

Center for Strategic and International Studies

**Second Annual ChinaPower Conference
China's Power: Up for Debate**

**Morning Keynote: "Implications of China's Growing Power for the
U.S."**

**Featuring:
Senator John Cornyn (R-TX)**

**Moderator:
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(Applause.)

SENATOR JOHN CORNYN (R-TX): It's great to be back here at CSIS, and thanks for having me here today.

I'm honored to lead off the Second Annual ChinaPower Conference and discuss the important relationship between our two countries. This year's conference, of course, as you know, is all about "China Power: Up for Debate," and I expect you'll hear from a number of experts who have studied China in depth and its dramatic rise.

I am not one of those experts. But, as a member of the Senate Select Committee on Intelligence and as someone with a keen interest in national security issues, China has been increasingly on my mind.

For today's purposes, the questions, I think, are pretty obvious, but let me state them. Does China pose a national security threat? And, if so, how can the United States government best protect our interests in light of that threat?

The short answer, I believe, is yes, as I'll explain. China poses a security threat, and a serious one. In fact, General Joe Dunford, chairman of the Joint Chiefs of Staff, has said that by 2025 China will pose the greatest threat to U.S. national security of any nation. And you may have heard CIA Director Mike Pompeo echo that view last summer when he said that over the long term China represents a graver security risk than Russia or Iran.

And assuming that to be true – and I do believe it is true – the next question becomes why. Why is China so different? And why, for many of us, does it represent a profound geopolitical concern?

Let me give you three reasons. First and foremost, China is a state-controlled economy – a state-controlled economy, which explains why China poses a threat unlike any other. The country's economy is extremely powerful, driven by coercive industrial policies that distort and undermine the free market. Many Americans assume when you do business with a Chinese company it's like doing business with an American company or anybody else, but it's profoundly different.

It's authoritarian political system marshals national resources to meet the specific objectives of the Chinese Communist Party. As President Xi publicly admitted in April of last year, he said our biggest advantage is that we as a socialist country can pool resources in a major mission. In other words, they have an all-of-government policy and approach. China's economic and industrial might is alarming when you consider that China has married these up with aggressive military modernization and the intent to dominate not just its region, but potentially beyond.

That brings me to the second reason for concern, China's provocative military buildup. It's realpolitik, pure and simple. The clearest example is China's military posture in recent years in the South China Sea. This has included its well-known construction of an array of artificial islands that are essentially platforms for projecting Chinese military power. As CSIS's own experts have documented, China stationed military units, missiles, and other materiel on islands claimed by a variety of nations, including Taiwan, Vietnam, Malaysia, and the Philippines.

As China gains military outposts in places like Spratly and Paracel Islands, it's not unreasonable to wonder when, not if, diplomatic standoffs morph into military conflicts. When that happens, the U.S. may be dragged into those conflicts. China's outreach – I should say overreach in the South China Sea is already destabilizing the region. It continues to flout the rule of law and tramples on the sovereignty of its neighbors – many of whom, of course, are U.S. allies or partners.

That's why we must see this for what it truly is, a strategic land grab intended to enable China's domination, manipulate the free flow of commerce through vital corridors, and intimidate other nations that dare question its policies. What's more, China has displayed similarly aggressive conduct in the East China Sea, threatening islands belonging to Japan, our strongest ally in East Asia. And we can't forget another ally, Taiwan, which remains squarely in Chinese crosshairs.

Now, the third reason why I think China represents a national security threat is one I want to speak about most in depth, as Dr. Hamre alluded. China is using every tool at its disposal to close the technology gap with the United States, attempting to erase our military technological edge and turn our knowhow against us. To help achieve this goal, China has been vacuuming up U.S. technology however it can, oftentimes illegally by just stealing it, or using middlemen to game our export-control system.

What gets less attention, however, is something that concerns me even more, and that is Chinese – China's investments in American technology companies, most of which focus on technologies with dual use – military and civilian – applications. If these investments were purely financial in nature, designed to generate a simple return, I would be far less concerned. But much of what China is investing in is leading-edge U.S. technology and related knowhow that's key for our future military capabilities.

