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“American Leadership in Semiconductor Manufacturing”

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FEATURING:
Representative Michael McCaul (R-TX),
Co-Chair, House Semiconductor Caucus & Lead Republican, House Foreign Affairs Committee

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James Andrew Lewis: Great. Well, Congressman McCaul, thank you so much for doing this. It's a timely topic. I know it's a busy time for you, so we appreciate your taking a few minutes to talk to us about both the report, the work you've done on China, and the work you've done on semiconductors, both of which I think are vital for national security. So I thought we'd start by just asking you if you want to give us an overview of where your thinking is these days, and then we can go into a few questions.

Representative Michael McCaul: Well, sure, Jim. And let me thank you and CSIS for your great partnership and leadership on all these issues. And I hearken back to our kind of glory days of writing the cybersecurity reports. And, you know, very bipartisan. Just, you know, an American national security issue that I believe became the most downloaded report on the internet, for a while. And CSIS is just a great think tank and provides such great services for members of Congress like myself, particularly in the national security space.

You know, I chaired Homeland and now I'm the lead Republican on the Foreign Affairs Committee. I was asked by Leader McCarthy to chair the China Task Force. It was supposed to be bipartisan and then at the last minute the speaker opted out. But I do think it's not a Republican/Democrat issue. It's an American issue. We treat it very much as a policy exercise, not a partisan. And I think that's borne out by the report's recommendations, 400 of them – 200 legislative. Two-thirds of those were bipartisan bills that I think we can accomplish, regardless of who wins the election in November, and for the sake of our security.

And we looked at all things related to our foreign policy with the Chinese, with the PRC. If I could – if I could just say quickly, this is not my first – well, I'm from Texas – so it's not my first rodeo with China espionage. And we'll probably talk about the Houston Council in a minute. But in 1996 I was a very young prosecutor in the Department of Justice and was assigned the Johnny Chung case, which in 1997 led us to the director of Chinese intelligence and the China Aerospace, keenly focusing on military technologies and satellite technologies and how they could have tech transfers under the Export Control Act, which is under the Foreign Affairs jurisdiction.

Really a fascinating case, involving, you know, we had to put him under federal protection, we – you know, we got these wire taps. It led us to the director of Chinese intelligence putting money into his Hong Kong bank account to influence the '96 presidential election. You know, we think that they are back to their old tricks in this election cycle. You know as well, that for me as a young guy – and, by the way, my FBI agent was indicted for espionage. She was sleeping with a Chinese spy. (Laughs.)

James Andrew Lewis: Oh, I remember that one.

Representative Michael McCaul: Honeypot syndrome. So it's nothing new to me, but we did – I think the biggest – Jim, and I'd love to open it up for questions – we looked at, you know, Belt and Road, how can we be more competitive with China globally both economically, militarily. We looked at our military posture in the South China Sea and the Taiwan Straits. We looked at a more aggressive China when it comes to

expansion into Hong Kong, into the Himalayas, with respect to Taiwan. We looked at their hypersonic capability, which surpasses us.

We looked very extensively at all things technology, like AI, quantum, cyber, 5G, the race for 5G with Huawei. How can we get our allies supporting, working with us? And I think getting the Five Eyes to reject Huawei, particularly Great Britain, when they were actually moving from 4 to 5G, I think, was a very significant, you know, move; human-rights violations, enormous; and then just control of powerful positions at the United Nations.

But I do think the biggest takeaway that you and I will be talking about is the supply chain. And I think most Americans did not recognize the threat until they held up our PPE equipment, you know, the protective equipment for medical. They nationalized 3M and GM in the PRC and controlled the exports to the United States and Europe; I would argue price-gouged Europe.

And so we took a real deep dive on supply chain. And I would argue that not everything supply chain needs to be scrutinized. I think primarily national-security-related issues, like medical, but also like technology, which is, I know, the focus of our discussion here today. And we looked at, you know, all things technology, but particularly these advanced semiconductor chips that are really the on-off switch, the – or, I'm sorry, the brains, if you will, for everything that's got an on-off switch, everything from your phone to fighter jets.

