

**Statement of  
Keith Krach  
U.S. Under Secretary of State for  
Economic Growth, Energy, and the Environment  
U.S. Department of State**

**Before the  
Senate Committee on Commerce, Science, & Transportation  
Subcommittee on Security**

**July 30, 2020**

**Introduction**

Good afternoon Chairman Sullivan, Ranking Member Markey, and other esteemed Members of the Subcommittee on Security. It is a pleasure to be here with you today and I very much appreciate the opportunity to discuss the State Department's role in addressing economic security. Now more than ever, as we live through this time of incredible uncertainty, the economic security challenges facing our nation are acute and worthy of a robust, whole-of-government response. The China challenge sits at the epicenter of the economic security threat landscape.

On July 23, in a landmark speech at the Nixon Library, Secretary Pompeo delivered a summary indictment of the Chinese Communist Party (CCP). As he said, "Today we sit wearing masks and watching the pandemic's body count rise, reading new headlines every day of repression in Hong Kong and Xinjiang, seeing staggering statistics of Chinese trade abuses, watching the Chinese military grow stronger on the back of stolen American innovation."

I have experienced the long reach of Beijing firsthand, starting when I was growing up in small-town Ohio, where my father ran a machine shop. My dad's customers were suppliers to the big three car companies in Detroit, and his fortunes were tied to theirs. As China offered cheap and subsidized labor—its "weapons of mass production"—manufacturing was shipped overseas, and many of my dad's orders dried up. I saw him go through the agonizing process of laying off trusted employees. His pain was not lost on me.

I went on to be a vice president of General Motors, where I saw the same story play out from a different angle. I saw the lust over China's cheap manufacturing capabilities. And I saw the fallout: When you build a plant in China, you don't just give them your blueprints, you give them the process and engineering skills they need to steal your design and create it for themselves.

I spent the rest of my career in Silicon Valley, where I went on to start the world's first business-to-business e-commerce company called Ariba in 1996. We took it public and \$7 trillion of commerce was conducted over the Ariba network last year. In 2009, I became CEO and Chairman at a 50-person company called DocuSign that had a simple dream of automating the signature process. After recently completing 10 years there, it is now a \$40 billion public company and recognized worldwide for its transformative impact on the way business is done.

But in Silicon Valley, the CCP's economic weapons were aimed right at us: including widespread theft of intellectual property and predatory joint ventures. Two years ago, I traveled to China to explore market opportunities. I heard five of the top seven Politburo members speak about China's plans for the future, and I saw their technology. As soon as I came back stateside, I went to Washington and spoke to anyone who would listen. I said, "Do you understand that the country that has the best technology usually wins?" And that's when I was asked to serve. It has been the privilege of my life.

During my confirmation hearing, I stated that “I fully appreciate the enormity and gravity of this role, especially in a time where the reality we face as a nation is one of ever-increasing cyber warfare and seemingly ceaseless variations of intense, perhaps even weaponized, economic competition.”

I also said, “It is comforting to know that both sides of the aisle understand that China is playing the long game, and they are playing for keeps—a four-dimensional game of economic, military, diplomatic, and cultural chess with little respect for human rights, intellectual property, rule of law, transparency, the environment, or the sovereignty of other nations.”

During the hearing, when asked how I would accomplish my objectives, I said “my focus would be on embracing this opportunity and harnessing three powerful areas of competitive advantage: strengthening our partnerships with friends and allies, leveraging the innovation and resources of the private sector, and amplifying the moral high ground of our American values and enduring optimism to advance peace and prosperity for our country and for the world.”

My life’s work has been focused on creating innovative companies and transformative social causes by building high-performance teams that challenge the status quo. I believe the team with the best people wins and that diversity of thought on any team is the catalyst for genius.

### **Framing Global Economic Security**

My charge at the State Department, which Secretary Pompeo gave me in my first week, is to develop and operationalize a framework for global economic security combats the PRC’s economic aggression, drives economic growth, maximizes national security, and advances peace and prosperity. It’s been my honor to work with many in Congress to shape this strategy.

As the President has often stated, economic security is national security. We live in a world of determined competitors, asymmetric threats, and networked technology. I have heard the same sentiment from Congress and leaders in the private sector. Most importantly, I hear it from my international counterparts.

Last year, Congress passed the bipartisan Championing American Business Through Diplomacy Act, which bolsters U.S. business competitiveness abroad. It does so by empowering the Department of State to now work alongside the Department of Commerce to coordinate interagency efforts to leverage our diplomatic missions to promote U.S. economic and business around the world. The bill is aimed at countering China’s economic aggression by promoting U.S. business values that reflect high quality standards, transparency, and agility in adapting to the unique demands of individual foreign markets.