Left unchecked, China's investments have the potential to generate large-scale transfers of technology, degrading in various ways our nation's military superiority and undermining the U.S. defense industrial base. Unless these trend lines change, we may one day see some technologies – some of our own technologies used against us should, heaven forbid, we ever have to face China in some sort of military confrontation down the road. This is a problem for our Defense Department, and it's one they're all too familiar with: Beijing encouraging and even helping finance Chinese companies to acquire or otherwise invest in cutting-edge American tech firms in hotbeds like Silicon Valley or even Austin, Texas. Think, for example, of companies working in artificial intelligence or in the realm of autonomous vehicles.

Some of these concerns are why I, along with Senator Dianne Feinstein and eight other senators in a bipartisan bill, have filed a piece of legislation that we call the Foreign Investment Risk Review Modernization Act, or FIRRMA. Among the two dozen cosponsors of this bill and its House companion are the chairmen of both the Senate and the House Intelligence Committees, which I think speaks volumes. This bill reforms and updates the so-called CFIUS process, the Committee on Foreign Investment in the U.S. process, and attempts to plug gaps that are currently being exploited to our detriment.

For those who aren't already familiar with the operation of the committee, it screens mergers and acquisitions involving foreign entities for national security concerns. That's its function. And it's headed up by Secretary Mnuchin, secretary of the Treasury.

Now, this bill would not impose a ban on Chinese investment in the United States. That's not a – not a concern. Nor would it automatically block transactions. Rather, this bill will expand CFIUS jurisdiction to include certain technology joint ventures, minority position investments, and real estate transactions near U.S. military bases. Collectively, the series of reforms in the bill represents the U.S. taking a tougher line against certain investments from China and other countries. If the bill is enacted, the functions of CFIUS are expanded, and I intend to make sure they are fully resourced.

Now, if you'll bear with me just a moment, I'd like to take that moment to put the bill in proper context. What we need to emphasize is that China too often requires technology transfer as a quid pro quo for U.S. companies to access its own markets. This approach puts the Chinese Communist Party in the boardroom of nearly every U.S. multinational company in the high-tech sector. It creates an untenable situation where some U.S. companies are literally coerced into joint ventures, with the end result being that their dual-use technology eventually ends up in the hands of the Chinese government.

The second point about the bill's context involves the export control process, which some have argued would be a better tool to handle technology transfer issues. Well, in my view, export controls play a vital role, but they're not a silver bullet for addressing national security risks, and export controls have inherent limitations. For example, multilateral controls will never keep pace with the rapid evolution of emerging technology. If we delay action until there is an international consensus regarding a particular technology, it may be too late to prevent damage to our national security.

Because I don't believe there's any doubt whatsoever about China's intent, and it's seeking our technology at least in part for national security purposes and in order to modernize its military capabilities, China is purposely blurring the distinction between military and civilian activities through its policy of military-civilian fusion. One example can be seen AVIC, a Chinese state-owned enterprise and the sole supplier of aircraft to the Chinese military. We've allowed AVIC to acquire Western companies with valuable dual-use technology, R&D capabilities, and technical manufacturing expertise. Because AVIC receives financial support from the Chinese government to execute its M&A and industrial development activities, those acquisitions are concerning.

Another example of the military-civilian fusion is in the realm of high-performance computing. There China has attained near peer status with the U.S., in part through the investment-driven transfer of technology and knowhow. This is alarming because national security requires the best computing available, and a loss of leadership status in high-performance computing could jeopardize our nuclear weapons, our cybersecurity, our aircraft, our encryption, and our missile defense system.

As you know, President Trump has been in Asia and is returning here in the next day or so, and one thing he said while he was there really struck a chord with me. Speaking at the Asia-Pacific Economic Cooperation Summit in Vietnam, he said that Washington will, quote, "no longer tolerate the audacious theft of intellectual property" and that "We'll confront the destructive practices of forcing businesses to surrender their technology to the state and forcing them into joint ventures in exchange for market access." I think that's an appropriately stern tone to end on for a variety of reasons, and it represents a greatly underappreciated national security risk to the United States.

