in Canada, "sources insist this little-understood form of criminal money laundering not only fuels fentanyl trafficking—ultimately linked to a complicit Beijing—but directly finances the drug. The Triads and cartels use false invoicing and front companies, trade-money laundering experts say, securing meth and fentanyl shipments into the United States in exchange for sending legal commodities to Mexico or China. Drug shipments are often concealed within legitimate and counterfeit goods manufactured in China.

[118H803]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To direct certain financial regulators to exclude representatives of the People's Republic of China from certain banking organizations upon notice of certain threats or danger, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. LUCAS introduced the following bill; which was referred to the Committee on _____

A BILL

To direct certain financial regulators to exclude representatives of the People's Republic of China from certain banking organizations upon notice of certain threats or danger, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Pressure Regulatory Organizations To End Chinese Threats to Taiwan Act" or the "PROTECT Taiwan Act".

SEC. 2. STATEMENT OF POLICY REGARDING THE EXCLUSION OF REPRESENTATIVES OF THE PEOPLE'S REPUBLIC OF CHINA FROM CERTAIN BANKING ORGANIZATIONS UPON NOTICE OF CERTAIN THREATS OR DANGER.

(a) IN GENERAL.—If the President, pursuant to section 3(c) of the Taiwan Relations Act (22 U.S.C. 3302(c)), informs the Congress of any threat to the security or the social or economic system of the people on Taiwan and any danger to the interests of the United States arising therefrom resulting from actions of the People's Republic of China, it is the policy of the United States to seek to exclude representatives of the People's Republic of China, to the maximum extent practicable, from participation in meetings, proceedings, and other activities of the following organizations:

(1) The Group of Twenty.

(2) The Bank for International Settlements.

(3) The Financial Stability Board.

(4) The Basel Committee on Banking Supervision.

(5) The International Association of Insurance Supervisors.

(6) The International Organization of Securities Commissions.

(b) POLICY ADVANCEMENT.—The Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the Securities and Exchange Commission, shall take all necessary steps to advance the policy set forth in subsection (a).

(c) WAIVER.—The President may waive the application of subsection (a) with respect to an organization upon submission of a report to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate—

(1) that such waiver is in the national interest of the United States; and

(2) that contains an explanation of the reasons therefor.

(d) SUNSET.—This Act and the requirements of this Act shall have no force or effect on the date that is the earlier of—

(1) 5 years after the date of the enactment of this Act; or

(2) 30 days after the date on which the President notifies Congress that the termination of this Act is in the national interest of the United States.

G:\M\18\LUCAS\LUCAS_042.XML

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To amend the Defense Production Act of 1950 to include the Secretary of Agriculture as a member of the Committee on Foreign Investment in the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. LUCAS introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Defense Production Act of 1950 to include the Secretary of Agriculture as a member of the Committee on Foreign Investment in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Agricultural Risk Review Act of 2025".

SEC. 2. INCLUSION OF THE SECRETARY OF AGRICULTURE ON CFIUS.

Section 721(k) of the Defense Production Act of 1950 (50 U.S.C. 4565(k)) is amended by adding at the end the following:

"(8) INCLUSION OF THE SECRETARY OF AGRICULTURE.—The Secretary of Agriculture shall be a member of the Committee with respect to a covered transaction that involves—

"(A) agricultural land;

"(B) agriculture biotechnology; or

"(C) the agriculture industry, including agricultural transportation, storage, and processing.".

SEC. 3. CONSIDERATION OF CERTAIN AGRICULTURAL LAND TRANSACTIONS.

Section 721(b)(1) of the Defense Production Act of 1950 (50 U.S.C. 4565(b)(1)) is amended by adding at the end the following:

"(I) CONSIDERATION OF CERTAIN AGRICULTURAL LAND TRANSACTIONS.—

"(i) IN GENERAL.—After receiving notification from the Secretary of Agriculture of a reportable agricultural land transaction, the Committee shall determine—

"(I) whether the transaction is a covered transaction; and

"(II) if the Committee determines that the transaction is a covered transaction, whether the Committee should initiate a review pursuant to subparagraph (D), or take another action authorized under this section, with respect to the reportable agricultural land transaction.

"(ii) REPORTABLE AGRICULTURAL LAND TRANSACTION.—In this subparagraph, the term 'reportable agricultural land transaction' means a transaction—

"(I) that the Secretary of Agriculture has reason to believe is a covered transaction, based on information from or in cooperation with the intelligence community;

"(II) that involves the acquisition of an interest in agricultural land by a foreign person of the People's Republic of China, the Democratic People's Republic of Korea, the Russian

Federation, or the Islamic Republic of Iran; and

"(III) with respect to which a person is required to submit a report to the Secretary of Agriculture under section 2(a) of the Agricultural Foreign Investment Disclosure Act of 1978.

"(iii) SUNSET.—The requirements under this subparagraph shall terminate, with respect to a foreign person of the respective foreign country, on the date that the People's Republic of China, the Democratic People's Republic of Korea, the Russian Federation, or the Islamic Republic of Iran, as the case may be, is removed from the list of foreign adversaries in section 791.4 of title 15, Code of Federal Regulations.".

G:\M\19\KIMCA\KIMCA_003.XML

[~118H540EH]

.....
(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To require the Secretary of the Treasury to pursue more equitable treatment of Taiwan at the international financial institutions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mrs. KIM introduced the following bill; which was referred to the Committee on _____

A BILL

To require the Secretary of the Treasury to pursue more equitable treatment of Taiwan at the international financial institutions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Taiwan Non-Discrimination Act of 2025".

SEC. 2. FINDINGS.

Congress finds as follows:

(1) As enshrined in its Articles of Agreement, the International Monetary Fund (IMF) is devoted to promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, encouraging exchange stability, and avoiding competitive exchange depreciation.

(2) Taiwan is the 21st largest economy in the world and the 10th largest goods trading partner of the United States.

(3) Although Taiwan is not an IMF member, it is a member of the World Trade Organization, the Asian Development Bank, and the Asia-Pacific Economic Cooperation forum.

(4) According to the January 2020 Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, published by the Department of the Treasury, Taiwan held $471,900,000,000 in foreign exchange reserves, more than major economies such as India, South Korea, and Brazil.

(5) According to section 4(d) of the Taiwan Relations Act (Public Law 96–8), enacted on April 10, 1979, "Nothing in this Act may be construed as a basis for supporting the exclusion or expulsion of Taiwan from continued membership in any inter-

national financial institution or any other international organization.".

(6) Taiwan held membership in the IMF for 9 years following the recognition of the People's Republic of China (PRC) by the United Nations, and 16 Taiwan staff members at the Fund were allowed to continue their employment after the PRC was seated at the IMF in 1980. As James M. Boughton has noted in his Silent Revolution: The International Monetary Fund 1979–1989, even as the PRC was seated, the United States Executive Director to the IMF, Sam Y. Cross, expressed support on behalf of the United States Government for "some kind of association between Taiwan and the Fund".

(7) On September 27, 1994, in testimony before the Senate Committee on Foreign Relations regarding the 1994 Taiwan Policy Review, then-Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord stated: "Recognizing Taiwan's important role in transnational issues, we will support its membership in organizations where statehood is not a prerequisite, and we will support opportunities for Taiwan's voice to be heard in organizations where its membership is not possible.".

(8) The Congress has repeatedly reaffirmed support for this policy, including in Public Laws 107–10, 107–158, 108–28, 108–235, 113–17, and 114–139, and the unanimous House and Senate passage of the Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act of 2019.

(9) In its fact sheet, entitled "U.S. Relations with Taiwan", published on August 31, 2018, the Department of State asserts: "The United States supports Taiwan's membership in international organizations that do not require statehood as a condition of membership and encourages Taiwan's meaningful participation in international organizations where its membership is not possible.".

(10) According to the Articles of Agreement of the IMF, "membership shall be open to other countries", subject to conditions prescribed by the Board of Governors of the IMF.

(11) In the IMF publication "Membership and Nonmembership in the International Monetary Fund: A Study in International Law and Organization", Joseph Gold, the then-General Counsel and Director of the Legal Department of the IMF, elaborated on the differences between the terms "coun-

tries'' and ''states'', noting that ''the word 'country' may have been adopted because of the absence of agreement on the definition of a 'state' '' and, with respect to the use of ''countries'' and applications for IMF membership, ''the absence of any adjective in the Articles emphasizes the breadth of the discretion that the Fund may exercise in admitting countries to membership''. According to Mr. Gold, ''the desire to give the Fund flexibility in dealing with applications may explain not only the absence of any adjective that qualifies 'countries' but also the choice of that word itself''.