And, you know, the PRC has initiated or launched a trillion-dollar digital campaign. And we have to be competitive with them. We try not to say they're an evil empire. There is malign influence, certainly. But we just have to be competitive with them globally. And we also need to stop the theft of intellectual property, which you and I dealt with on the cybersecurity report, which has been going on for decades, but it's gotten to an all-time high.

I think Keith Alexander says the biggest transfer of wealth in human history. That is why the Houston consulate was shut down, because of the theft of biomedical research at the Texas Medical Center, particularly M.D. Anderson, and also the R&D for the vaccine itself. They would love to steal that to save the world from the virus that came out of their country.

And we also had enormous espionage operations coming out of there. NASA – we had a Texas A&M professor indicted for stealing NASA data and selling it to, you know, the mother ship, you know, back in China.

So it's a real threat that I think the American people, kind of like Pearl Harbor, have woken up. And I call it the sleeping giant waking up to what is a real threat out there. And it's a generational struggle. My friend, you know, he bombed the Nazis. He was part of World War II. And I grew up in the Cold War, as you did as well. Then we had 9/11. We focused a lot on radical Islamist terror. Today I think the greatest generational struggle and competition is going to be with the Chinese Communist Party.

And then lastly, Jim, we got into the origins of COVID-19 and investigated what happened. And it's a bit disturbing, the extent to which they tried to silence the doctors who were aware of this. And remember, a SARS-like virus had to be

reported within 24 hours under the new WHO guidelines, and they wholly failed to do that. In fact, they silenced the doctors from reporting this.

They also went into the labs and destroyed lab samples to control the case, the investigation, and I think, most egregiously, would not admit it was human-to-human transmission, which unfortunately Director General Tedros sided with President Xi and did not alert the world to the threat, which is his number-one primary mission.

Meanwhile, you got the Lunar New Year's festival going on in China; 5 million people leave Wuhan throughout Mainland China, travel internationally. That's the point where it went from an epidemic to a global pandemic that has, obviously, caused a lot of both loss of life and economic destruction, you know, as well.

I'll end on this one. We did translate the report into Mandarin through the State Department and we were able to penetrate the firewall into China. I mean, I think you'd be really interested in this, Jim. And we got the report into mainland China and it went viral, so much so that President Xi's spokesman denounced it and they dedicated an hourlong television, you know, appearance on CGTN denouncing or debunking the McCaul report. So needless to say, I kind of watch my back a little more closely these days. (Laughs.) But it was – it was a great –

James Andrew Lewis: So no trips to Beijing for a while.

Representative Michael McCaul: It was – yeah, it was a great education for, I think, the people of China, who are really the victims here of a very oppressive government.

James Andrew Lewis: So one question that comes up routinely when I talk about this from business groups and from foreign governments is, so no matter how the election goes U.S. policy will keep on the same direction towards China. This is a bipartisan thing that the U.S. will be doing. Where do you think we're going?

Representative Michael McCaul: Oh, I think – I think, again, I say it's an American issue and I think it's very bipartisan. And I think the other side, you know, they should have been a part of this. I think after this election I think we go back to being Americans first. And that's why we made it a policy exercise. That's why two-thirds of the recommendations were bipartisan.

And on the – on the supply-chain issue, it's probably one of the most bipartisan issues in the Congress. I was able to reach out to – when I introduced the CHIPS for America Act, I immediately reached out to my high-tech co-chair, Doris Matsui from California, because you have Silicon Valley. I sit here in Austin with a lot of tech companies like Samsung, Intel, Qualcomm. They have the same dynamic in California. And then New York has GlobalFoundries. So this is really – you know, Anna Eshoo is a dear friend. She's very close to Pelosi. I think I was able to navigate the political stream to really make it a very much bipartisan effort.

In the House, we got it passed onto the National Defense Authorization bill. And then Senator Cornyn, working with Senator Mark Warner – who is very good at technology, as you know – working it, again, in a very bipartisan spirit.