Adversaries and strategic competitors, such as China, are targeting our national assets with a range of malign practices including theft, deception, unfair trade practices, intimidation, financial seduction, frivolous litigation, cyberattack, forced technology transfer, propaganda, corruption, coercion, and retaliation. Securing America’s assets requires the U.S. private and public sectors to continue to work with like-minded nations and demand reciprocity, transparency, and solidarity.

We must continue to work with allies and friends to halt China’s aggression. It’s about viewing every PRC action, whether an investment in an American firm or the opening of a new Confucius Center at an American university, with appropriate skepticism. As Secretary Pompeo noted in July, President Reagan’s Cold War mantra of “trust but verify” doesn’t apply here. When it comes to the CCP, we must “distrust and verify.”

Our strategy for advancing global economic security and combating China’s economic aggression has yielded results. To give you a sampling of the breadth and the depth of our efforts, I am highlighting our work in the following six areas: 5G, semiconductors, supply chains, institutions of higher learning, the One Belt One Road, and the environment.

## **5G Networks**

5G and 6G will be cornerstones of our economies and societies in the future. Many aspects of our lives will flow over these networks, which is why it is critical to secure them—and why the design, development, and control of such technology, in the wrong hands, they can be incredibly dangerous.

The CCP is posturing to leverage 5G-enabled technology to create and export George Orwell’s version of “1984” into the 21st century, with an all-encompassing web technologies that can be exploited for information gathering and surveillance. Huawei is the backbone of the CCP’s surveillance state and extends the great one-way China firewall, where data comes in but not out and, reciprocally, propaganda goes out, but the truth doesn’t come in.

For years, the CCP has strong-armed nations to purchase Huawei’s 5G infrastructure and services. Untrusted, high-risk vendors like Huawei and ZTE provide the CCP’s authoritarian government the capability to weaponize critical applications, information, and infrastructure, and to provide technological advances to China’s military forces. Huawei is also on the Commerce Department’s Entity List for engaging in activities contrary to the national security and foreign policy interests of the United States.

It should surprise no one that Huawei is under indictment in the United States for bank fraud, wire fraud, conspiracy, violating sanctions, racketeering, and misappropriating intellectual property from six U.S. tech companies. And we know that it deploys these same tactics in Europe and wherever else it can get a foothold.

To turn the tide, on April 29, 2020, Secretary Pompeo announced that, in response to requirements in Section 889 of the 2019 National Defense Authorization Act, the State Department will require a Clean Path for all standalone 5G network traffic entering and exiting U.S. diplomatic facilities at home and abroad. 5G Clean Path is an end-to-end communications path for our diplomatic facilities that does not use any transmission, control, computing, or storage equipment from untrusted vendors. The Department of State has asked other countries to join us in requiring a 5G clean path for their overseas diplomatic facilities.

Further, we are working to inform international partners and allies on the risk posed by untrusted information and communications technology and services (ICTS), and convince them to join our effort to address these risks through collaborative action. To that end, we are conducting international outreach, describing existing U.S. actions and efforts, and encouraging foreign partners to take similar actions to secure their ICTS ecosystem, while maintaining an open and fair market for products and services from U.S. and trustworthy international technology vendors.

## **Semiconductors**

In the face of a newly aggressive and technologically empowered China, the United States urgently needs similar success in semiconductors. A recent onshoring win of TSMC was a good first step for us, but there’s more work to be done.

Semiconductors enable thousands of products and functions -- from cell phones to automobiles to 5G to artificial intelligence, along with a litany of activities crucial to our national security. American companies invented semiconductor technology and are leaders in its design and development and are still global leaders in this area, yet our output lags behind China, Taiwan, and South Korea, in semiconductor manufacturing. We now produce only 12 percent of the world’s chips, half of our share of 24 percent in 2000. China now produces 19 percent of global output, up from only 2 percent in 2000.

China shows no signs of stopping its pursuit of this economic and national security imperative. China’s intentions of technological supremacy are documented in its Made in China 2025 plan: It’s using all of its tools

of national power — including below-market lending and equity, direct grants, tax concessions, and industrial and scientific espionage — to dominate this critical global industry. It has already invested \$60 billion to develop an indigenous semiconductor industry, with plans to invest another \$100 billion over the next 10 years.