As Dr. Hamre pointed out, my friend and fellow Texan Rex Tillerson was here recently, and I'd like to quote another thing he said while he was here. He said the United States is going to continue to seek constructive relations with China – I think that's very important – but we're not going to shrink from challenges to rules-based order and the sovereignty of neighboring countries. We're not going to shrink from rules-based order and the sovereignty of neighboring countries.

For decades, U.S. policy has been to welcome the so-called peaceful rise of China, and I was onboard with that. During that time, the U.S. has both welcomed and enabled China's rise by ensuring relative stability and order in East Asia and elsewhere, and promoting policies that welcomed China's integration into the global economic and trading systems. But as ongoing developments in the South and East China Sea indicate, China's rise isn't always peaceful. U.S. policy towards China for decades has been based on the good-faith assumption that China would follow the rule of law and respect the sovereignty of other countries, but that just hasn't happened.

For the sake of our own national security in the long term, I think it's time for the U.S. to adopt a new policy on China, one that doesn't shrink from China's challenges, as Secretary Tillerson said. It's time to wake up to the mounting risks and to counter China's aggressive effort to push the U.S. out of East Asia. And it's time to think about China's non-market-based approach, particularly in those areas that adversely impact the ability of our military to field the best technology to keep the American people safe. In some ways, what we're now embarking on has been termed a "Cool War" with China – not quite a Cold War, as we had with the Soviet Union throughout the latter half of the 20th century, but very serious nonetheless.

It's been 12 years since then-Deputy Secretary of State Robert Zoellick first publicly urged China to become a responsible stakeholder. Regrettably, there's no major indications that that's what's happening.

Now, my hope is that I'm wrong. I'm hopeful that China will change course and join the league of responsible nations – and it has a tremendous opportunity to do that, particularly in the context of dealing with a nuclear North Korea. But the U.S. government must become more vigilant and prepare for a different reality by modernizing U.S. policy toward China to reflect the facts. Hope, as you know, on its own is not a strategy. One small way we can remain vigilant is through the CFIUS reform that I have talked about here and which we unveiled last week, to help ensure that America doesn't allow its military advantage to be taken away one piece of technology at a time.

Thank you very much for having me here today. And I understand there may be a chance for a question or two.

BONNIE S. GLASER: Thank you so much, Senator. I think we have just about 10 minutes, and I'll field a few questions. Please identify yourself, wait for the microphone, and please keep your questions short.

In the front over here, please.

Q: Thank you – thank you very much, Senator, for coming today and for those very thoughtful remarks. Obviously, you've given these issues great consideration.

My name is Edward Hearst. I'm with BlackBerry, but speaking for myself in this context.

I'm curious as to what thoughts – you've talked about what you're planning up on the Hill and what – some of what the administration is doing. On the two topics that you raised, technology transfer through intellectual property and in terms of the Chinese investment in the United States with some transfer tech with that – transfer of technology in that context, what's suggestions would you give for

companies in Silicon Valley? I'm flying back there today. That's where I'm based. How would you make them aware of what's going on? And what suggestions would you make for them?

SEN. CORNYN: Well, I think, obviously, the CFIUS process has existed for a long time, but it's pretty clear that the nature of the transactions that are being engaged in are designed to end run that process. That's why I mentioned, for example, the joint ventures, minority stakes, which not only expose the intellectual property but the knowhow of how to apply that. It's easy – I suppose it isn't easy, but it's – it happens that intellectual property gets stolen through cyber espionage and the like. But it's the knowhow that goes along with it that I think is – represents the significant concern.

And, of course, the CFIUS process remains a voluntary process, and nothing we're going to propose here changes that. But I would think a responsible company, recognizing its fiduciary duty to its shareholders, when there is a gray area would want to ask the Treasury to convene that process so that they can be sure that it won't be unwound at a later time.

I recognize the difference – different interests that companies and their shareholders have here. Obviously, they're interested in being able to survive in a competitive marketplace, and frequently the cash that – the cash infusion that would go along with these investments is enormously attractive. And we're not trying to stop Chinese investment, as I said in my remarks. But what we are trying to do is raise the visibility of the fact that there is no such thing as a non-state-directed Chinese firm. The Communist Party sits at the top of every Chinese firm. And so, by entering into joint ventures and other financial arrangements with the American companies, you're basically inviting them into the boardroom, where they obviously have different interests.