James Andrew Lewis: You know, we had – we had Senators Cornyn and Warner on a couple weeks ago to talk about the bills that were going out and the progress that had been made. I should note that we invited Congresswoman Matsui and just couldn't work out the scheduling. So we will get her at some future date, probably after the election.

But it's been an amazing amount of progress. And particularly, you keep talking about the supply chain. A few years ago, supply-chain issues weren't as prominent. What do you think has made people change their mind on the Hill about this?

Representative Michael McCaul: Well, I think – I think COVID. I think COVID woke up the American people. I think they didn't realize we could be held hostage with our medical supply coming out of China – a big, big takeaway.

And then, you know, the education piece I have was on the technology piece, why that's important. And I don't know but for COVID if we would be talking about legislation quite like this. I think for too long – and my sense is, whether it be the talent pool or the tax/regulatory policy and cheap labor, quite frankly, has pushed a lot of our technology offshore because of talent-pool issues, because of labor, you know, because of taxation policies.

What we try to do in a bipartisan way is what the Semiconductor Industry Association told us, is we need a grant program to have a capital investment from the federal government – which I don't think anything quite like this could be done pre-COVID – but also an innovative tax policy. They particularly like the refundable investment tax credit because their infrastructure costs are so enormous upfront as they build these fabrication plants. And so we kind of put their ideas in a bill. I hope in the lame duck, Jim, that we can get this thing done.

James Andrew Lewis: When Senator Cornyn was talking to me, he said that appropriators were being a little sticky on this. Do you think that's going to change in the lame duck?

Representative Michael McCaul: Yeah. Well, it's a kind of good story. One appropriator, who happens to be the chairman – that would be the gentleman from Alabama, Senator Shelby – actually voted yes on this and then turned around when his staff told him to change the vote, and he voted no. I do think there are enough supporters of this, whether it be in the House – you know, McCarthy's a big fan of this bill, as is, I think, Speaker Pelosi. Schumer, with GlobalFoundries in New York. And McConnell's been somewhat agnostic, but I think he's supportive. Then you got Senator Pompeo, you got all the national security team in the administration, O'Brien, Wilbur Ross at Commerce, very, very supportive of this. I think there can be enough pressure to be applied to get to yes on this.

James Andrew Lewis: One of the things I heard from industry is they – at least some parts of industry – is, you know, do we need to take a big-picture look at the semiconductor industry, and not just look at fabs but look at design, all whole semiconductor ecosystem? What are you hearing from industry?

Representative Michael McCaul: I think you're absolutely right. I enjoy in Austin here a great ecosystem of a university. We have the – basically the Army Futures Command here, which

does – all the research and development for the Army comes out of Austin. So you can imagine the tentacles of the Chinese Communist Party – (laughs) – around that. But then we have this great ecosystem of all these tech both manufacturers of chips but also consumers, like Apple, in my district. And you know, Apple was able to repatriate a billion dollars without the tax liability recently, and really helped start the company with a lot of new jobs. And so I think as China talks about their trillion-dollar digital plan for the future, we can't let this rhetoric go without response. And I think this is our response.

James Andrew Lewis: Where do you think the next move is in this? Do you think it's – what are the chances it'll actually get passed in the lame duck? You're optimistic, or?

Representative Michael McCaul: I am, because we got the authorization in the NDAA. So now we're looking – then we're looking at, you know, the fund the government bill, which is going to – that's always a cliffhanger that we have every year. That will pass. And it has to pass. So if we have the authorization in place, the appropriation should follow. But it's important to say, that's for the secretary of Commerce, for their \$25 billion grant program to invest in this at the federal level. What we really need is the – are the changes in the tax provisions to incentivize the companies to manufacture here in the United States, or in an allied nation. There is a program we have with our allied countries on this as well. We just can't afford for these to be produced in either the CCP or a country that's under enormous pressure.