Chinese leaders understand that, as steam and steel were the guarantors of economic and military strength in the 19th century and the atom in the 20th, so will silicon be in the 21st. They understand that a country that can't produce its own semiconductors can't defend itself. And that is precisely the risk to the United States if our technological dominance is eclipsed by Communist China. Further, as we learned from recent shortages in the wake of COVID-19, there are risks to relying on supply chains for critical products that are largely manufactured in one country.

That's why we worked to secure a new commitment from the world's leading semiconductor manufacturing companies to open the most advanced chip factory in the United States. Taiwan Semiconductor Manufacturing Company (TSMC) which, along with Samsung, is one of only two companies capable of producing cutting-edge five-nanometer chips, has announced plans for a cutting-edge facility in Arizona.

This facility will boost American competitiveness by ensuring that the United States will have the capability to produce the chips powering everything from 5G base stations to smart phones to F-35 fighter jets. It will also create tens of thousands of new U.S. jobs, both in the semiconductor industry and throughout the high-tech supply chain.

The TSMC plant is a tremendous step to jumpstart a new era of U.S. high tech leadership, but we must keep moving with speed and purpose to create a level playing field for American tech leadership to thrive.

New federal incentives should be made available to any company, domestic or foreign, that would undertake such a project anywhere in the United States.

These initiatives will enable the United States to build semiconductor manufacturing capacity, and in turn generate a domestic supply chain for materials, equipment, parts, components, and services. For example, when TSMC completes the construction of its planned facility in Arizona, eight major suppliers plan to open new operations here. If other companies replicate TSMC's decision, it will create the ecosystem we need to maintain and grow our U.S. leadership in this critical sector.

The U.S. commercial space industry has demonstrated that our nation can overcome even the most daunting challenges. Success in semiconductors is measured in nanometers, not miles. By restoring America's rightful place in leading a semiconductor manufacturing capacity, we will create greater security and more jobs for our citizens. We will secure an American legacy of innovation that has made us the most prosperous nation in history.

## **Supply Chains**

In a recent letter to U.S. business leaders, I asked corporate boards to keep their supply chains clean from any of the human rights abuses in Xinjiang, including forced labor. We are asking financial institutions, pension funds, index funds, and university endowments to keep their investments clean and free from Chinese companies that violate human rights, profit from forced labor, build advanced weaponry, or contribute to the erosion of Hong Kong's autonomy and freedoms.

Up to this point, the CCP has concealed the forced labor and other human rights abuses in Xinjiang and beyond that serve American companies all over China. What makes matters worse is that the average U.S. investor in companies that do business in China has been unknowingly supporting the CCP's authoritarian machine. And American technology has been transferred to, bought, or stolen by the CCP to create a dystopian surveillance state that history's most repressive dictators could have only dreamed of.

Addressing these critical challenges starts with the most fundamental business principle: transparency is visibility, and visibility is accountability.

To help shine the light of transparency, the State Department joined the Departments of the Treasury, Commerce, and Homeland Security on July 1 to issue a business advisory regarding potential supply chain exposure to entities engaged in forced labor and other human rights abuses in Xinjiang. This is a start, particularly when coupled with the addition to the Commerce Department's Entity List of 48 PRC institutions and financial sanctions on persons involved in human rights abuses.

As I said in my follow up letter to CEOs all across our country, the boards of their institutions have a moral responsibility and perhaps even a fiduciary duty to ensure the institutions divest from companies that contribute to human rights abuses, and to establish governance principles that prevent these investments going forward. Pension funds, university endowments, mutual funds, insurance companies, venture capital firms, institutional investors, and particularly emerging index funds should, at a minimum, disclose to their constituents the Chinese companies they invest in.

However, the biggest "difference makers" in ending human rights and labor abuses like the ones in Xinjiang are every day citizens. At the end of the day, the American people are accountable, and they have more power than they think. As my 94-year-old mother says, "If it is to be, it is up to me."

How? If they have a pension plan, if their brokers invest in an emerging index fund, if their universities have an endowment fund, if they invest in a mutual fund, ETF, private equity or venture fund, every day Americans can ask these entities to disclose their Chinese investments. If not, they can ask to get a list of the Chinese companies they invest in. If these entities can't or won't provide the information, then investors should consider whether they are comfortable with this lack of information.

## **One Belt One Road**

As developing nations reel from the shock of the China-born pandemic, they are also coming to terms with another Chinese pandemic that can't be cured by a vaccine and will ravage developing nations for years: a rising wave of unsustainable debt owed to the PRC.