So part of what we are trying to do is raise the visibility of the issue so more people will think about this, because, frankly, I think most Americans are simply unaware of this emerging risk because of the nature of Chinese businesses, and they see them as innocuous. They see them as a counterpart of U.S. businesses, but that's just factually untrue.

MS. GLASER: OK. Another question? I can't see over here. Yes, this end over here.

(Off-mic consultations.)

MS. GLASER: Kai (sp), if you could bring the – bring the microphone over here.

Q: Hurry up with the microphone. We got to get up here.

SEN. CORNYN: (Laughs.)

Q: Hi. I'm Diane Bartz with Reuters. Nice to meet you.

SEN. CORNYN: Thank you.

Q: Can you walk us through the timeline of trying to get this passed? When do you expect to hold hearings? When do you expect a committee vote? And what contact have you had with the White House about how they feel about this legislation?

SEN. CORNYN: Well, we've been working hand-in-glove with Secretary Mnuchin, who as you know chairs the CFIUS process, and he's been very helpful and encouraging us throughout.

We've also been talking to the Department of Justice, the attorney general, who has encouraged us as well; Secretary Mattis; and others. And frankly, this has been very encouraging to see sort of a consensus of our national leaders who've come together to support us and to help us to navigate which is admittedly a difficult – a difficult path to navigate because, again, we don't want to discourage Chinese investment in the United States as a – as a(n) cross-the-board matter. We want to do this on a very targeted sort of way to deal with these technology and knowhow transfers that are – jeopardize our national security.

So the committees in the Senate and the – and the House that have jurisdiction of this are the Banking Committee and Financial Services Committee. That's Chairman Crapo in the Senate and Chairman Hensarling in the House. And we've been working with them. The House – the Senate committee has already had one hearing. But we're going to be – now that we've laid the bill out, we've gotten a good bipartisan show of support, and we've worked with them to try to get this bill in good shape, my hope is that the Senate will have a hearing here before the end of the year, and we're going to encourage Chairman Crapo to do a markup as soon as he's willing to do that. I know that we're going to have a – we're going to have a briefing on the intelligence-related issues in a classified setting for both the chairmen of the Banking Committee and of the House Financial Services Committee soon, so we are working with them.

And I know people always are anxious to know what the timeline is. And every timeline I might speculate about in the Senate I'm probably going to be wrong on, because things always happen a little slower than you like. But we are – I have a very great sense of urgency about this because every day that goes by there's potential technology slipping through the cracks, and we need to get on this in the interest of our own national security.

MS. GLASER: All right, we have time for one last question. Right here in the middle, please.

Q: Senator, Steve Park, National –

MS. GLASER: Please wait for the microphone. It's right behind you. Thank you so much.

Q: (Comes on mic.) Steve Park, National Intelligence University.

It sounds like FIRRMA is really a law designed to prevent the illegal transfer of technologies. What would you like to see done when there has been technology transferred illegally?

SEN. CORNYN: Well, those are serious, serious matters. Of course, my understanding of CFIUS's authority is if they haven't – if they've gone – if they haven't gone through the voluntary process, that the – that the committee can literally unwind a transaction that's already occurred. But honestly, I think there's going to be such a significant requirement going forward that I don't know to what extent they're going to be able to look backward and deal with past transfers. This is – this is – so that's my thought.

But here, again, I think, you know, we have a problem that CFIUS is only part of the answer to, because we do know that China and other countries are very active in the cyberspace, stealing technology, blueprints, and the like. The danger we're trying to deal with here is really the transfer of the knowhow that goes along with that blueprint or intellectual property, and that's where I think the gap exists. And so I think we are mainly forward-looking in this bill, although there are some tools currently available to the federal government for actions that have already occurred in the past.

Thank you very much.

MS. GLASER: Thank you, Senator, for all the important work you're doing. Thank you for coming today. (Applause.)

(END)