(12) In his IMF study, Mr. Gold further observes, ''in the practice of the Fund the concepts of independence and sovereignty have been avoided on the whole as a mode of expressing a criterion for membership in the Fund''. He continues, ''Although the Fund usually takes into account the recognition or nonrecognition of an entity as a state, there are no rules or even informal understandings on the extent to which an applicant must have been recognized by members or other international organizations before the Fund will regard it as eligible for membership.''. In fact, when considering an application for membership where the status of an appli-

cant may not be resolved, Mr. Gold writes "there have been occasions on which the Fund has made a finding before decisions had been taken by the United Nations or by most members or by members with a majority of the total voting power." Mr. Gold concludes, "the Fund makes its own findings on whether an applicant is a 'country', and makes them solely for its own purposes.".

(13) Although not a member state of the United Nations, the Republic of Kosovo is a member of both the IMF and the World Bank, having joined both organizations on June 29, 2009.

(14) On October 26, 2021, Secretary of State Antony Blinken issued a statement in support of Taiwan's "robust, meaningful participation" in the United Nations system, which includes the IMF, the World Bank, and other specialized United Nations agencies. Secretary of State Blinken noted, "As the international community faces an unprecedented number of complex and global issues, it is critical for all stakeholders to help address these problems. This includes the 24 million people who live in Taiwan. Taiwan's meaningful participation in the UN system is not a political issue, but a pragmatic one.". He continued, "Taiwan's exclusion undermines the im-

portant work of the UN and its related bodies, all of which stand to benefit greatly from its contributions.".

(15) In October 2024, Taiwan announced it would seek IMF membership, with the Taipei Economic and Cultural Representative Office in the United States stating, "Taiwan's membership at the IMF would help boost financial resilience.".

SEC. 3. SENSE OF THE CONGRESS.

It is the sense of the Congress that—

(1) the size, significance, and connectedness of the Taiwanese economy highlight the importance of greater participation by Taiwan in the International Monetary Fund, given the purposes of the Fund articulated in its Articles of Agreement; and

(2) the experience of Taiwan in developing a vibrant and advanced economy under democratic governance and the rule of law should inform the work of the international financial institutions, including through increased participation by Taiwan in the institutions.

SEC. 4. SUPPORT FOR TAIWAN ADMISSION TO THE IMF.

(a) IN GENERAL.—The United States Governor of the International Monetary Fund (in this section referred

to as the "Fund") shall use the voice and vote of the United States to vigorously support—

(1) the admission of Taiwan as a member of the Fund, to the extent that admission is sought by Taiwan;

(2) participation by Taiwan in regular surveillance activities of the Fund with respect to the economic and financial policies of Taiwan, consistent with Article IV consultation procedures of the Fund;

(3) employment opportunities for Taiwan nationals, without regard to any consideration that, in the determination of the United States Governor, does not generally restrict the employment of nationals of member countries of the Fund; and

(4) the ability of Taiwan to receive appropriate technical assistance and training by the Fund.

(b) UNITED STATES POLICY.—It is the policy of the United States not to discourage or otherwise deter Taiwan from seeking admission as a member of the Fund.

(c) WAIVER.—The Secretary of the Treasury may waive any requirement of subsection (a) for up to 1 year at a time on reporting to Congress that providing the waiver will substantially promote the objective of securing the meaningful participation of Taiwan at each international financial institution (as defined in section

1701(c)(2) of the International Financial Institutions Act).

(d) SUNSET.—This section shall have no force or effect on the earlier of—

(1) the date of approval by the Board of Governors of the Fund for the admission of Taiwan as a member of the Fund; or

(2) the date that is 10 years after the date of the enactment of this Act.

SEC. 5. TESTIMONY REQUIREMENT.

In each of the next 7 years in which the Secretary of the Treasury is required by section 1705(b) of the International Financial Institutions Act to present testimony, the Secretary shall include in the testimony a description of the efforts of the United States to support the greatest participation practicable by Taiwan at each international financial institution (as defined in section 1701(c)(2) of such Act).

[118H554RH]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To deter Chinese aggression towards Taiwan by requiring the Secretary of the Treasury to publish a report on financial institutions and accounts connected to senior officials of the People's Republic of China, to restrict financial services for certain immediate family of such officials, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mrs. MCCLAIN introduced the following bill; which was referred to the Committee on _____

A BILL

To deter Chinese aggression towards Taiwan by requiring the Secretary of the Treasury to publish a report on financial institutions and accounts connected to senior officials of the People's Republic of China, to restrict financial services for certain immediate family of such officials, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Taiwan Conflict Deterrence Act of 2025".

SEC. 2. REPORT ON FINANCIAL INSTITUTIONS AND ACCOUNTS CONNECTED TO CERTAIN CHINESE GOVERNMENT OFFICIALS.

(a) FINANCIAL INSTITUTIONS REPORT.—

(1) IN GENERAL.—Not later than 90 days after the date that the President, pursuant to section 3(c) of the Taiwan Relations Act (22 U.S.C. 3302(c)), informs the Congress of a threat resulting from actions of the People's Republic of China and any danger to the interests of the United States arising therefrom, and annually thereafter for 3 years, the Secretary of the Treasury shall submit a report to the appropriate Members of Congress containing the following:

(A) With respect to each of at least 10 natural persons described under subsection (b), at least 1 of whom is a natural person listed under paragraph (1) of such subsection (b) and at least 1 of whom is a natural person listed under paragraph (2) of such subsection (b), the estimated total funds that are held in financial institutions and are under direct or indirect

control by such natural person and a description of such funds.

(B) A list of any financial institutions that—

(i) maintain an account in connection with significant funds described in subparagraph (A); or

(ii) otherwise provide significant financial services to a natural person covered by the report.

(2) BRIEFING REQUIRED.—Not later than 30 days after submitting a report described under paragraph (1), the Secretary of the Treasury, or a designee of the Secretary, shall provide to the appropriate Members of Congress an unclassified or classified briefing (as determined appropriate by the Secretary) on the funds covered by the report, including a description of how the funds were acquired, and any illicit or corrupt means employed to acquire or use the funds.

(3) EXEMPTIONS.—The requirements described under paragraph (1) may not be applied with respect to a natural person or a financial institution, as the case may be, if the President determines:

(A) The funds described under paragraph (1)(A) were primarily acquired through legal and noncorrupt means.

(B) The natural person has agreed to provide significant cooperation to the United States for an important national security purpose with respect to China.

(C) A financial institution has agreed to—

(i) no longer maintain an account described under paragraph (1)(B)(i);

(ii) no longer provide significant financial services to a natural person covered by the report; or

(iii) provide significant cooperation to the United States for an important national security purpose with respect to China.

(4) WAIVER.—The President may waive any requirement described under paragraph (1) with respect to a natural person or a financial institution upon reporting to the appropriate Members of Congress that—

(A) the waiver would substantially promote the objective of ending the threat described under paragraph (1);

(B) the threat described under paragraph (1) is no longer present; or

(C) the waiver is essential to the national security interests of the United States.

(b) NATURAL PERSONS DESCRIBED.—The natural persons described in this subsection are persons who, at the time of a report, are the following:

(1) A member of the Politburo Standing Committee of the Chinese Communist Party.

(2) A member of the Politburo of the Chinese Communist Party that is not described under paragraph (1).

(3) A member of the Central Committee of the Chinese Communist Party that—

(A) is none of the foregoing; and

(B) performs any official duty that directly or indirectly affects Taiwan.

(c) FORM OF REPORTS; PUBLIC AVAILABILITY.—

(1) FORM.—The reports required under paragraphs (1) and (4) of subsection (a) shall be submitted in unclassified form but may contain a classified annex.

(2) PUBLIC AVAILABILITY.—The Secretary of the Treasury shall make the unclassified portion of the report required under subsection (a)(1) available

to the public on the website and social media accounts of the Department of the Treasury—

(A) in English, Chinese, and any other language that the Secretary finds appropriate; and

(B) in precompressed, easily downloadable versions that are made available in all appropriate formats.

SEC. 3. PROHIBITION ON FINANCIAL SERVICES FOR CERTAIN IMMEDIATE FAMILY.

(a) IN GENERAL.—The Secretary of the Treasury shall prohibit a United States financial institution, and any person owned or controlled by a United States financial institution, from engaging in a significant transaction with—

(1) a natural person covered by a report made under section 2(a); and

(2) the immediate family of a person described under paragraph (1), if the Secretary finds that such immediate family benefits from funds described in the report.

(b) EXCEPTIONS.—

(1) EXCEPTION FOR INTELLIGENCE, LAW ENFORCEMENT, AND NATIONAL SECURITY ACTIVITIES.—Subsection (a) shall not apply with respect to

any intelligence, law enforcement, or national security activity of the United States.

(2) WAIVER.—The President may waive the application of subsection (a) with respect to a person upon reporting to the appropriate Members of Congress that—

(A) the waiver would substantially promote the objective of ending the threat described under section 2(a)(1);

(B) the threat described under section 2(a)(1) is no longer present; or

(C) the waiver is essential to the national security interests of the United States.

(3) FORM OF REPORTS.—The reports required under paragraph (2) shall be submitted in unclassified form but may contain a classified annex.

