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FEATURING
Senator Steve Daines (R-MT)
Co-Chair, Senate U.S.-China Working Group

CSIS EXPERTS
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Hi, folks. It is 10:15. We are ready to get started. For those of us just joining now, my name is Bonny Lin. I’m the director of the China Power Project. For those who’ve stayed with us since this morning, 8:45, welcome back. So for our second event today we are very delighted and honored, to have Senator Steve Daines with us to deliver the conference’s second keynote address on his outlook on U.S.-China relations and China’s growing power during this pivotal moment in the U.S.-China bilateral relationship.

Senator Daines brings 28 years of private sector experience to Congress. After graduating from Montana State University with a degree in chemical engineering he worked for Procter & Gamble for 13 years. Six of those years, Senator Daines lived in Guangzhou, where he pioneered the launch of P&G brands into the China market. P&G became one of the most successful consumer product companies in China. Throughout his time in Congress, Senator Daines had led five U.S. delegations to China to discuss important trade policies that help level the playing field for American businesses and assure the United States remains globally competitive.

Senator Daines has served as a U.S. Senator for Montana since 2015. He is currently the co-chair of the Senate U.S.-China Working Group, which works to strengthen U.S. dialogue with China through monthly briefings to share expertise from key business, academic – from key business, academic and political leaders. In addition, Senator Daines is a commissioner on the Congressional-Executive Commission on China, which works to establish a framework of relations with China on a wide variety of issues, such as human rights, civil society, and rule of law. He also serves on the Senate Committees on Finance, Banking, Housing, and Urban Affairs, Energy and Natural Resources, and Indian Affairs.

Hey, thanks so much. Very glad to be with you all today on such an important topic as the U.S.-China relationship. As Dr. Lin mentioned, my experience in China is not primarily from an academic viewpoint. It’s from being on the ground as an expat, working at that time for Procter & Gamble, launching American brands to compete against Chinese brands. And this was back in the 1990s. In fact, our two youngest children – we have four children – our two youngest were both born in Hong Kong at the Matilda Hospital on top of Victoria Peak. So this was a very important part of our life when we were there working. I had no idea that someday I’d be back in the U.S. Senate having this kind of discussion. But I’m honored to be able to do. And find the experience I had in China has been most helpful as we think through very important and complicated issues here in terms of the relationship between our two countries.

One of the, I think, important points that I want to make early on is the issue of what’s going on with China’s technology ecosystem and their innovation ecosystem. I’m found, as I’ve led Senate delegations to China with both senators
and some House members, that there still remains a pretty significant gap between, I think, how people perceive China – particularly here on Capitol Hill – and the reality of the ground. The change and the transformation in China since we were there back in the 1990s has been nothing short of profound. I’ve just watched, you know, the battles we face. You know, we’re working to start up businesses there back in the ’90s. I was in Hong Kong on the night of the handover on June 30th, 1997. Watched the Union Jack come down for the last time. And I’ve seen just tremendous change since.

But first important point is the United States needs to continue to find ways to accelerate innovation and to run faster. It was always one of the strategic questions we had in – during my time in the private sector, when you’re dealing with competition. You either can try to find ways to slow down your competition or find ways to go faster yourself. I think we should continue to look at what we can do here to increase the pace of our innovation as we compete against what’s going on in China.

One of the great challenges we face is the growing gap between the number of STEM grads that the United States is producing versus China. When I go to China I’ll oftentimes spend time on the university campuses there, having a chance to interact with students, as well as interacting with U.S. companies and multinationals, talking about the quality and the capabilities of Chinese STEM grads in a compare-and-contrast to U.S. STEM grads. For example, I literally would ask the question of many of our Fortune 100 companies, well-known, household names in the technology space, ask them, compare and contrast a graduate from Tsinghua University, Beijing University, Tianjin University, Hangzhou, in terms of their capabilities in STEM versus a graduate of Stanford or Purdue or Caltech, and the common response I’d get is that gap is diminished, if not completely gone. And what the companies will tell me is that it’s just a matter of continuing to train these young Chinese, very bright engineers and programmers, how to really adapt more to the Western management culture, and that takes a little while but that’s a gap that they readily can close.