For years, the PRC has couched its debt-financed One Belt One Road (OBOR) initiative in the language of cooperation, development, connectivity, and win-win. Nothing could be further from the truth. Follow the money, and you see that OBOR lending is part of the CCP's covert, corrupt, and coercive toolkit for pursuing its geostrategic interests.

China has used this predatory OBOR lending in an attempt to dominate the Eurasian landmass in one massive supply network with China at its head, locking in global access to rare-earth minerals, critical materials, oil, natural gas, cotton, lumber, and other natural resources to feed their industrial-military machine.

Almost all Chinese overseas lending is extended by the Chinese government and various state-owned entities, not by private banks. This makes China by far the world's largest official bilateral creditor, with outstanding claims in 2017 surpassing those of all 22 Paris Club governments combined.

China frequently requires its sovereign loans be backed by collateral. Ecuador's billions in debt to China – comprising oil-backed and investment loans that the previous administration contracted in secret with PRC state-owned companies – are a classic example giving China the right to claim Ecuadorean state assets in the event of missed payments.

For developing economies to rebuild in the wake of the pandemic, the carnage of Chinese debt must end. Therefore, to help the poorest countries respond to pandemic-related shocks, the G20 and Paris Club are freezing 2020 government loan payments under the Debt Service Suspension Initiative, which was developed by the G7 under the Treasury Department's leadership. While the Chinese government signed onto the initiative, it is excluding some claims of its largest government creditors, such as China EXIM and the China Development Bank, from the effort.

The United States is calling on all Chinese creditor agencies to fully and transparently implement the G20-Paris Club Debt Service Suspension Initiative, waive nondisclosure clauses, and refrain from using them in the future. Just as important, we must join in calling on all citizens, companies, and countries of the world to object to the CCP's opaque predatory lending.

### **Protecting U.S. Higher Education**

During this unprecedented period in modern history, American universities and colleges are on the frontlines of addressing many of the challenges presented by the pandemic. At the same time, these great institutions are at the forefront of an equally serious challenge brought on by the authoritarian influence of the CCP described in this [Letter](#) that has broad implications for ensuring academic freedom, honoring human dignity, protecting university endowments, and safeguarding intellectual property.

At the U.S. Department of State, one of our primary missions is to monitor and advocate for freedom, including academic freedom, around the world. American institutions of higher learning are the envy of the world and have always been an invaluable partner in that mission. That is especially true now as we join hands to work through myriad challenges brought on by the pandemic so that we can continue welcoming students from around the world to America's shores. This includes an orderly resumption of student visa issuances as the situation dictates at our embassies and consulates around the world.

As a former Chairman of the Board of Purdue University, I recognize that when addressing a long-term strategic issue of this magnitude, the responsibility sits squarely on the shoulders of each and every board member. Our concern is with the malign actions of the CCP and specific individuals, not with the Chinese people or the overwhelming majority of Chinese students in the United States. Our goal is to see an improved, open, and transparent environment in which U.S. and Chinese scholars can engage with greater trust. We seek your assistance in an effort to safeguard U.S. technology and institutions, and to ensure our national and economic security remain safe and free from foreign interference.

After spending many years leading public companies, I have learned that leadership in the face of challenges starts with that magical principle of transparency. Good leaders know that visibility is accountability. And this is where university and government leaders are partners once again.

A number of American universities and colleges are home to Confucius Institutes, partially funded and controlled by the PRC. As the American Association of University Professors noted in a 2014 report, "Confucius Institutes function as an arm of the Chinese state and are allowed to ignore academic freedom."

While ostensibly intended to teach Americans about Chinese language and culture, they also exert malign influence on U.S. campuses and disseminate CCP propaganda. There is increasing evidence that Confucius Institutes spread PRC influence by providing institutions with financial incentives to abstain from criticizing PRC policies; putting pressure on faculty to self-censor; monitoring overseas students for loyalty to the party; and undermining freedom of expression by disrupting campus events deemed controversial to the CCP. .

CCP propaganda has also spread into our K-12 schools through the Confucius Classrooms program. Designed to provide Chinese language and cultural education, Confucius Classrooms teach PRC-approved curriculum to thousands of students across the United States.

Our goal is to shine a light on Confucius Institutes programming, PRC citizen staffing, funding and operations. With this increased level of transparency, U.S. stakeholders, including universities and local school districts, can make more informed choices about the PRC influence exerted on their communities.

Studies have shown that the majority of the U.S. university endowment fund portfolios include PRC stocks listed on American exchanges either directly or indirectly through emerging markets index funds.

