BOB CASEY

FIGHTING *for* PENNSYLVANIA FAMILIES

Combat Chinese Economic Aggression Act

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A Growing Economic Adversary

As U.S. trade with and investments in China have risen over recent decades, the Chinese government has become one of the largest and fastest growing threats to United States economic stability and national security. The Chinese government routinely deploys dishonest economic and trade tactics to take advantage of other economies and promote Communist Party-directed outcomes, costing American jobs and undermining American industry. China's communist government increasingly wields its economic power as a geopolitical tool, compromising global supply chains and threatening the national security of the U.S. and our allies.

In 2023, the PRC was the second-largest source of U.S. imports and the third-largest U.S. export market. China has only been able to gain this foothold in the U.S. economy due to its willingness to utilize unfair economic tactics including dumping and subsidization, intellectual property theft, forced technology transfer, the use of forced labor, state-owned enterprises, and more. Chinese manufacturers have also found a backdoor into the U.S. market, freeriding on free trade agreements the US has negotiated with allies. The PRC's habit of flouting the rules of the global rules-based economy has allowed it to grow at the expense of other countries. Some estimates show that the United States' growing trade deficit with China has wiped out 3.82 million jobs, 2.89 million of which were in U.S. manufacturing.[1]

In 2023 alone, PRC foreign direct investment in the U.S. totaled almost $28 billion, and U.S. direct investment in PRC was $126.9 billion.[2] American savings has been invested in China to build up their manufacturing base, often at the expense of our own. Because of the opaque nature of the way these investments are often made, through private equites or mutual funds, Americans or even regulators may not even know their money is invested in China. Over the years, China invested strategically in U.S. manufacturing capabilities, including in machinery, computers and electronics, metals, and transportation. These investments give China a window into the U.S. market, creating risk for espionage and forced technology transfer. China also schemes to use its position in the U.S. market to exercise influence and control over critical U.S. sectors like telecommunications, defense, advanced manufacturing, infrastructure, and energy. The PRC frequently seeks to steal secrets from U.S. businesses to advance their efforts to develop new technologies, including some with military applications. Investments flowing from the U.S. especially pose a risk in sectors like artificial intelligence, telecommunications, or aerospace, that advance the PRC's military or intelligence capabilities.

The new reality is that economic security is national security. The United States must act to combat the PRC's aggressive and outright unlawful strategy to cheat our Nation of its economic

[1] https://prosperousamerica.org/post-pntr-3-8-million-jobs-lost-due-china/

[2] https://apps.bea.gov/international/factsheet/factsheet.html#650

strength. The U.S. requires new tools to safeguard American industry, workers, and national security. Trade and investment flows between the PRC and the United States require heightened scrutiny to ensure we are not unknowingly ceding critical manufacturing capabilities, jobs, or military and intelligence capabilities to an economic adversary.

Policy Proposals

American Industry and Technology Protection Act

The Committee on Foreign Investments in the United States (CFIUS) is tasked with reviewing certain investments in U.S. industries and real estate to ensure any national security risks are addressed. In an everchanging investment environment, where non-market economies such as the People's Republic of China seek to coopt American ingenuity however they can, CFIUS requires new tools to respond to evolving threats. Currently, CFIUS is not well suited to respond to the rapid pace of technological developments, nor is CFIUS equipped to mitigate transactions that would harm key parts of major U.S. industries—industries upon which our greater economic stability and competitiveness rest.

This bill would expand CFIUS' jurisdiction, establishing new authority for the Committee to review all transactions from the PRC in emerging critical technologies and in other U.S. businesses. This would allow CFIUS to review any transaction originating from the PRC in U.S. businesses and startups, including those working with novel technologies that may have implications for U.S. national security down the line. This bill also expands CFIUS authority to review and mitigate any transaction that would impair the economic and technological competitiveness of the United States in foundational industries such as steelmaking, petrochemicals, and energy technology. Lastly, this bill requires the Department of Commerce to conduct an analysis on the cumulative impact of investments in a certain industry, allowing the Committee to identify sectors where the U.S. is ceding its capabilities to foreign countries.

Disclosing Investments in Foreign Adversaries Act

Americans have a right to know where their savings are invested. In the event of future Chinese aggression and U.S. sanctions (similar to Russia's invasion of Ukraine), it is also crucial that American policymakers know the extent of our financial exposure to the PRC. Unfortunately, we currently have little or no insight into our exposure. Large private equity and venture capital funds are not subject to the same disclosure rules as publicly traded companies. American pension funds have committed growing sums to private equity and venture capital in search of high returns. Often these funds pursue higher-risk strategies in high-growth countries and industries overseas, such as in the PRC. But with limited required disclosures, investors and the public don't know where their dollars are going after they reach these large private funds, and what their dollars may be doing to advance our adversaries' interests.

The Disclosing Investments in Foreign Adversaries Act of 2024 would provide transparency into individual funds' investments in China, Iran, Russia, and North Korea. Specifically, this bill would:

- Require private funds to annually disclose assets invested in each country of concern (PRC, Iran, North Korea, and Russia) on the already-existing Form PF to the SEC.
- Require the SEC to annually make available a public report containing a list of entities and their reported percentage of assets invested or located in each country of concern.
- Require mutual funds and exchange-traded funds to publicly disclose the percentage of the fund's net assets allocated in countries of concern, at least annually.

- Require companies issuing securities in U.S. markets to disclose the beneficial owners of the issuer, intended use of the proceeds, and the countries/sectors where the proceeds would be invested.

Stop Investing in Chinese Innovation and Aggression Act
The United States' manufacturing and innovation strength is quickly eroding due to continued outsourcing and direct investment to foreign countries of concern, particularly the People's Republic of China (PRC). COVID19 highlighted the PRC's control of critical supply chains and the vulnerabilities and risks posed to U.S. national and economic security. Beyond manufacturing, U.S. companies are sending capital, intellectual property, and innovation to the PRC, fueling its advance in dual-use critical technology areas. Existing export controls and other tools are not enough to stem the tide. To safeguard our economic and national security, the U.S. needs visibility into our vulnerabilities by requiring notification of investments by U.S. firms in adversarial foreign countries.

Senator Casey's bill would establish a program, led by the Department of the Treasury in coordination with the Department of Commerce, that would prohibit U.S. firms from making investments in certain technologies in countries of concern and require covered U.S. entities (such as U.S. corporations) to notify the Department of the Treasury of certain investments and covered activities in covered sectors in countries of concern.

This type of outbound investment prohibition and notification is a necessary approach to ensure the capabilities and supply chains most critical to the U.S. and with dual-use applications are not further ceded to adversaries such as the PRC.

Market Economy Sourcing Act
The Market Economy Sourcing Act is designed to limit the content from non-market economies that can be included in free trade agreement (FTA) qualifying goods. Under current practice, over 50 percent of content of FTA originating goods can come from China, providing a backdoor to the U.S. market. This proposal would establish a supplemental rule of origin for content from non-market economies, used to determine if products are eligible for duty-free or reduced duties under trade agreement rules. This supplemental rule of origin would phase in, eventually ramping to require that no more than 10 percent of any product entering the U.S. via a free trade agreement can originate from a non-market economy.

Secure Smartports Act
This legislation would direct the National Counterintelligence and Security Center to alert the U.S. port and shipping industry to the threat of PRC-backed shipping and logistics infrastructure, technology, and software to U.S. supply chains to help protect against them. As the agency whose mission is to "provide counterintelligence outreach to U.S. private sector entities at risk of foreign intelligence penetration," it's critical to our national and economic security that NCSC work with ports and shipping companies to understand the risks of using Chinese technology.