(4) RULE OF CONSTRUCTION.—

(A) IN GENERAL.—Nothing in this section shall be construed as authorizing or requiring any sanction with respect to the importation of any good.

(B) GOOD DEFINED.—In this paragraph, the term "good" means any article, natural or manmade substance, material, supply or manu-

factured product, including inspection and test equipment, and excluding technical data.

(c) IMPLEMENTATION; PENALTIES.—

(1) IMPLEMENTATION.—The President may exercise all authorities provided to the President under sections 203 and 205 of the International Emergency Economic Powers Act (50 U.S.C. 1702 and 1704) to carry out this section. Not later than 60 days after issuing a license pursuant to this section, the President shall submit a copy of the license to the appropriate Members of Congress.

(2) PENALTIES.—A person that violates, attempts to violate, conspires to violate, or causes a violation of this section or any regulation, license, or order issued to carry out this section shall be subject to the penalties set forth in subsections (b) and (c) of section 206 of the International Emergency Economic Powers Act (50 U.S.C. 1705) to the same extent as a person that commits an unlawful act described in subsection (a) of that section 206.

(d) TERMINATION.—This section shall have no force or effect on the earlier of—

(1) the date that is 30 days after the date that the President reports to the appropriate Members of

Congress that the threat described under section 2(a)(1) is no longer present; or

(2) the date that is 25 years after the date that the Secretary of the Treasury submits the final report required under section 2(a)(1).

SEC. 4. DEFINITIONS.

For purposes of this Act:

(1) APPROPRIATE MEMBERS OF CONGRESS.—The term "appropriate Members of Congress" means the Speaker and minority leader of the House of Representatives, the majority leader and minority leader of the Senate, the Chairman and Ranking Member of the Committee on Financial Services of the House of Representatives, and the Chairman and Ranking Member of the Committee on Banking, Housing, and Urban Affairs of the Senate.

(2) FINANCIAL INSTITUTION.—The term "financial institution" means a United States financial institution or a foreign financial institution.

(3) FOREIGN FINANCIAL INSTITUTION.—The term "foreign financial institution" has the meaning given that term in section 561.308 of title 31, Code of Federal Regulations.

(4) FUNDS.—The term "funds" has the meaning given to such term by the Secretary of the Treasury.

(5) IMMEDIATE FAMILY.—The term "immediate family" of any natural person means the following (whether by the full or half blood or by adoption):

(A) Such person's spouse, father, mother, children, brothers, sisters, and grandchildren.

(B) The father, mother, brothers, and sisters of such person's spouse.

(C) The spouse of a child, brother, or sister of such person.

(6) UNITED STATES FINANCIAL INSTITUTION.—The term "United States financial institution" has the meaning given the term "U.S. financial institution" under section 561.309 of title 31, Code of Federal Regulations.

G:\CMTE\FS\19\IFI\NUCLEAR_001.XML

[DISCUSSION DRAFT]

119TH CONGRESS
1ST SESSION

H. R. _____

To provide for advocation of support for nuclear energy, and establish a nuclear energy assistance trust fund, at the World Bank, the European Bank for Reconstruction and Development, and other international financial institutions, as appropriate, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To provide for advocation of support for nuclear energy, and establish a nuclear energy assistance trust fund, at the World Bank, the European Bank for Reconstruction and Development, and other international financial institutions, as appropriate, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "International Nuclear Energy Financing Act of 2025".

SEC. 2. FINDINGS.

Congress finds the following:

(1) Nuclear power is an emissions-free energy source that produces approximately 30 percent of the world's low-carbon electricity. In 2021, 33 countries operated nuclear power plants.

(2) The People's Republic of China and the Russian Federation have sought to export nuclear reactors to Europe, Eurasia, Latin America, Africa, and South Asia. According to a 2017 study by Columbia University's Center on Global Energy Policy, Chinese and Russian nuclear reactors are associated with higher safety risk than Western nuclear reactors. In addition, financial and operational support for nuclear power can extend over decades, allowing Beijing and Moscow to secure long-term influence in both advanced and developing economies.

(3) The Russian Federation is currently building 21 reactors outside its borders, while the People's Republic of China is assembling more than a third of reactors under construction globally. According to research published in Nature Energy in February 2023, when the Russian Federation launched its invasion of Ukraine in 2022, Russian state-owned nuclear operator Rosatom "boasted as many as 73 different projects in 29 countries. The

projects were at very different stages of development from power plants in operation; through construction of reactors ongoing, contracted, ordered or planned; to involvement in tenders, invitations to partnerships or officially published proposals. On top of that, Russian companies have bilateral agreements or memoranda of understanding (MoUs) with 13 countries for services or general joint development of nuclear energy.".

(4) In its report, "International Status and Prospects for Nuclear Power 2021", the International Atomic Energy Agency wrote, "A total of 28 countries have expressed interest in nuclear power and are considering, planning or actively working to include it into their energy mix. Another 24 Member States participate in the Agency's nuclear infrastructure related activities or are involved in energy planning projects through the technical cooperation programme. Ten to twelve embarking Member States plan to operate NPPs [nuclear power plants] by 2030–2035, representing a potential increase of nearly 30% in the number of operating countries. Several embarking countries have also expressed interest in SMRs [small modular reactors] technology, in particular Estonia, Ghana, Jordan,

Kenya, Poland, Saudi Arabia and Sudan, as well as expanding countries such as South Africa.".

(5) On December 2, 2023, the United States, alongside more than 20 other countries, pledged to triple nuclear energy capacity by 2050 and support the financing of nuclear energy through the World Bank and regional development banks, so as to "encourage the inclusion of nuclear energy in their organizations' energy lending policies as needed, and to actively support nuclear power when they have such a mandate".

SEC. 3. MULTILATERAL DEVELOPMENT BANK SUPPORT FOR NUCLEAR ENERGY.

Title XV of the International Financial Institutions Act (22 U.S.C. 262o–262o–4) is amended by adding at the end the following:

"SEC. 1506. MULTILATERAL DEVELOPMENT BANK SUPPORT FOR NUCLEAR ENERGY.

"The Secretary of the Treasury shall instruct the United States Executive Director at the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, and, as the Secretary finds appropriate, any other multilateral development bank (as defined in section 1307(g)) to use the

voice, vote, and influence of the United States to advocate for—

"(1) the removal of prohibitions at the respective bank against financial and technical assistance for the generation and distribution of nuclear energy; and

"(2) increased internal capacity-building at the respective bank for the purpose of assessing—

"(A) the potential role of nuclear energy in the energy systems of client countries; and

"(B) the delivery of financial and technical assistance described in paragraph (1) to the countries.".

SEC. 4. ESTABLISHMENT OF NUCLEAR ENERGY ASSISTANCE TRUST FUNDS.

Title XV of the International Financial Institutions Act (22 U.S.C. 262o–262o–4) is further amended by adding at the end the following:

"SEC. 1507. ESTABLISHMENT OF NUCLEAR ENERGY ASSISTANCE TRUST FUNDS.

"(a) IN GENERAL.—The Secretary of the Treasury shall instruct the United States Governors of the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, and, as the Secretary deems appropriate, other inter-

national financial institutions (as defined in section 1701(c)(2)) to use the voice, vote, and influence of the United States to establish at each such institution a trust fund to be known as the 'Nuclear Energy Assistance Trust Fund' that meets the requirements of subsections (b) and (c) of this section.

"(b) PURPOSES.—The purposes of such a trust fund shall be the following:

"(1) To provide financial and technical assistance to support the generation and distribution of nuclear energy in borrowing countries.

"(2) To ensure that the international financial institution makes financing available on competitive terms, including for the purpose of countering credit extended by the government of a country that is not a member of the OECD Arrangement on Officially Supported Export Credits.

"(3) To exclusively support the adoption of nuclear energy technologies that meet or exceed the quality standards prevalent in the United States or a country allied with the United States.

"(4) To strengthen the capacity of the international financial institution to assess, implement, and evaluate nuclear energy projects.

"(c) USE OF TRUST FUND REVENUES.—The revenues of such a trust fund shall be made available for activities for the purposes described in subsection (b), or the United States share of the revenues shall be remitted to the general fund of the Treasury, as the Secretary finds appropriate.

"(d) RULE OF INTERPRETATION.—This section shall not be interpreted to affect the ability of the United States Governor of, or the United States Executive Director at, an international financial institution (as so defined) to encourage the provision of financial or technical assistance from non-trust fund resources of the institution to support the generation or distribution of nuclear energy.".

SEC. 5. INCLUSION IN ANNUAL REPORT.

During the 7-year period that begins with the date of enactment of this Act, the Chairman of the National Advisory Council on International Monetary and Financial Policies shall, include in the annual report required by section 1701 of the International Financial Institutions Act a description of any progress made—

(1) to promote multilateral development bank (as defined in such section) assistance for nuclear energy; and

(2) to establish a trust fund pursuant to section 1507 of such Act or, as the case may be, a summary of the activities of any such trust fund.