But here’s the challenge. We look at the number of STEM grads coming out of the universities in the United States; it’s, round numbers, maybe about 500,000 to 800,000, depends on whose numbers you look at it, but it’s certainly less than a million. In China we’re seeing numbers that are closer to, you know, 3 (million) to 5 million STEM grads every year. Again, I’m using broad numbers because it depends on which numbers you look at, but the point is, we are being out-produced in terms of STEM grads by five to eight X, and that is every year. You compound that over the course of the next five years, 10 years, and 20 years, China is building an incredible not only high-quality innovation ecosystem with their talent, but also the scale is significant. And I think that is one of the a-ha moments that members of Congress see when they accompany me, when they go to China.
Similarly, the supply chain challenges – supply chain challenges are significant, but I think that’s kind of looking a bit in the rearview mirror with China. Going forward, it’s all about what’s going on right now in the battle for primacy in the issues of artificial intelligence, certainly biotechnology. It’s really the creation of intellectual property. The reason we’re seeing China pivot to being now more protective of intellectual property is because they are now generating a lot of IP. We start seeing more patents coming out of China than the United States – that is a real warning sign, I think, in terms of this shift in the capabilities of what’s going on in China.

Another important issue, I think, is certainly critical minerals. As we look at what happens going forward here, particularly as we continue to have this talk on the transition of our economy in terms of sources of energy, critical minerals become a very important part of that. If you think about 35 critical minerals – the dependencies on China, what they control is at least half of those critical minerals. China is literally setting themselves up to be the OPEC of critical minerals going forward. I remember the days of the ’70s when the world was overly dependent on the Middle East for oil and how the cartels there really controlled oil prices and oil supply, and it took American innovation and American development of our own energy resources to become less dependent on the Middle East for oil. I think there’s a parallel here with critical minerals. I think we are not taking this issue seriously enough. We’ve got to be developing our own critical mineral sources; otherwise, you’re going to see China have a grip and perhaps a stranglehold in the ability to control economic outcomes, like we saw in the Middle East in the ’70s with oil, with critical minerals.

Another important concern I have, certainly, is China’s growing nuclear ambitions. I think as you’ve seen what’s available now in public press, China’s arsenal now could quadruple – quadruple – in size by 2030. That’s a DOD analysis. And you know, the question is, why is China pursuing these weapons so aggressively? And the other question, how does it intend to use them? That’s why it’s important, as we think about what we faced with certainly the Russian nuclear threat in the past 30 years and 40 years, now the question is how do we address the growing Chinese nuclear threat. And that’s why I think it’s important that we continue to invest in our own nuclear capabilities. That’s the best way to deter that kind of a conflict and as well as thinking about how does China now engage in nuclear arms control treaties that we’ve had in the past with Russia.

Third, I think we need to continue to work with a lot of our partners, countries that share our same values, other democracies like India, like Australia, like Japan – we call it the Quad – to counter what’s happening with China. I was always a big proponent of the TPP agreement and I believe that a multilateral approach, certainly, as it relates to trade and cooperation is an important way for us to combat the growing threat with China, and I think India plays a big role there, going forward.
I was just in India a few weeks ago talking about this. Of course, India and China have had their own conflicts in that disputed border area. But if you think about back in the STEM discussion earlier, India is, really, the only other country in the world that has the scale in terms of population – about 1.4 billion people – but also in terms of STEM grads. They produce millions, probably 2 (million) to 3 million, STEM grads a year. We’re going to have to find ways to build alliances with friendly countries that share our values, like India, in growing our own innovation ecosystem as we think about global competition, going forward.

A couple thoughts on what the Senate is doing. Certainly, I think we need to pass the U.S. Innovation and Competition Act – the EFA – to win the tech race against China. I support that legislation. I spend a lot of time engaged with a lot of our high-tech companies across the country.

After I left Procter & Gamble I went to work for a startup, a cloud computing software company, that we, literally, were part of that disruptive force. It wasn’t called the cloud when I joined the company. I was there for 12 years. We took the company public and then we were acquired by Oracle. And I ran Asia Pacific for our company on the executive team for about five years.

And so, again, I’ve spent a lot of time actually engaged in technology and in competition, and that’s one of the reasons I support this Act of investment and the partnership the United States can play here in partnering with driving innovation forward in our country.

I also think we need to pass this – the NDAA. That’s the National Defense Authorization Act. We’re looking to have votes on that this week in Congress. Because the best way to deter a threat, I think, is to make sure the United States comes in a position of strength, have the best military in the world as we do today, the best nuclear capabilities in the world. That is a way to deter and prevent the unthinkable of some kind of a nuclear war.

I go back to President Reagan’s famous principle of peace through strength, and that’s why I believe the investment there is very important for long-term peace and prosperity of the world.

I also think it’s important we continue to support Taiwan. You know, we’ve had this kind of strategic ambiguity with Taiwan. I think we need to continue to drive more strategic clarity with Taiwan, sticking to the Taiwan Relations Act, the arms sales, freedom of navigation in the South China Sea.