James Andrew Lewis: Mmm hmm. What – oh, I lost my train of thought there for a minute. You want to talk – this is a strange question from CSIS – but do you want to talk a little bit about the tax provisions? Because those also seem to be a sticky point in some of the talking.

Representative Michael McCaul: That's a great question. I found this to be, Jim, an extraordinary experience because, as you know, when I chaired Homeland I had to deal with jurisdiction all the time. We were trying to fix that. But this was really an enormous lift to have 11 full committees, with 15 members from all of the 11 committees and the staff – who I give a lot of credit to – working overtime to get the product out, get this report done.

But you know, dealing with the jurisdictional hurdles, the thing I found very interesting with Ways and Means, which is the tax committee, was, yeah, they normally – their perspective is they look at, you know, tax policy through more of an economy lens and not a national security lens. And we had some really powerful discussions. And I said, look, guys, you can't view this as just an economic issue anymore. You have to look at it through the lens of national security. And we really – it really opened their eyes to, like, you know, you're right, we have to take this more seriously. And so while there is a resistance to the refundable investment tax credit – I think Ways and Means wanted to wind that down – there is a lot of support for the R&D tax credit –

James Andrew Lewis: Sure.

Representative Michael McCaul: – by the way, which I think that's going to be an easier lift. I think the more difficult lift is to get – you know, I defer to them on taxes. I'm more national security. But this is the intersection of national security and tax policy now. And I think they do look at it differently, different perspective, and I hope we can –

because the industry's really crying out for this refundable investment tax credit. I hope that's what we can achieve.

James Andrew Lewis: So one of the questions would be, how do you – how much do you need to sell this to the American people and how would you do that? I mean, how – five years ago – (inaudible, technical difficulties) – China was going to be – (inaudible, technical difficulties). We were wrong. So now how do you tell people the world changed?

Representative Michael McCaul: I think the American people are there. I mean, I think the only – you know, I always try to look at a silver lining. The only thing good that's come out of this whole pandemic is taking another look at the way we – our relationship with the Chinese Communist Party.

I think the American people are there and that's why this is such a bipartisan issue. So I think what – I think who I need to convince more would be some of the old, entrenched guard on, you know, particularly – not to get in trouble here – particularly with the Ways and Means Committee to take a different look at this from tax policy.

James Andrew Lewis: Yeah, maybe we'll steer clear from that once so we don't jinx anything. (Laughter.)

So one of the words that used to be radioactive on the Hill was "industrial policy." And you know, that seems to be another one you can say without being thrown out of the room. What changed on that? Was it COVID again, or what?

Representative Michael McCaul: I find that – and you know, The Wall Street Journal interviewed me on this and, you know, I'm a free-market, you know, guy, and I don't think this policy could have been possible without COVID. I think we're looking at this as a whole-of-government approach. You know, in China everything's state-subsidized. It's very difficult to compete with them, whether it be Huawei or other things, Belt and Road, when everything's state-subsidized. So you know, I don't think we'd be having this conversation pre-COVID.

I do think that we need – we have grant programs in other areas. Why not in this? And at a pretty large scale, because if we fail to do so then we're failing to compete with China on a very important issue. And I think people understand that.

And you know, I had a good discussion with Larry Kudlow in the White House. He's very much in favor of changing the tax policy, a little less sanguine about this industrial policy. I had to get to a point in my own thinking about it that we can't afford not to do it right now or we could lose this competition, you know, that we find ourselves in. And so I think – I think most, you know, on both sides will support, as they did on the National Defense Authorization bill. They did support this. And I think the Appropriations – well, you know, Kay Granger, who's the top Republican on Appropriations, and the chairwoman are both very supportive of this policy, so I think we're going to get there.

James Andrew Lewis: We're talking a lot about the Hill, so maybe we'll stick with that for a while. But what do you think the next steps are when it comes to legislation to support the

semiconductor industry? Will you expand the fabs? I mean, what will – the R&D credit is really useful, but what more could be done?