SEC. 6. SUNSET.

This Act and the amendments made by this Act shall have no force or effect beginning 10 years after the date of the enactment of this Act.

G:\M\19\SALAFL\SALAFL_008.XML

[~118H555RH]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To amend the Defense Production Act of 1950 to ensure the supply of certain medical materials essential to national defense, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Ms. SALAZAR introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Defense Production Act of 1950 to ensure the supply of certain medical materials essential to national defense, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Protecting America's Medical Supply Chains Act of 2025".

SEC. 2. SECURING ESSENTIAL MEDICAL MATERIALS.

(a) STATEMENT OF POLICY.—Section 2(b) of the Defense Production Act of 1950 (50 U.S.C. 4502) is amended—

(1) by redesignating paragraphs (3) through (8) as paragraphs (4) through (9), respectively; and

(2) by inserting after paragraph (2) the following:

"(3) authorities under this Act should be used when appropriate to ensure the availability of medical materials essential to national defense, including through measures designed to secure the drug supply chain, and taking into consideration the importance of United States competitiveness, scientific leadership and cooperation, and innovative capacity;".

(b) STRENGTHENING DOMESTIC CAPABILITY.—Section 107 of the Defense Production Act of 1950 (50 U.S.C. 4517) is amended—

(1) in subsection (a), by inserting "(including medical materials)" after "materials"; and

(2) in subsection (b)(1), by inserting "(including medical materials such as drugs (as defined under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 301 et seq.)), devices, and biological products (as that term is defined in section 351 of

the Public Health Service Act (42 U.S.C. 262)) to diagnose, cure, mitigate, treat, or prevent disease that are essential to national defense)" after "essential materials".

(c) STRATEGY ON SECURING SUPPLY CHAINS FOR MEDICAL MATERIALS.—Title I of the Defense Production Act of 1950 (50 U.S.C. 4511 et seq.) is amended by adding at the end the following:

"SEC. 109. STRATEGY ON SECURING SUPPLY CHAINS FOR MEDICAL MATERIALS.

"(a) IN GENERAL.—Not later than 180 days after the date of the enactment of this section, the President, in consultation with the Secretary of Health and Human Services, the Secretary of Commerce, the Secretary of Homeland Security, and the Secretary of Defense, shall transmit a strategy to the appropriate Members of Congress that includes the following:

"(1) A detailed plan to use the authorities under this title and title III, or any other provision of law, to ensure the supply of medical materials (including drugs (as defined under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 301 et seq.)), devices, and biological products (as that term is defined in section 351 of the Public Health Service Act (42 U.S.C. 262)) to diagnose, cure, mitigate, treat,

or prevent disease) essential to national defense, to the extent necessary for the purposes of this Act.

"(2) An analysis of vulnerabilities to existing supply chains for such medical materials, and recommendations to address the vulnerabilities.

"(3) Measures to be undertaken by the President to diversify such supply chains, as appropriate and as required for national defense.

"(4) A discussion of—

"(A) any significant effects resulting from the plan and measures described in this subsection on the production, cost, or distribution of biological products or any other devices or drugs;

"(B) a timeline to ensure that essential components of the supply chain for medical materials are not under the exclusive control of a foreign government in a manner that the President determines could threaten the national defense of the United States; and

"(C) efforts to mitigate any risks resulting from the plan and measures described in this subsection to United States competitiveness, scientific leadership, and innovative capacity,

including efforts to cooperate and proactively engage with United States allies.

"(b) PROGRESS REPORT.—Following submission of the strategy under subsection (a), the President shall submit to the appropriate Members of Congress an annual progress report until September 30, 2029, evaluating the implementation of the strategy, and may include updates to the strategy as appropriate. The strategy and progress reports shall be submitted in unclassified form but may contain a classified annex.

"(c) APPROPRIATE MEMBERS OF CONGRESS.—In this section, the term 'appropriate Members of Congress' means the Speaker, majority leader, and minority leader of the House of Representatives, the majority leader and minority leader of the Senate, the Chairman and Ranking Member of the Committee on Financial Services of the House of Representatives, and the Chairman and Ranking Member of the Committee on Banking, Housing, and Urban Affairs of the Senate.".

SEC. 3. INVESTMENT IN SUPPLY CHAIN SECURITY.

(a) IN GENERAL.—Section 303 of the Defense Production Act of 1950 (50 U.S.C. 4533) is amended by adding at the end the following:

"(h) INVESTMENT IN SUPPLY CHAIN SECURITY.—

"(1) IN GENERAL.—In addition to other authorities in this title, the President may make available to an eligible entity described in paragraph (2) payments to increase the security of supply chains and supply chain activities, if the President certifies to Congress not less than 30 days before making such a payment that the payment is critical to meet national defense requirements of the United States.

"(2) ELIGIBLE ENTITY.—An eligible entity described in this paragraph is an entity that—

"(A) is organized under the laws of the United States or any jurisdiction within the United States; and

"(B) produces—

"(i) one or more critical components;

"(ii) critical technology; or

"(iii) one or more products or raw materials for the security of supply chains or supply chain activities.

"(3) DEFINITIONS.—In this subsection, the terms 'supply chain' and 'supply chain activities' have the meanings given those terms by the President by regulation.".

(b) REGULATIONS.—

(1) IN GENERAL.—Not later than 90 days after the date of the enactment of this Act, the President shall prescribe regulations setting forth definitions for the terms "supply chain" and "supply chain activities" for the purposes of section 303(h) of the Defense Production Act of 1950 (50 U.S.C. 4533(h)), as added by subsection (a).

(2) SCOPE OF DEFINITIONS.—The definitions required by paragraph (1)—

(A) shall encompass—

(i) the organizations, people, activities, information, and resources involved in the delivery and operation of a product or service used by the Government; or

(ii) critical infrastructure as defined in Presidential Policy Directive 21 (February 12, 2013; relating to critical infrastructure security and resilience); and

(B) may include variations as determined necessary and appropriate by the President for purposes of national defense.

G:\M\19\OGLES\OGLES_046.XML

[118H3244RH]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To provide authority to the Secretary of the Treasury to take special measures against certain entities outside of the United States of primary money laundering concern in connection with illicit fentanyl and narcotics financing, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. OGLES introduced the following bill; which was referred to the Committee on _____

A BILL

To provide authority to the Secretary of the Treasury to take special measures against certain entities outside of the United States of primary money laundering concern in connection with illicit fentanyl and narcotics financing, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Stop Fentanyl Money Laundering Act of 2025".

SEC. 2. DETERMINATION WITH RESPECT TO PRIMARY MONEY LAUNDERING CONCERN OF ILLICIT FENTANYL AND NARCOTICS FINANCING.

(a) IN GENERAL.—If the Secretary of the Treasury determines that one or more financial institutions operating outside of the United States, or one or more classes of transactions within, or involving, a jurisdiction outside of the United States, or one or more types of accounts within, or involving, a jurisdiction outside of the United States is of primary money laundering concern in connection with illicit fentanyl and narcotics financing, the Secretary of the Treasury may, by order, regulation, or otherwise as permitted by law, require domestic financial institutions and domestic financial agencies to take one or more of the special measures described in section 5318A(b) of title 31, United States Code.

(b) CLASSIFIED INFORMATION.—In any judicial review of a finding of the existence of a primary money laundering concern, or of the requirement for 1 or more special measures with respect to a primary money laundering concern made under this section, if the designation or imposition, or both, were based on classified information (as defined in section 1(a) of the Classified Information Procedures Act (18 U.S.C. App.)), such information may be submitted by the Secretary of the Treasury to the reviewing court ex parte and in camera. This subsection does

not confer or imply any right to judicial review of any finding made or any requirement imposed under this section.

(c) AVAILABILITY OF INFORMATION.—The exemptions from, and prohibitions on, search and disclosure referred to in section 9714(c) of the National Defense Authorization Act for Fiscal Year 2021 (Public Law 116–283; 31 U.S.C. 5318A note) shall apply to any report or record of report filed pursuant to a requirement imposed under subsection (a). For purposes of section 552 of title 5, United States Code, this section shall be considered a statute described in subsection (b)(3)(B) of that section.

(d) PENALTIES.—The penalties referred to in section 9714(d) of the National Defense Authorization Act for Fiscal Year 2021 (Public Law 116–283; 31 U.S.C. 5318A note) shall apply to violations of any order, regulation, special measure, or other requirement imposed under subsection (a), in the same manner and to the same extent as described in such section 9714(d).

(e) INJUNCTIONS.—The Secretary of the Treasury may bring a civil action to enjoin a violation of any order, regulation, special measure, or other requirement imposed under subsection (a) in the same manner and to the same extent as described in section 9714(e) of the National Defense Authorization Act for Fiscal Year 2021 (Public Law 116–283; 31 U.S.C. 5318A note).