This is, again, I think, another important way that we would reduce the risk of some kind of a conflict, even a kinetic conflict, with Taiwan and China, and that’s by standing strong with Taiwan and making sure China understands that if they decided to commit some kind of irrational act as it relates to Taiwan that the
world would be on Taiwan’s side here to ensure that they would be protected, and I think that’s the way, ultimately, that we keep peace between Taiwan and China.

So, anyway, I think I’ll stop there with those thoughts and be happy to open up for any questions you might have.

Dr. Lin: Thank you very much, Senator Daines.

So let me just give quick instructions for folks who had just joined us.

(Gives queuing instructions.)

So as we’re waiting for folks to submit their questions, let me just start off with a broader question.

So, Senator Daines, you talked a bit about your views on China and you – and your discussion spanned everything from the economic competition, this competition for tech, for scientific development, to Taiwan, to what we should do in Congress. I want to get your sense of how – does your view represent a general consensus within Congress on China? Because one of the things I keep hearing is that one of the few issues that both sides of the aisle agree on in Congress is China. So I want to get your sense of where is Congress generally in terms of views of China’s rise and the risks and opportunities associated with China’s growing power? If you could share with us how Congress generally views China, I think that would help sort of lay the ground and help situate your remarks/

Sen. Daines: Yeah. Well, Dr. Lin, I think you’re right in your assessment that in this polarized time that we live in in our country, when you don’t see a lot of bipartisan agreement and, frankly, cooperation here in Washington, generally there is bipartisan agreement on the U.S.-China relationship that, first, is one of the most significant bilateral relationships that we have today, and probably will only increase so in the coming decades. So I think the growing threat is something that both sides of the aisle see and agree on. I think when you look at China, you have to look at it with both eyes.

I say, one eye looks at the threat, and it’s very clear. And frankly, Xi Jinping is not making it easier for anybody in the world right now in terms of his very heavy-handed actions he’s been taking, whether it’s issues on human rights or the chilling effect he’s had on the innovation economy there. He’s going after some of their, you know, all-star high-tech companies. And so that’s – and certainly the horrible decisions that have been made and policies imposed on Hong Kong I think is really creating a chilling effect around the world with China. So that’s with one eye you look at the threat.

I think the other eye, you still have to look at the opportunities there for U.S. businesses. For our ag sector, it’s the – you know, the largest export market in the
world for many of our ag producers, in terms of opportunity. Ninety-five percent of the world’s consumers live outside the United States. A big chunk of those are right there in China, with increasing spending power they have as consumers. You’re starting to see many U.S. companies have significant presence in China, you know, selling to their consumers. It’s a big deal for companies, like I worked for, for Procter & Gamble, like Boeing.

These are great American companies. They’re a part of our Dow – (laughs) – and indexed on Wall Street. Imagine if you start shutting off the ability for U.S. companies to have access to that market. That would have direct effect on the earnings of U.S. companies, a direct effect on jobs here in our country, a direct effect on our equity markets. And so this, you know, poses again the need to make sure we have senators and members of Congress that have an accurate assessment of both the threat as well as the opportunity of China.

I told Secretary Mike Pompeo before he left serving under the Trump administration – I told Mike, I said, the only thing more dangerous than a U.S. senator who’s never been to China is one who was there 10 years ago. When you think about the rapid change that’s gone on there, again, we need to have, you know, 2020 vision, clarity, on what the state of play is in China. And I think it’s fair to say, generally U.S. Congress is united in understanding some of the threats that China possesses.

Dr. Lin: Thank you, Senator. And with your background and your deep experience on China, I think that’s one of the reasons why we wanted to invite you to be our keynote, because you balance – you have a very deep understanding of China. And you understand China not only from the national security perspective, given your current role, but also from the business perspective, having spent many years working in China.

Related to that, we actually have a couple of questions from the audience regarding what should companies do? So one question is, how should companies manage – and I think they’re talking about U.S. companies but it could also be multinational companies in general – how should companies manage the challenging relationship between the United States and China in terms of maintaining a commercial relationship with China while also staying true to the U.S. values of promoting human rights?

Sen. Daines: Yeah. Well, it’s not getting any easier with the crackdown of Xi Jinping’s government. If somebody utters a word of discontent, they – oftentimes there’s backlash with the Chinese government. And I think that’s a walk of wisdom that everybody who occupies a C-suite in companies that has a significant presence in China is grappling with. On one hand, we cannot turn a blind eye to what’s happening in China with their human rights violations with the Uighur people, with their human rights violations with those people of faith – including the Uighurs as Muslims. But whether it’s the Christian faith, whether it’s the
Buddhist faith, what’s going on in Tibet, that cannot be ignored. And I think we have a certain civic responsibility as good corporate citizens putting on my – you know, my private-sector hat before, to ensure that we hold them accountable, and I think that’s the important role that companies play.