Representative
Michael McCaul:

Well, I think R&D tax credit's going to be important, not only for technology but medical. We have to – we have to produce – manufacture more of this medical supply in the United States. That's what got the American people's attention in the first place, shifting to technology, you know, making the case that it's so important to our national, you know, security. So we make – made a lot of recommendations in this report.

In the short term, you know, my goal is, lame duck, to get the authorization. I'll be a conferee on the National Defense Authorization committee, make sure that authorization, with the Senate, gets enacted and then appropriated. And then I think the tricky part, Jim, is going to be working with what we call the four corners, which would be – you know, would be the appropriators – chairman/ranking House/Senate and then Ways and Means House/Senate – to get them to all sign off on this tax policy innovative incentive, if you will, to be put into the appropriations package.

James Andrew Lewis:

Your office and you have been doing a lot of work on export controls. And that was, of course, one of the areas identified as a potential weakness in FIRRMA. Want to tell us a little bit about what you're thinking on export controls right now, revisions?

Representative
Michael McCaul:

Well, you know, I mean, what I told – when I was asked about 30 years old, you know, working on that case, it was a real eye opener how they were trying to manipulate the Export Control Act to their military advantage by, you know, saying things were actually – the dual-use technology stuff, right, by saying that military technology is actually dual-use, and then trying to influence policymakers so they could obtain more. And, you know, over the past couple of decades they have. You look at blueprints of aircraft. It looks very similar to ours. And they have more ships now in their navy than we do.

And so I think we need to take another look at export control. I don't want to – I'm very mindful of the private sector and our – you know, our defense contractors and what they can do. But I do think we've got to be careful because we don't – you don't want to arm what is, I think, the longest-term threat to our national security. And they've been doing this for decades now, and they're getting pretty good at it.

James Andrew Lewis:

Yeah. What would you say the right limits are for exports to China? One of the big debates was over what chips could go, what kind of manufacturing equipment could go. Have you looked at that at all?

Representative
Michael McCaul:

Yeah. And I think that's something that, you know, we make a recommendation to, you know, try to take a second look at it. And, yeah, I mean, if – you know, supply chain again. If our technology can be exported to China and turned against us, we have to be really cognizant of that fact and view it in a different way. And again, we don't want to – I mean, they're very systematic and very deceptive at their ability to steal things. They're very good at it.

And they use our own system against us, whether it be the Export Control Act and technology or our open academic environment. I mean, I think they have turned that on its head. We have freedom of speech and they use that against us in their propaganda. We have freedom of thought at universities, and that's the hallmark of our university system. But they're able, through, you know, the Thousand Talents program and Confucius Institute, able to turn that on its head against us. And that was another part in the report. We've got to take a look at this.

And I go back to M.D. Anderson and the Texas Medical Center, where you have these researchers who've been tapped into the Thousand Talents program, and they were stealing a lot of information. I will say – you saw the open trash cans burning on the rooftop of the consulate. That's about all they had to destroy those documents. And we really got a treasure trove, without getting into details, a treasure trove of information out of that consulate, which I think will be very helpful. And it's good to see the Department of Justice taking it seriously, whereas before we just turned a blind eye to it.

James Andrew Lewis:

Yeah, it's been interesting to watch the reaction in China, because the Chinese – you know, it's kind of ironic, to your point, that the Chinese can use Facebook as long as it's anti-American sentiments. They can't use it for anything else. So it's – they even have instructions on how to circumvent the great firewall so you can post anti-American stuff on our social media, which are –

Representative
Michael McCaul:

You know, or the United States military –

James Andrew Lewis:

– (inaudible).

Representative
Michael McCaul:

– created the vaccine – or created the virus. You know, it's –

James Andrew Lewis:

Oh yeah. Oh, that's OK.

Representative
Michael McCaul:

Yeah.

James Andrew Lewis:

Put on your – put on your Foreign Affairs hat for a minute and tell us about what you're doing with allies when it comes to the supply chain.