(f) DEFINITIONS.—In this section, the terms "domestic financial agency", "domestic financial institution", "financial agency", and "financial institution" have the meanings given those terms as used in section 9714 of the National Defense Authorization Act for Fiscal Year 2021 (Public Law 116–283; 31 U.S.C. 5318A note).

SEC. 3. TRADE-BASED MONEY LAUNDERING ADVISORY.

Not later than one year following the date of the enactment of this Act, the Financial Crimes Enforcement Network shall update and issue a new advisory to financial institutions on identifying Chinese professional money laundering facilitating the trafficking of fentanyl and other synthetic opioids. Such advisory shall incorporate the following advisories:

(1) FIN–2014–A005, entitled "Update on U.S. Currency Restrictions in Mexico: Funnel Accounts and TBML";

(2) FIN–2010–A001, entitled "Advisory to Financial Institutions on Filing Suspicious Activity Reports regarding Trade-Based Money Laundering"; and

(3) FIN–2019–A006, entitled "Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids".

SEC. 4. TREATMENT OF TRANSNATIONAL CRIMINAL ORGANIZATIONS IN SUSPICIOUS TRANSACTIONS.

(a) FILING INSTRUCTIONS.—Not later than 180 days after the date of the enactment of this Act, the Director of the Financial Crimes Enforcement Network shall issue guidance or instructions to United States financial institutions for filing reports on suspicious transactions required by section 5318(g) of title 31, United States Code, related to suspected narcotics trafficking by transnational criminal organizations.

(b) PRIORITIZATION OF REPORTS RELATING TO NARCOTICS TRAFFICKING OR TRANSNATIONAL CRIMINAL ORGANIZATIONS.—The Director shall prioritize research into reports described in subsection (a) that indicate a connection to trafficking of narcotics.

(c) BRIEFING TO CONGRESS.—Not later than one year after the date of enactment of this Act, the Director shall brief the Committees on Financial Services and Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and Foreign Relations of the Senate on the usefulness of the guidance or instructions issued under subsection (a).

G:\M\19\BARR\BARR_004.XML

[118H3203__RFS]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To impose sanctions with respect to Chinese producers of synthetic opioids and opioid precursors, to hold Chinese officials accountable for the spread of illicit fentanyl, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. BARR introduced the following bill; which was referred to the Committee on _____

A BILL

To impose sanctions with respect to Chinese producers of synthetic opioids and opioid precursors, to hold Chinese officials accountable for the spread of illicit fentanyl, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Stop Chinese Fentanyl Act of 2025".

SEC. 2. SENSE OF CONGRESS.

It is the sense of Congress that the Government of the People's Republic of China should—

(1) work with the United States Government to identify a list of unregulated chemicals used to create precursor chemicals that bear increased scrutiny;

(2) require the proper labeling of chemical and equipment shipments in accordance with international rules;

(3) immediately implement "know-your-customer" procedures for chemical shipments; and

(4) direct all relevant departments and agencies, including the National Narcotics Control Commission, the Ministry of Public Security, the General Administration of Customs, and the National Medical Products Administration of the Government of the People's Republic of China to establish new rules to crack down on precursor trafficking and enforce such rules swiftly.

SEC. 3. AMENDMENTS TO THE FENTANYL SANCTIONS ACT.

(a) DEFINITIONS.—Section 7203(5) of the Fentanyl Sanctions Act (21 U.S.C. 2302(5)) is amended—

(1) by striking "The term 'foreign opioid trafficker' means any foreign person" and inserting the following: "The term 'foreign opioid trafficker'—

"(A) means any foreign person";

(2) by striking the period at the end and inserting "; and"; and

(3) by adding at the end the following:

"(B) includes—

"(i) any entity of the People's Republic of China that the President determines—

"(I) produces, manufactures, distributes, sells, or knowingly finances or transports any goods described in clause (i) or (ii) of paragraph (8)(A); and

"(II) fails to take credible steps, including through implementation of appropriate know-your-customer procedures or through cooperation with United States counternarcotics efforts, to detect or prevent opioid trafficking; and

"(ii) any senior official of the Government of the People's Republic of China or other Chinese political official that—

"(I) has significant regulatory or law enforcement responsibilities with

respect to the activities of an entity described in clause (i); and

"(II) aids and abets, including through intentional inaction, opioid trafficking.".

(b) IDENTIFICATION OF FOREIGN OPIOID TRAFFICKERS.—Section 7211 of the Fentanyl Sanctions Act (21 U.S.C. 2311) is amended—

(1) in subsection (a)(1)(A), by adding at the end before the semicolon the following: ", including whether the heads of the National Narcotics Control Commission, the Ministry of Public Security, the General Administration of Customs, and the National Medical Products Administration of the Government of the People's Republic of China are foreign opioid traffickers"; and

(2) in subsection (c), by striking "5 years" and inserting "10 years".

SEC. 4. AMENDMENTS TO THE INTERNATIONAL EMERGENCY ECONOMIC POWERS ACT AND THE TRADING WITH THE ENEMY ACT.

(a) PERIODIC EVALUATION.—Section 203 of the International Emergency Economic Powers Act (50 U.S.C. 1702) is amended by adding at the end the following:

"(d) PERIODIC EVALUATION.—

"(1) IN GENERAL.—If the authority granted to the President under this section is exercised with respect to a covered national emergency, the President shall transmit to the appropriate congressional committees, not less frequently than annually, a periodic evaluation in writing that—

"(A) assesses the effectiveness of the exercise of such authority in resolving the covered national emergency;

"(B) considers the views of public- and private-sector stakeholders; and

"(C) discusses any potential changes to the exercise of the authority for the purpose of more effectively resolving the covered national emergency.

"(2) DEFINITIONS.—In this subsection—

"(A) the term 'appropriate congressional committees' means—

"(i) the Committee on Foreign Affairs, the Committee on Financial Services, and the Committee on Oversight and Accountability of the House of Representatives; and

"(ii) the Committee on Homeland Security and Governmental Affairs, the Committee on Foreign Relations, and the Committee on Banking, Housing, and Urban Affairs of the Senate; and

"(B) the term 'covered national emergency' means a national emergency that—

"(i) the President has declared, within the preceding 5-year period, with respect to any national emergency regarding international drug trafficking; and

"(ii) has not terminated.".

(b) CONSULTATION AND REPORTS.—Section 204 of the International Emergency Economic Powers Act (50 U.S.C. 1703) is amended—

(1) by striking "the Congress" each place it appears and inserting "the appropriate congressional committees"; and

(2) by adding at the end the following:

"(e) APPROPRIATE CONGRESSIONAL COMMITTEES DEFINED.—In this section, the term 'appropriate congressional committees' has the meaning given that term in section 203(d)(2).".

(3) AUTHORITY TO ISSUE REGULATIONS.—Section 205 of the International Emergency Economic Powers Act (50 U.S.C. 1704) is amended—

(A) by striking "The President" and inserting "(a) The President"; and

(B) by adding at the end the following:

"(b) In issuing regulations under subsection (a) pursuant to a covered national emergency (as defined in section 203), the President shall—

"(1) consider the costs and benefits of available statutory and regulatory alternatives;

"(2) evaluate the costs and benefits for the purpose of expeditiously resolving the applicable national emergency;

"(3) establish criteria for the eventual termination of the applicable national emergency; and

"(4) include in the basis and purpose incorporated in the regulations—

"(A) an explanation of how the regulations will resolve the applicable national emergency; and

"(B) a discussion of the costs and benefits.".

SEC. 5. EXCEPTION RELATING TO IMPORTATION OF GOODS.

(a) IN GENERAL.—A requirement to block and prohibit all transactions in all property and interests in property pursuant to this Act or any amendment made by this Act shall not include the authority or a requirement to impose sanctions on the importation of goods.

(b) GOOD DEFINED.—In this section, the term "good" means any article, natural or manmade substance, material, supply or manufactured product, including inspection and test equipment, and excluding technical data.

.....

(Original Signature of Member)

118TH CONGRESS
2D SESSION

H. R. _____

To expand the investigative authorities of the United States Secret Service, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To expand the investigative authorities of the United States Secret Service, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Combating Money Laundering in Cyber Crime Act of 2024".

SEC. 2. EXPANSION OF UNITED STATES SECRET SERVICES INVESTIGATIVE AUTHORITIES.

Section 3056(b) of title 18, United States Code, is amended—

(1) in paragraph (1), by striking "or 879" and inserting "879, or 1960"; and

(2) in paragraph (2), by striking "or" at the end;

(3) in paragraph (3)—

(A) by striking "federally insured";

(B) by inserting "(as such term is defined in section 5312 of title 31)" after "institution"; and

(C) by striking the period at the end and inserting "; or"; and

(4) by adding at the end the following:

"(4) section 5324 of title 31, except that the authority conferred by this paragraph shall be exercised subject to the agreement of the Attorney General and the Secretary of Homeland Security and shall not affect the authority of any other Federal law enforcement agency with respect to those laws.".