We were able to do that. We were on the ground in China back in the 1990s. We literally were looking out for – I mean, we’d spend time in orphanages in China. You know, U.S. families who were on the ground there, you were working during the week; on the weekends we’d go spend time with these little babies in orphanages, make sure they were held and cared for and nurtured. And that’s just part of, I’ll call it, U.S. accountability by being on the ground there, just to try to promote the common good. And we had tremendous friendships with so many Chinese people who would never publicly say it, but quietly had concerns what’s going on with their government. So that’s, I think, the important role of citizenship, as being a corporate citizen.

On the other hand, look what China’s been doing here in terms of making it very difficult to keep expats on the ground in China. We’re seeing an exodus in expats, sometimes in the name of COVID. But frankly, I think they are going after companies that are now competing with Chinese companies. They’re giving the home-field advantage, serving the Chinese companies. And so it is a real battle. It’s a dilemma. And it’s not an easy thing going forward, but I think you just got to stay true to your corporate, I’ll call it, citizenship, which is standing up for the values that we believe in in America. And at the same time, when you are in China, you are a guest of the Chinese government and so forth. And you’ve got to realize you’ve got your ultimate allegiance and citizenship to the United States of America, but also you’ve got to be respectful but also firm with what’s happening in China.

Dr. Lin: Great. Thank you. Thank you, Senator.

So in your comments you mentioned that you’re very much focused on China’s growing nuclear capabilities. So I’m aware that this June you introduced a nonbinding resolution stating that any international arms control agreement entered into by the United States that limits the number of nuclear-capable missiles must include the Russian Federation and the People’s Republic of China. Could you talk a bit more about your resolution as well as what you see as the prospects for potential U.S.-China bilateral arms control or strategic stability talks?

Sen. Daines: Yeah. Well, to put this in context, I represent, of course, the great state of Montana. Montana has about one-third – in fact, we have exactly one-third of our nation’s intercontinental ballistic missiles. You think about the nuclear triad, you have the ICBMs, which we have a third of those in Montana. The other third’s in Wyoming. Another third’s in North Dakota. Then there’s the third with – in our
submarines, we call our boomers. Then the third, of course, is our – is our airlift that we have. That’s the nuclear triad, as we call it.

So this is something that’s very personal to me as somebody who’s grown up in Montana, fifth-generation Montanan. I’m very proud of the fact we have ICBMs there to defend our country. In fact, one of my favorite commander coins I have in the military coins that I collect is from the 341st Air Wing out of Malmstrom Air Force Base in Great Falls, Montana, where they control these ICBMs, and it says “scaring the hell out of America’s enemies since 1962.” That is peace through strength. And so we’re proud of that fact.

But listen, China’s recent hypersonic missile launches, this caught the attention of the international community. This is an imminent threat now to our allies and our partners in the region. This is a threat to our overseas military bases. And this is a real concern. If a conflict with Taiwan were to erupt, this becomes an even greater concern. And so I think the surprise to many was how quickly China developed these capabilities and now we’re starting to see these in the – in the public domain. You know, I receive classified briefs. I can tell you it’s very, very troubling. We’ll leave it at that.

And so I think we need to adapt to this new reality. Frankly, I wasn’t that surprised, as I’ve seen what’s happened with how quickly the Chinese technology ecosystem’s developed in the private sector. As you know, there’s really no bright line between the private sector and the military complex in China. Those are intertwined. Listen, China’s produced some of the – some very bright scientists, and I think that’s only going to accelerate.

So I think, again, back to these arms control agreements, China’s nuclear arsenal once upon a time was viewed as insignificant. Now it’s significant. It seems prudent that any future agreements have got to account for China, and that’s why I introduced that resolution.

Dr. Lin: Great. Thank you.

I also wanted to get your comments and your thoughts on where the Biden administration is going with respect to China. So one line that we hear quite frequently is that the Biden administration approach to China is that intense competition with China should be balanced with intense diplomacy. In your eyes, how should the United States engage China? Do you think – and what strategy should the Congress adopt to ensure that American values are being preserved, while making sure that we also address many of the global public problems that we face – for example, climate change and public health issues?