The U.S. academic community is in the crosshairs of not only foreign competitors contending for the best and brightest talent, but also our most valuable intellectual property. America built successful research universities on certain values: reciprocity, integrity, merit-based competition, and transparency. These values foster a free exchange of ideas, encourage the most rigorous research results to flourish, and ensure that researchers receive the benefit of their intellectual property. In turn, America attracts the best and brightest.

The PRC, however, seeks to exploit America's openness by implementing a well-financed, whole-of-government campaign to recruit foreign experts through its more than 200 talent recruitment plans. As of 2017, China reportedly has recruited 7,000 researchers who focus on or have access to cutting-edge research and technology. For the CCP, international scientific collaboration is not about advancing science, it is about advancing the PRC national security interests.

Just as our fine institutions vet employees for scientific rigor or allegations of plagiarism, we also must vet for financial conflicts of interests and foreign sources of funding. If our researchers can assess potential collaborators' experience and past publications, they should also assess any government affiliations and ulterior motivations. My experience in the business, education, and government sectors tells me that there is tremendous power in uniting those sectors as a force for good if we are all armed with the truth. The world is watching, and the integrity of our democracy and educational institutions is in our hands.

### **China's Assault on the Environment**

The CCP's actions wreak havoc on the Earth's air, water, and land—Beijing can and must change course, but only if the international community unifies in public pressure, rather than placating. The PRC claims to be a “torchbearer” on global environmental issues—but like so many of its claims, this is an outright lie. Beijing is the largest emitter of numerous pollutants and greenhouse gases and irresponsibly exploits natural resources for its own selfish and often pernicious ends.

The PRC has been the largest emitter of carbon dioxide since 2006. Armies of Chinese workers move in to perform the work and leave a trail of environmental destruction in their wake.

The PRC is also responsible for nearly 30 percent of the plastic pollution filling the world's oceans and harming marine life. Unfortunately, persistent PRC market barriers, including those related to protection of intellectual property, hamper trade in U.S. environmental technologies that could help China address this and other challenges.

The PRC is one of the world's biggest offenders when it comes to illegal, unreported, and unregulated (IUU) fishing and overfishing agreed-upon limits--endangering species and devastating local economies. At the same time, the PRC is also the world's top subsidizer of fishing activities. With its own fisheries already depleted from overfishing, massive subsidies create incentives for the PRC's distant water fleet to plumb the high seas and other nations' waters. Just ask our friends in beautiful Ecuador, where waste from Chinese vessels is washing up on the shores of the Galapagos Islands, a World Heritage site, and important fish stocks are threatened. Beijing can and must stop its irresponsible fishing practices.

The PRC manipulates Mekong River flows for its own profit at great cost to downstream nations. Through the Mekong Water Data Initiative, the United States is helping empower the people in the Mekong region to

advance transparent river management, even as they suffer from PRC efforts to impede the water flow for the use of their people.

While the United States advocates for sustainable forestry practices and supports the Trillion Trees initiative, China is the world's largest consumer of illegal timber products. Perhaps most sadly, China is the biggest consumer of illegal wildlife products. Wildlife “wet markets” create extreme risks for diseases of animal origin like COVID-19 to transmit to the human population. I echo Secretary Pompeo’s call for Beijing to shut down these markets immediately and permanently.

When exposed, Beijing knows how to change its tune. In 2008, U.S. diplomats installed air quality monitors on top of the U.S. Embassy in Beijing. We shared the data publicly and revealed what residents already knew: the air quality was dangerously worse than the CCP was willing to admit. That small act of transparency catalysed a revolution in air quality management, and Beijing made air quality a priority. From that experience, we know the CCP can change—especially if we shine a light on their hypocrisy and deceit.

Countries, companies, and every day citizens can make it clear that it is up to the PRC to end these selfish, damaging practices, and protect the air, water, and land on which life itself depends.

### **Conclusion**

Tackling the many facets of the China Challenge will require the whole government, our powerful private sector, I appreciate all the dedication, energy and leadership of this subcommittee in promoting security in our nation’s commerce and advancing America’s economic security abroad.

This requires acknowledging the true aspirations of despotic regimes. It requires a bold vision for how we can win the international economic competition, protect American assets, catalyze a new era of prosperity and innovation, create enduring advantages for the American people, and spread the success of free enterprise around the world.

The United States is taking the difficult but necessary steps to begin to address the threat now. If we do not, we risk letting the opportunity pass and forever regretting that we did. I thank you for the opportunity to appear before you today and I look forward to working with each of you as we join together to confront a dangerously ascendant China and take the steps necessary to safeguard American economic security.