SEC. 3. FINCEN EXCHANGE.

Section 310(d)(3)(A) of title 31, United States Code, is amended by striking "next 5 years" and inserting "next 10 years".

SEC. 4. INTERNATIONAL FINANCIAL INSTITUTIONS.

Section 7125(b) of division F of the National Defense Authorization Act for Fiscal Year 2020 (22 U.S.C. 262p-

13 note; Public Law 116–92) is amended by striking "5" and inserting "10".

G:\M\19\WILLTX\WILLTX_014.XML

[~118H1156EH]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To require the Secretary of the Treasury to conduct a study and report on the exposure of the United States to the financial sector of the People's Republic of China, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. WILLIAMS of Texas introduced the following bill; which was referred to the Committee on _____

A BILL

To require the Secretary of the Treasury to conduct a study and report on the exposure of the United States to the financial sector of the People's Republic of China, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "China Financial Threat Mitigation Act of 2025".

SEC. 2. CHINA FINANCIAL THREAT MITIGATION.

(a) REPORT.—Not later than one year after the date of the enactment of this Act, the Secretary of the Treasury, in consultation with the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, the Chairman of the Commodity Futures Trading Commission, and the Secretary of State, shall conduct a study and issue a report on the exposure of the United States to the financial sector of the People's Republic of China that includes—

(1) an assessment of the effects of significant risks in the financial sector of the People's Republic of China on the United States and global financial systems;

(2) a description of the policies the United States Government is adopting to protect the financial stability of the United States and the global economy from any risks described under paragraph (1);

(3) a description and evaluation of the transparency, completeness, and reliability of Chinese economic data; and

(4) recommendations for additional actions the United States Government, including United States representatives at relevant international organiza-

tions, should take to strengthen international cooperation to monitor and mitigate such financial stability risks and protect United States interests.

(b) TRANSMISSION OF REPORT.—The Secretary of the Treasury shall transmit the report required under subsection (a) not later than one year after the date of enactment of this Act to the Committees on Financial Services and Foreign Affairs of the House of Representatives, the Committees on Banking, Housing, and Urban Affairs and Foreign Relations of the Senate, and to the United States representatives at relevant international organizations, as appropriate.

(c) CLASSIFICATION OF REPORT.—The report required under subsection (a) shall be unclassified, but may contain a classified annex.

(d) PUBLICATION OF REPORT.—The Secretary of the Treasury shall publish the report required under subsection (a) (other than any classified annex) on the website of the Department of the Treasury not later than one year after the date of enactment of this Act.

G:\M\19\NUNN\NUNN_022.XML [Discussion Draft]

.....
(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To provide for working with allies to seek increased compliance by China with certain OECD export credit standards.

IN THE HOUSE OF REPRESENTATIVES

Mr. NUNN of Iowa introduced the following bill; which was referred to the Committee on _____

A BILL

To provide for working with allies to seek increased compliance by China with certain OECD export credit standards.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Neutralizing Unfair Chinese Export Subsidies Act of 2025".

SEC. 2. WORKING WITH ALLIES TO ENSURE CHINA'S COMPLIANCE WITH OECD STANDARDS.

(a) IN GENERAL.—Within 180 days after the date of the enactment of this Act, the Secretary of the Treasury shall submit to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate a detailed strategy and timeline with respect to—

(1) strengthening United States advocacy and cooperation with appropriate allies and partners to seek to ensure substantial compliance by China with the financial terms and conditions of the OECD Arrangement on Officially Supported Export Credits; and

(2) the goal described in section 11(a)(1) of the Export-Import Bank Reauthorization Act of 2012.

(b) INTERNATIONAL NEGOTIATIONS ON EXPORT SUBSIDIES.—

(1) IN GENERAL.—Section 11(a)(1) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a–5(a)(1)) is amended by striking "with the possible goal of eliminating, before the date that is 10 years after the date of the enactment of the Export-Import Bank Reform and Reauthorization Act of 2015," and inserting "with the goal of eliminating, before the date that is 10 years after the

date of the enactment of the Neutralizing Unfair Chinese Export Subsidies Act of 2025".

(2) PROGRESS REPORT.—Section 11(e) of such Act (12 U.S.C. 635a–5(e)) is amended by striking "2019" and inserting "2029".

(3) CONDUCT OF NEGOTIATIONS.—Section 11 of such Act (12 U.S.C. 635a–5) is amended—

(A) in each of subsections (a) and (d), by striking "The President" and inserting "The Secretary of the Treasury, in consultation with the United States Trade Representative,";

(B) in subsection (a), by inserting ", and endeavor to hold not less frequently than twice per year," before "negotiations";

(C) in each of subsections (b), (c), and (e), by striking "President" each place it appears and inserting "Secretary of the Treasury"; and

(D) in subsection (d), by inserting ", and endeavor to hold such negotiations not less frequently than twice per year" before the period.

SEC. 3. EXCHANGE RATE GOVERNANCE AND INTERNATIONAL MONETARY FUND.

(a) IN GENERAL.—In applying criteria to determine whether the People's Republic of China has manipulated

the rate of exchange between its currency and the United States dollar, the Secretary of the Treasury—

(1) shall take into account—

(A) compliance by the People's Republic of China with its obligations under Article VIII of the Articles of Agreement of the International Monetary Fund;

(B) the transparency of exchange rate management by the People's Republic of China; and

(C) significant support by the government of the People's Republic of China to particular economic sectors that prevents effective balance of payments adjustments; and

(2) may carry out the determination regardless of any global current account surplus of the People's Republic of China.

(b) OPPOSITION TO IMF QUOTA INCREASE.—During the one-year period following a determination by the Secretary of the Treasury that the People's Republic of China has manipulated the rate of exchange between its currency and the United States dollar, the Secretary shall instruct the United States Governor of the International Monetary Fund to use the voice and vote of the United States to oppose any proposal to increase the quota of the People's

Republic of China in the Fund, other than consent to an amendment to the Articles of Agreement of the Fund that has been authorized by law.

G:\M\19\DAVIOH\DAVIOH_031.XML

[118H5485RH]

.....
(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To require the Secretary of the Treasury to provide for greater transparency and protections with regard to Bank Secrecy Act reports, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. DAVIDSON introduced the following bill; which was referred to the Committee on _____

A BILL

To require the Secretary of the Treasury to provide for greater transparency and protections with regard to Bank Secrecy Act reports, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Financial Privacy Act of 2025".

SEC. 2. FINDINGS.

The Congress finds the following:

(1) Pursuant to the Bank Secrecy Act ("BSA"), the Secretary of the Treasury, acting through the Financial Crimes Enforcement Network ("FinCEN"), collects millions of reports annually on the economic activity of ordinary Americans.

(2) Since 2001, FinCEN has applied the BSA to collect over 322,000,000 Currency Transaction Reports and more than 36,000,000 Suspicious Activity Reports, as well as nearly 5,000,000 Form 8300 Reports. In addition, FinCEN expects to amass beneficial ownership information ("BOI") from 32,000,000 companies in its initial year of collection, plus 5,000,000 additional companies implicated each year thereafter.

(3) The mass of reporting collected by FinCEN suggests that, while certain BSA reports might prove useful to combat illicit finance, the bulk of BSA-related data may possess little to no nexus to legitimate law enforcement or intelligence purposes, even as it encompasses highly sensitive details on the everyday lives of Americans.

(4) By law, the Secretary of the Treasury must ensure the security and confidentiality of BSA data. In a Notice of Proposed Rulemaking from December 2022, FinCEN acknowledged that "BOI is highly

sensitive information. FinCEN therefore views it as critical to mitigate the risk of unauthorized disclosure of BOI as much as possible.".

SEC. 3. REPORTS TO CONGRESS; REVIEW OF PROTOCOLS FOR AGENCY ACCESS TO REPORTS.

(a) IN GENERAL.—Chapter 53 of title 31, United States Code, is amended—

(1) in subchapter II, by inserting after section 5326 the following:

"§ 5327. Reports to Congress; Review of protocols for agency access to reports

"(a) REPORTS TO CONGRESS.—Not later than 180 days following the date of the enactment of this section, and annually thereafter, the Secretary of the Treasury shall submit to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate a report containing the following:

"(1) The number of reports, by type, filed each year with the Financial Crimes Enforcement Network ('FinCEN') under this subchapter since January 1, 2022.

"(2) The total number of reports filed under this subchapter retained by FinCEN.

"(3) A description of any written protocols or guidance from the Secretary to national security, law enforcement, or intelligence agencies regarding agency access to, and retention or dissemination of, information held by FinCEN from reports filed under this subchapter, including—

"(A) a description of any updates to the protocols or guidance during the reporting period;

"(B) the number of queries by such agencies to access the information during the reporting period; and

"(C) any denials of requests for, or revocations of, access by a national security, law enforcement, or intelligence agency, or by any employee thereof, with a description of the reasons for the denial or revocation, as the case may be.