Sen. Daines: Yeah. Well, first of all, we must continue to be very outspoken when we see – whether it’s human rights abuses going on in China. We see what’s happened. The, frankly, horrible policies that China’s imposed on Hong Kong. We should
not be afraid to be very outspoken and firm not only in our condemnation but in global condemnation of what’s going on there. You know, frankly, China uses its wealth and its power to bully other nations. We just saw Nicaragua recently how suspend its ties with Taiwan. And that’s being bullied by China.

We need to continue to stand with countries that are willing to speak the truth to power. And I think it’s a very important part of our foreign policy, that we can’t be viewed as weak and cowering. And that’s one of my concerns right now with the Biden administration, is that I think they’ve not gotten off to a good start with some of the early discussions with China. It’s viewed – I think they’ve looked a bit weak. And certainly, the withdrawal from Afghanistan was viewed – and China’s exploited that – it’s viewed as looking like the United States was weak. And so that is a real concern that I have.

And, second, I’m concerned about the policies this administration has tried to promote in terms of they’re looking at, you know, raising taxes. Look what China’s done. China has reduced taxes on businesses over the last several years to drive more competition. And now we have this administration looking to increase taxes on businesses. This is about global competition. And so this needs to be – we need to have a vigorous debate, as we are having in Congress, because if they’re going to start making it more difficult for U.S. businesses, whether it’s through a stronger regulatory regime or higher taxes, ultimately, I can tell you who’s going to cheer. It’s going to be the Chinese.

Dr. Lin: Thank you. And so, Senator, so one of the issues that you focus on quite a bit is critical mineral production. And you also mentioned it in your opening remarks. So I just wanted to get your sense, what should the United States be doing to get our strategic advantage back in this sector?

Sen. Daines: Yeah. Well, we actually have abundant critical mineral resources here in the United States. And this, again, is one of the challenges we face here in Washington. We see lengthy permitting processes and delays. We see litigation from some of these environmental groups that’s making it virtually impossible to permit a new mine in the United States. And now we’ve got the Biden administration making it even harder by increasing fines and costs on American mining.

Listen, I grew up in a state – Montana has a rich mining heritage. And, yes, the mining techniques from 100 years ago have changed dramatically. There were abuses of the environment, looking back at how mining was conducted in generations of the past. Today’s mining techniques are environmentally sound, they’re highly regulated. And we need to continue to permit critical mineral production in the United States. It’s just – again, there’s a real clear parallel between critical minerals and what we saw happen with oil and natural gas of the past, where we were overly dependent on the Middle East.
We are overly dependent on China. This will only grow more troublesome because many of these critical minerals are needed for the renewable economy. You’re talking about solar panels and so forth, and batteries, and energy storage. If we are going to have a transition to a higher percentage of renewable energy sources, you’ve got to have critical minerals. And so we’ve got to have help here from this administration and legislative means here to streamline the permitting processes and to allow us to develop made in America critical minerals.

Dr. Lin: Thank you so much, Senator. So in the interest of time, I will probably have to wrap up here. But I did want to turn it to you to see if you have any final comments for our listeners. And just a bit of background, our listeners are generally interested in understanding various aspects of China’s growing power and are very keen on understanding what you are doing in Congress, as well as what the administration is doing, vis-à-vis China. So any final remarks from your end that you want to leave our listeners with?

Sen. Daines: Well, I’ll just say this: I hope we never look to Washington to see the ultimate source of wisdom in sorting out the relationship between China and the United States. We play an important role, but ultimately one of the most important roles will be to continue to stimulate innovation and development of technology that generally is not the source of D.C. That comes from the private sector. And so we have an important role to ensure we have policies that incentivize that, but we don’t want to get in the way of continuing to drive this innovation. So we’ve got an important role in D.C., but again, having spent much of my career on the private-sector side, a lot of the answers reside there. We just don’t want to get in the way of allowing our businesses and our innovators and our scientists to continue to do what they do best, and that’s drive innovation.

Dr. Lin: Thank you, Senator. As you mentioned, the United States has many strengths, and we should leverage those and not get in the way of where our strengths lie.

So let me now turn to wrapping up this event by flagging our next China Power Conference, our fourth and final debate. So our fourth and final debate will begin on December 17th at one p.m. Eastern time. We will ask two leading experts, one from China and one from – two leading experts to debate whether China will establish a sphere of influence in the Indo-Pacific by 2027. Those two experts will be Dr. Graham Allison, a professor of government at Harvard University, and the other expert debating against this proposition will be the honorable David Stilwell, a former assistant secretary of state at the Department of State.

So a big thank you, again, for Senator Daines for taking the time to join us this morning. And thank you to our live audience for staying with us from 8:45 to 10:45 now. I hope to see most of you again on December 17th. Thank you and we’ll wrap this event up.