Representative
Michael McCaul:

I think this is one of the most important pieces to the report. And, you know, I've really enjoyed this new leadership position. I think when I chaired Homeland, the threat was, you know, cyber, and still it, but it was, you know, ISIS and the caliphate. And now it's really foreign-nation adversary states. And that's what I've been looking at on the Foreign Affairs Committee is, you know, Russia, China, Iran, and North Korea.

And so it's a great – a really great position because you're talking to ambassadors all the time. You're getting their thinking, particularly our NATO ally partners and Five Eye(s) partners. How do they view this? And I do think there is a growing appetite within our – with the allies against this Belt and Road Initiative that we're seeing taking place. We haven't been competitive. And you know, you've seen them in the African continent going into developing nations with this debt-trap diplomacy where they bring their own workers and exploit their economies, local, and then they end up in debt. And they plant their Huawei down, which is a telecom surveillance apparatus. We saw ports like Sri Lanka and Djibouti going to the Chinese Communist Party. In fact, the Panama Canal that, you know, Teddy Roosevelt built and Carter gave it back, now you got – both ends of the canal you got China control of the ports there.

So there's been an awakening within our allied nations, I think, to this threat, you know, as well. We can't do it alone. The United States, we're a great country, but we really need to work with our allied partners on this.

James Andrew Lewis: Yeah. We got a few questions from the audience, if you don't mind.

Representative
Michael McCaul: Sure.

James Andrew Lewis: Some of them are so – some of them are complicated, so I might have to think about them for a while, but let me start with one. Any intention to introduce new export-control measures to prevent the acquisition of intangibles in semiconductors, things like design or maybe software, by actors like China?

Representative
Michael McCaul: Yeah. And I don't want to get ahead of myself, but that is something we're reviewing on the committee, mindful of the delicate balance that you have with export-control, you know, laws, Jim. But I think the overall goal is to make sure that we guard against their ability to use our own system against us, and they're very good at that. And you know, they are in the 100-year marathon and they want – they want dominance, economically and militarily, and they are moving forward on this.

I'd be – I'd be negligent if I didn't bring up the Development Finance Corporation. Probably one of the best things that the Foreign Affairs Committee has done recently is – this is our – this is the way we compete. Because when I talk to ambassadors from Africa, for instance, they say, you know, we don't really want to do business with the Chinese, but we don't have an alternative. You're not there. So the Development Finance Corporation – by the way, return on our investment for dollar to dollar to the taxpayer, I want to fully fund it and have the equity fully funded, as well as Ex-Im Bank and USAID, working together with the private sector to champion U.S. business abroad, but doing it in a way that's good for their – for the host nation. This is going to be the key as to how we can better compete with China.

Give me one quick example, Afghanistan. I talk to the ambassador from Afghanistan a lot. Adam Boehler – he's the head of the DFC – we went in. They are sitting on all this rare earth mineral and it's a goldmine. For whatever reason, during the Iraq/Afghan war we allowed the Chinese to go in and exploit it. They have asked us now to go in and they're kicking the Chinese out, and they want us in there. And they also see it – it's a very intriguing story. I'm always

highly skeptical of talks with the Taliban, but you know, we got Adam Boehler, the head of DFC, and Special Envoy Khalilzad, Zal, you know, sitting down with the Taliban talking about how there's a carrot approach to a peace deal because they could – they're sitting on an enormous, you know, reserve of rare earth minerals. And that's just one example of many how we can better compete.

James Andrew Lewis: One of the questions actually hits both semiconductors and China. It's, you know, we've put all these constraints and sanctions on exports to manufacturing equipment and chipsets. What conditions would you need to see from the Chinese that might address our security concerns and let the market reopen? Is there anything the Chinese can do?

Representative Michael McCaul: Yeah, and it's always been an issue of fair trade with China. I think the president tried to take that on. We'll see how well that trade agreement goes. I think his point was, look, you've been ripping us off for so many years and the trade deficit's so enormous that it needs to be fair trade. And I always tell – you know, I get a lot of international businesspeople that come before, you know, the committee or talk to me. And you know, we do have – we are economically intertwined globally. And we do have an interdependence with the Chinese economy. I just think we got to be careful when it comes to items that are scaled on more of the national security level in terms of what we export into that country, because they're very good at copying things.