"(b) REVIEW AND REVISION OF PROTOCOLS.—In consultation with the Director of National Intelligence and the Attorney General, the Secretary of the Treasury shall annually review and, as appropriate, revise any written protocols or guidance described under subsection (a) for the purposes of—

"(1) better tailoring the collection, retention, and dissemination of information filed under this

subchapter to authorized national security, law enforcement, or intelligence objectives;

"(2) enforcing prohibitions against unauthorized disclosure of such information; and

"(3) protecting fully the legal rights of all United States persons, including freedoms, civil liberties, and privacy rights guaranteed by Federal law.

"(c) CONGRESSIONAL REQUESTS; NOTICE OF CHANGES.—

"(1) REQUESTS FOR INFORMATION.—Upon request of the chair or ranking member of the Committee on Financial Services of the House of Representatives or the Committee on Banking, Housing, and Urban Affairs of the Senate, the Secretary shall provide a copy of any written protocols or guidance described in subsection (a)(3).

"(2) NOTICE OF CHANGES.—Not later than 30 days after revising any written protocols or guidance described in subsection (a)(3), the Secretary shall provide a copy of such revised written protocols or guidance to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate."; and

(2) in the table of contents for such chapter, by inserting after the item relating to section 5326 the following:

"5327. Reports to Congress; Review of protocols for agency access to reports.".

(b) SUNSET.—On the date that is the end of the 7-year period beginning on the date of enactment of this Act—

(1) section 5327 of title 31, United States Code, is repealed; and

(2) the table of contents for chapter 53 of title 31, United States Code, is amended by striking the item relating to section 5327.

G:\M\19\NUNN\NUNN_029.XML

[118H2969RFS]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To establish an Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. NUNN of Iowa introduced the following bill; which was referred to the Committee on _____

A BILL

To establish an Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Financial Technology Protection Act of 2025".

SEC. 2. INDEPENDENT FINANCIAL TECHNOLOGY WORKING GROUP TO COMBAT TERRORISM AND ILLICIT FINANCING.

(a) ESTABLISHMENT.—There is established the Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing (in this section referred to as the "Working Group"), which shall consist of the following:

(1) The Secretary of the Treasury, acting through the Under Secretary for Terrorism and Financial Intelligence, who shall serve as the chair of the Working Group.

(2) A senior-level representative from each of the following:

(A) Each of the following components of the Department of the Treasury:

(i) The Financial Crimes Enforcement Network.

(ii) The Internal Revenue Service.

(iii) The Office of Foreign Assets Control.

(B) The Department of Justice and each of the following components of the Department:

(i) The Federal Bureau of Investigation.

(ii) The Drug Enforcement Administration.

(C) The Department of Homeland Security and the United States Secret Service.

(D) The Department of State.

(E) The Central Intelligence Agency.

(3) Five individuals appointed by the Under Secretary for Terrorism and Financial Intelligence to represent the following:

(A) Financial technology companies.

(B) Blockchain intelligence companies.

(C) Financial institutions.

(D) Institutions or organizations engaged in research.

(E) Institutions or organizations focused on individual privacy and civil liberties.

(b) DUTIES.—The Working Group shall—

(1) conduct research on terrorist and illicit use of new financial technologies, including digital assets; and

(2) develop legislative and regulatory proposals to improve anti-money laundering, counter-terrorist, and other counter-illicit financing efforts in the United States.

(c) REPORTS.—

(1) IN GENERAL.—Not later than one year after the date of the enactment of this Act, and annually for the 3 years thereafter, the Working Group shall submit to the Secretary of the Treasury, the heads of each agency represented in the Working Group pursuant to subsection (a)(2), and the appropriate congressional committees a report containing the findings and determinations made by the Working Group in the previous year and any legislative and regulatory proposals developed by the Working Group.

(2) FINAL REPORT.—Before the date on which the Working Group terminates under subsection (d)(1), the Working Group shall submit to the appropriate congressional committees a final report detailing the findings, recommendations, and activities of the Working Group.

(d) SUNSET.—

(1) IN GENERAL.—The Working Group shall, subject to paragraph (3), terminate on the date that is 4 years after the date of the enactment of this Act.

(2) EXPIRATION AND RETURN OF APPROPRIATED FUNDS.—On the date on which the Working Group terminates under paragraph (1)—

(A) all authorities granted to the Working Group under this section shall expire, subject to paragraph (3); and

(B) any funds appropriated for the Working Group that are available for obligation as of that date shall be returned to the Treasury.

(3) AUTHORITY TO WIND UP ACTIVITIES.—The termination of the Working Group under paragraph (1) and the expiration of authorities under paragraph (2) shall not affect any research, proposals, or other related activities of the Working Group ongoing as of the date on which the Working Group terminates under paragraph (1). Such research, proposals, and other related activities may continue until their completion.

SEC. 3. PREVENTING ROGUE AND FOREIGN ACTORS FROM EVADING SANCTIONS.

(a) REPORT AND STRATEGY WITH RESPECT TO DIGITAL ASSETS AND OTHER RELATED EMERGING TECHNOLOGIES.—

(1) IN GENERAL.—Not later than 180 days after the date of the enactment of this Act, the President, acting through the Secretary of the Treasury and in consultation with the head of each agency represented on the Independent Financial

Technology Working Group to Combat Terrorism and Illicit Financing pursuant to section 2(a)(2), shall submit to the appropriate congressional committees a report that describes—

(A) the potential uses of digital assets and other related emerging technologies by States, non-State actors, foreign terrorist organizations, and other terrorist groups to evade sanctions, finance terrorism, or launder monetary instruments, and threaten the national security of the United States; and

(B) a strategy how the United States will mitigate and prevent the illicit use of digital assets and other related emerging technologies.

(2) FORM OF REPORT; PUBLIC AVAILABILITY.—

(A) IN GENERAL.—The report required by paragraph (1) shall be submitted in unclassified form, but may include a classified annex.

(B) PUBLIC AVAILABILITY.—The unclassified portion of each report required by paragraph (1) shall be made available to the public and posted on a publicly accessible website of the Department of Treasury—

(i) in precompressed, easily downloadable versions, in all appropriate formats; and

(ii) in machine-readable format, if applicable.

(3) SOURCES OF INFORMATION.—In preparing the reports required by paragraph (1), the President may utilize any credible publication, database, or web-based resource, and any credible information compiled by any government agency, nongovernmental organization, or other entity that is made available to the President.

(b) BRIEFING.—Not later than 2 years after the date of the enactment of this Act, the Secretary of the Treasury shall brief the appropriate congressional committees on the implementation of the strategy required by subsection (a)(2).

SEC. 4. DEFINITIONS.

In this Act:

(1) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term "appropriate congressional committees" means—

(A) the Committee on Banking, Housing, and Urban Affairs, the Committee on Finance, the Committee on Foreign Relations, the Com-

mittee on Homeland Security and Governmental Affairs, the Committee on the Judiciary, and the Select Committee on Intelligence of the Senate; and

(B) the Committee on Financial Services, the Committee on Foreign Affairs, the Committee on Homeland Security, the Committee on the Judiciary, the Committee on Way and Means, and the Permanent Select Committee on Intelligence of the House of Representatives.

(2) BLOCKCHAIN INTELLIGENCE COMPANY.—The term "blockchain intelligence company" means any business providing software, research, or other services (such as blockchain tracing tools, geofencing, transaction screening, the collection of business data, and sanctions screening) that—

(A) support private and public sector investigations and risk management activities; and

(B) involve cryptographically secured distributed ledgers or any similar technology or implementation.

(3) DIGITAL ASSET.—The term "digital asset" means any digital representation of value that is re-

corded on a cryptographically secured digital ledger or any similar technology.

(4) FOREIGN TERRORIST ORGANIZATION.—The term "foreign terrorist organization" means an organization that is designated as a foreign terrorist organization under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189).

(5) ILLICIT USE.—The term "illicit use" includes fraud, darknet marketplace transactions, money laundering, the purchase and sale of illicit goods, sanctions evasion, theft of funds, funding of illegal activities, transactions related to child sexual abuse material, and any other financial transaction involving the proceeds of specified unlawful activity (as defined in section 1956(c) of title 18, United States Code).

(6) TERRORIST.—The term "terrorist" includes a person carrying out domestic terrorism or international terrorism (as such terms are defined, respectively, under section 2331 of title 18, United States Code).

G:\M\19\HILLAR\HILLAR_015.XML

[118H557]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To promote United States interests at the international financial institutions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. HILL of Arkansas introduced the following bill; which was referred to the Committee on _____

A BILL

To promote United States interests at the international financial institutions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "International Financial Institutions Governance Act of 2025".

SEC. 2. SENSE OF CONGRESS.