And I always warn businessmen who – or -women – that want to go in there that, yeah, it may be in their short term best interests, but look at it from a long-term standpoint and beware, because time and time again I've heard of, you know, they open up a business and then five years later right down the street is the same manufacturing plant. And they don't – I don't think in – they just view intellectual property in a different way than we do. And I'm not quite sure – I think they think it's fair game, whereas we have all these IP laws. They don't. And they don't really make that distinction.

James Andrew Lewis: So one of the issues that came up – I want to be respectful of your time, so we have maybe two more questions. And one is, you hear ideas about we need some sort of formal arrangement to work with our allies on technology to build a response to China. We've even had a couple Asian governments, foreign governments, come in and suggest some sort of formal agreement maybe to buttress export controls, maybe to support R&D. Have you thought about the tech alliance idea, where do you come out on that?

Representative Michael McCaul: Yeah. I mean, we have our natural allies, like NATO. But I think we need to be looking at – in the region itself. You know, and that would be Taiwan. That would be South Korea. It would have been Hong Kong, but they've – as you know, the treaty was violated and that's under PRC control now. But, you know, I have Samsung in my district, the largest foreign investment, and that's coming out of South Korea. Taiwan, we have TSMC that we moved to Arizona, a semiconductor manufacturing capability, which has been phenomenal. That's kind of the pilot program, if you will, of the Chips for America Act that we want to see expanded throughout the various sectors within the United States.

And so I think we go with our natural partners, but we enlarge it to our allies in the region. One thing we recommend also is taking a look at a trade agreement

with Taiwan. Now, I know that could be a little bit controversial, but it would at a lot of levels make some sense. And we need to look at normalization of relations with Taiwan. For instance, Taiwan was an observer to the WHO until Director Tedros kicked them out. They were the first country to warn about the human-to-human transmission, which was utterly disregarded, at a very high cost.

I think Taiwan should be an observer back in at the WHO. I'm not one of these that say we need to – we were very careful in the taskforce also to not say: Pull out of the WHO. I think you got to be on the field. You can't just take your ball home and – otherwise you're not engaged. But I think we need to reform it. They have systematically taken over key positions at the United Nations. For instance, Jim, they were making a run for the intellectual property organization at the United Nations. Can you imagine if the CCP had that position, which is – you know, they're the largest theft – stealer of IP.

And so we have to – and I think we're waking up to that. Our allies need to wake up to that. We need to work to get our allies in these positions. And I think we expand our alliance to the region and to Asia, and work more closely with our Asian partners.

James Andrew Lewis: The one I think is the funniest is the Chinese trying to get a seat on the Human Rights Council. I mean, that's a real test for the U.N. If they do that, holy cow, it will be hard to defend them anymore.

The last question – I'm going to merge two questions, because they're both more or less on the same general topic. Which is, both of the people want to know: You know, there's more to R&D support than fabs. There's more in the semiconductor ecosystem than maybe what the NDAA language has looked at. What are you thinking on terms of expanding support for R&D, or how will support for R&D work? Particularly when you look at a lot of the innovation comes out of the smaller companies. And so where do we find ways to support them? So sort of an R&D flavored question to close out on, which is perfect for Austin, yeah.

Representative
Michael McCaul:

Right. Yeah, no, I mean, look, all this is great for Austin. And I'm doing it, you know, as a representative of a district that has probably more tech companies than any other, or close – pretty much matched by Silicon. So I look at it also, though, as an American issue that's vitally important that we maintain a cutting edge in technology. And to your point, the ecosystem's not just the fabrication of advanced semiconductor chips. It goes beyond that to – you know, there were so many artificial intelligence companies here in Austin, and I talked about the Army Futures Command here in Austin. So it's a military ecosystem, the private sector, and the university. The quantum computing is so vitally important. There's a race. That's the digital space race. And whoever gets there first is going to control the digital space.

The Chinese made enormous investment in quantum physics and quantum computing, which are the supercomputers that will unravel a lot of mysteries and can de-encrypt everything that's been encrypted. I mean, you know that they stole the 23 million security clearances from OPM, but they've stolen a lot of big data thefts that we've seen throughout our – you know, in the time we've

known each other. And some of that's encrypted. But they know that at a point certain they're going to be able to unravel this stuff and de-encrypt, when they master quantum computing. So we need to get there first. Cybersecurity firms all throughout, you know, the country, and particularly here in Austin, is also part of that ecosystem.

And then finally the telecom, the 5G. You know, we got the Department of Defense to open up that DOD spectrum so that we could be more competitive. And now they're going to auction off the spectrum with kind of a lease back situation. Where if in a time of emergency they can get the spectrum back. But in the meantime, let's use it to our advantage so that we can compete with China in 5G. I would submit that we are in a close competition that some would argue we're not winning. And that's one that we really need to prevail on as well.

So you're right, all those different facets of technology are all part of the ecosystem that play into this. And I think, you know, one – the capital investment from the federal level, but I think getting back to the tax code, the R&D tax credit, and the refundable invested tax credits is really the way to really set a spark plug to it.

James Andrew Lewis: Well, it was a great answer, being able to drag the tax code back in. (Laughter.) I never thought I'd be asking about tax code in my life, but here it is.

Representative Michael McCaul: I ever thought I'd be in the middle of it either. You know, but here we are. And as mundane as it can be, it actually is pretty vital to incentivizing.

James Andrew Lewis: It's a different kind of war when one of your principal tools is the tax code. (Laughter.) Hey, we've taken up – go ahead.

Representative Michael McCaul: Kevin's has already joked about there was some action hero, I think Dan Crenshaw, where he's jumping out of an airplane. Kevin's like, you know, I thought I could jump out of an airplane, you know, with the tax code in my hand, you know, for a "Mission Impossible" video, but it's –

James Andrew Lewis: (Laughs.) Yeah. So we've taken up as much as time as we promised we'd hold you to. I know you're busy. Do you have any final thoughts or advice you want to give us? I think that what I'd take away from this is bipartisan consensus on the need to confront China, a willingness to spend, a focus on semiconductors and, correct me if I'm wrong, not just on fabs but on R&D and the intangible side of it, maybe down the road. And of course, the optimism about winning the tax credit battle. But what have I missed? What would you want to add?

Representative Michael McCaul: No, I think you covered it very well. This is my eighth term, hopefully going on nine. And the one thing I've learned the most is you really can't be effective or get anything done unless you're willing to work across the aisle, you know? And that's one of the first things, when we were presented with this by the semiconductor industry, one of the first calls I made was – or, strategy thinking was: Who can we reach out across the aisle to get them on board, knowing that, you know, Silicon is going to be a big player here, and knowing that the speaker's from that state, and so is Kevin McCarthy.

And so I always think it's a very good strategy is – and I really like CSIS's thinking on this, and your support over the years with your products. And I've enjoyed working with you on products, as well. Very helpful to the policymaker on the Hill. And then you have to get into the politics of, how can I get this thing done? And then it becomes relationship driven. And then you hope the best ideas prevail on both sides of the aisle, like this one, and you can actually get it enacted into law and look at it – look back on it as a really extraordinary accomplishment for the country. So that's, you know, sort of where I am.

James Andrew Lewis: It is an extraordinary accomplishment, and it's one I think none of us would have expected a few years ago. But we'll leave the politics to you. That's your job. (Laughter.)

Representative
Michael McCaul: Thanks.

James Andrew Lewis: Thank you so much for doing this.

Representative
Michael McCaul: Thanks, Jim. Always a pleasure. And thanks for letting me.

James Andrew Lewis: Yeah. Yeah. Talk to you soon.

(END)