It is the sense of the Congress that—

(1) directing the use of the voice and vote of the United States at the international financial insti-

tutions (IFIs) serves an essential role in promoting the national interest;

(2) despite their importance, such mandates have grown to represent a significant compliance burden for United States representatives at the IFIs, having accumulated to more than 260 pages of statutory text over the course of decades-long participation by the United States in the IFIs; and

(3) while certain mandates provide appropriate discretion for United States representatives through waivers and sunset provisions, others may entail inflexible requirements that—

(A) prevent the representatives from achieving maximum effectiveness in the promotion of United States interests;

(B) render the representatives less relevant in multilateral negotiations at the IFIs, including in discussions with United States allies; or

(C) fail to adapt to intervening events and changing circumstances, thereby undermining the pursuit of United States interests.

SEC. 3. PILOT AUTHORITY TO WAIVE VOICE AND VOTE REQUIREMENTS, ON A CASE-BY-CASE BASIS, IN THE INTERNATIONAL FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—The Secretary may waive, on a case-by-case basis, a statutory requirement that directs the United States Executive Director at an international financial institution with respect to the use of the voice and vote of the United States.

(b) EXCEPTION.—Subsection (a) shall not apply to a statutory requirement if the provision of law providing for the requirement provides for—

(1) a waiver of the requirement; or

(2) the termination of the requirement by a date certain.

(c) DEFINITIONS.—In this section:

(1) INTERNATIONAL FINANCIAL INSTITUTION.—The term "international financial institution" has the meaning given the term in section 1701(c)(2) of the International Financial Institutions Act.

(2) SECRETARY.—The term "Secretary" means the Secretary of the Treasury.

(d) REPORT DESCRIBED.—Not less frequently than semiannually, the Secretary shall submit to the Committee on Financial Services of the House of Representatives and

the Committee on Foreign Relations of the Senate a written report that includes the following:

(1) A list of each waiver issued under subsection (a) since the later of the date of the enactment of this section or the date the then most recent report was submitted under this subsection.

(2) A description of any project, policy, or other matter to which the waiver involved applied.

(3) A detailed explanation of the reasons for the waiver involved.

(4) A determination that the waiver involved allowed the Secretary to more effectively advance United States interests at the international financial institution involved.

(e) NO RETROACTIVE APPLICATION.—A waiver issued under this section shall not apply retroactively.

(f) RECOMMENDATIONS BY THE SECRETARY.—Within 12 months after the date of the enactment of this Act, the Secretary shall submit to the committees specified in subsection (d) any recommendations to revise or sunset a statutory requirement that directs the United States Executive Director at an international financial institution with respect to the use of the voice and vote of the United States. The recommendations should be aimed at achiev-

ing the following objectives with regard to the international financial institution:

(1) Strengthening United States leadership in the design, execution, and evaluation of activities.

(2) Permitting the Secretary to more effectively support policies, projects, and other initiatives that advance the national interest of the United States.

(3) Facilitating multilateral cooperation, particularly between the United States and its allies.

(4) Updating a requirement to appropriately reflect changing conditions.

(5) Allowing for all appropriate accountability to the Congress with respect to United States governance at, and participation in, the international financial institution.

(g) SUNSET.—The preceding provisions of this section shall have no force or effect on and after the date that is 3 years after the date of the enactment of this Act.

G:\M\19\WATERS\WATERS_022.XML

[118H1161]

.....
(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To accord securities issued by the International Development Association the same exemption from the securities laws that applies to the securities of other multilateral development banks in which the United States is a member.

IN THE HOUSE OF REPRESENTATIVES

Ms. WATERS introduced the following bill; which was referred to the Committee on _____

A BILL

To accord securities issued by the International Development Association the same exemption from the securities laws that applies to the securities of other multilateral development banks in which the United States is a member.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Aligning SEC Regulations for the World Bank's International Development Association Act".

SEC. 2. EXEMPTION OF SECURITIES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION FROM THE SECURITIES LAWS.

(a) IN GENERAL.—The International Development Association Act (22 U.S.C. 284–284cc) is amended by adding at the end the following:

"SEC. 32. EXEMPTION OF SECURITIES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION FROM THE SECURITIES LAWS.

"(a) EXEMPTION FROM SECURITIES LAWS; REPORTS TO SECURITIES AND EXCHANGE COMMISSION.—Any securities issued by the Association (including any guaranty by the Association, whether or not limited in scope) and any securities guaranteed by the Association as to both principal and interest shall be deemed to be exempted securities within the meaning of section 3(a)(2) of the Securities Act of 1933 (15 U.S.C. 77c(a)(2)) and section 3(a)(12) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(12)). The Association shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the Association and its operations and necessary in the public interest or for the protection of investors.

"(b) AUTHORITY OF SECURITIES AND EXCHANGE COMMISSION TO SUSPEND EXEMPTION; REPORTS TO CONGRESS.—The Securities and Exchange Commission, acting in consultation with the National Advisory Council on International Monetary and Financial Problems, is authorized to suspend the provisions of subsection (a) of this section at any time as to any or all securities issued or guaranteed by the Association during the period of such suspension. The Commission shall include in its annual reports to the Congress such information as it shall deem advisable with regard to the operations and effect of this section.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect 30 days after the date of the enactment of this Act.

G:\M\19\BEATTY\BEATTY_005.XML

[118H6370]

.....

(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. R. _____

To require the Office of Foreign Assets Control to develop a program under which private sector firms may receive a license to conduct nominal financial transactions in furtherance of the firms' investigations, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mrs. BEATTY introduced the following bill; which was referred to the Committee on _____

A BILL

To require the Office of Foreign Assets Control to develop a program under which private sector firms may receive a license to conduct nominal financial transactions in furtherance of the firms' investigations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "OFAC Licensure for Investigators Act".

SEC. 2. SENDING AND RECEIVING OF NOMINAL AMOUNTS.

(a) IN GENERAL.—The Director of the Office of Foreign Assets Control shall, not later than 1 year after the date of the enactment of this section, establish a pilot program under which a private sector firm may receive a license to conduct nominal financial transactions in furtherance of the firm's investigations.

(b) COORDINATION.—When establishing and carrying out the pilot program required under subsection (a), the Director of the Office of Foreign Assets Control shall coordinate with the Director of the Financial Crimes Enforcement Network for the purposes of supporting activities of the Financial Crimes Enforcement Network Exchange, as described in section 310(d) of title 31 of the United States Code.

(c) REPORTING ON ACTIVITIES.—Each private sector firm that receives a license described under subsection (a) shall submit a detailed monthly report to the Director of the Office of Foreign Assets Control on the activities of the firm conducted under such license.

(d) REPORT TO CONGRESS.—

(1) IN GENERAL.—On the date that is 1 year after the date on which the pilot program is established under this section, and annually thereafter until the end of the 1-year period beginning on the date the pilot program is terminated, the Director of

the Office of Foreign Assets Control shall submit a report to the Committees on Financial Services and Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and Foreign Relations of the Senate containing—

(A) the number of licenses requested under the pilot program;

(B) the number of licenses granted under the pilot program; and

(C) a broad discussion of the utility of the pilot program.

(2) CLASSIFIED BRIEFING.—After submission of each report required under paragraph (1), the Director of the Office of Foreign Assets Control shall provide the Committees on Financial Services and Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and Foreign Relations of the Senate with a classified briefing containing—

(A) additional detail on the applicants for a license under the pilot program;

(B) identification of the firms granted a license;

(C) information on the operation of the pilot program, including how long each license lasted and the personnel needed to manage the pilot program;

(D) information gleaned by the Office of Foreign Assets Control from running the pilot program;

(E) the utility of that information;

(F) any obstacles to the operation or utility of the pilot program; and

(G) any recommendations for improving or extending the pilot program.

(e) TERMINATION.—The pilot program established by the Director of the Office of Foreign Assets Control under subsection (a) shall terminate on the date that is 5 years after the date on which the Director of the Office of Foreign Assets Control establishes such program.

G:\CMTE\FS\19\IFI\BILL_003.XML

[DISCUSSION DRAFT]

119TH CONGRESS
1ST SESSION

H. R. _____

To authorize the United States contribution to the sixteenth replenishment of the African Development Fund.

IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To authorize the United States contribution to the sixteenth replenishment of the African Development Fund.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "African Development Fund Replenishment Act of 2025" or the "ADF Replenishment Act of 2025".

SEC. 2. AFRICAN DEVELOPMENT FUND REPLENISHMENT.

The African Development Fund Act (22 U.S.C. 290g–290g–26) is amended by adding at the end the following:

"SEC. 228. SIXTEENTH REPLENISHMENT.

"(a) IN GENERAL.—The United States Governor of the Fund is authorized to contribute on behalf of the United States $591,000,000 to the sixteenth replenishment of the resources of the Fund, subject to obtaining the necessary appropriations.

"(b) AUTHORIZATION OF APPROPRIATIONS.—In order to pay for the United States contribution provided for in subsection (a), there are authorized to be appropriated, without fiscal year limitation, $591,000,000 for payment by the Secretary of the Treasury.".