



CSPC

**CENTER FOR THE STUDY OF THE
PRESIDENCY & CONGRESS**

GEOTECH

**POSITIONING THE UNITED STATES & ALLIES
FOR THE COMPETITION AHEAD**

November 2023



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Introduction

To borrow from Winston Churchill's phrasing, the U.S.-China competition is now at the "end of the beginning." While the perceptions of the security threat have grown, focused on the prospect of conflict over Taiwan, "de-risking" has become the term-du-jour when it comes to business with China, and it is now being used to describe how to navigate not only the changing nature of doing business in China, but also the response from Washington. China's political tightening under Xi, the pandemic, growing hawkishness in U.S. politics, and myriad other factors have now reshaped the U.S.-China relationship away from the past consensus on the benefits of economic interdependence. While the consensus has changed, the interdependence remains. Amid this paradigm shift in how the two powers see each other, the private sector and third countries: from allies and partners to those in the Global South are in very similar positions—all forced to navigate the divergence between Washington and Beijing.

On one hand, China's new model comes from the political consolidation of power by Xi Jinping and an emphasis on national security that focuses on the United States and its allies as competitors and threats to China's regional and global position. Amid economic turmoil in sectors such as real estate and declining domestic consumer confidence among political shifts and the hangover of Zero-Covid policies, the Chinese Communist Party (CCP) under Xi Jinping has moved away from previous economic models and economic engagement with the West.

In the United States, what we are seeing is the response to China's actions, driven by a political consensus that is rarely seen in these polarized times. While concerns about military readiness and war over Taiwan drive the security response, there is the still-burgeoning effort by U.S. policymakers to protect U.S. technology advantages, promote U.S. innovation, expand economic ties with regional partners, and secure critical supply chains. Policymakers' actions have been met with legitimate questions about their political and fiscal sustainability. At the same time, concerned about protecting U.S. technology, proposals and actions related to export controls and outbound investment review are being discussed. In these efforts, U.S. policymakers speak of not only the importance of coordinating efforts with allies and partners but also their willingness to move ahead unilaterally given threat perceptions of China.

This report reflects, and respects, the off-the-record nature of private discussions, combined with open-source research, public events, and the analysis of CSPC staff, advisors, and fellows. Portions of this report draw from the analysis of CSPC op-eds, white papers, and our Friday News Analysis. Our analysis of legislation is not meant to be exhaustive—nor endorse legislation—but to track the progress of substantive, and likely, Geotech policymaking and implementation, and to suggest policy approaches and considerations that might result in more effective and workable policy implementation between the United States and allies to best meet U.S. policy goals and strengthen American innovation, competitiveness, and security.

China's Changing Economic Policies & Downturn Response

Previous CSPEC geotech reports have chronicled the change in China's economic policies under Xi Jinping, combined with the greater emphasis on technology development for military power and internal control. Understanding the importance of technology in prevailing on the modern battlefield, Beijing has sought to close the technological gap with the United States—sometimes through illicit or underhanded means, but also through the legitimate growth of a world-class technology industry. This is done with an eye towards what Xi Jinping has described as China's response to "U.S. containment" and a range of policies such as the military buildup to internal crackdowns, Military-Civil fusion at home and the Belt and Road Initiative abroad.¹

Given the economic dynamic of the geotech relationship and the continued factors of economic interdependence, it is important to consider how Xi Jinping's economic policies reflect his rhetoric, as well as the dynamic of the U.S.-China economic relationship. While the Chinese leadership moves in a different ideological and geopolitical direction, reminiscent of the Cold War, there are limitations to applying the Cold War approach given the economic ties between China and the United States and our allies. With supply chains that in some cases have taken three or even four decades to build, China is firmly part of the global economy in a way that the Soviet Union never was, nor even Russia today—making the Cold War comparisons and the economic response to the Ukraine conflict an unhelpful comparison of economic isolation. Also of note is the difference in that modern Russia actively seeks to disrupt or destroy the international system, while China aims to exploit and manipulate it to its ends. That said, should China see that its interests lie outside the current international system and financial structures, we can expect greater disruption of it.

As we have chronicled Xi Jinping's skepticism of economic engagement with the West and private sector power within the Chinese economy, we have seen him implement the concordant policies. Long after the West's vaccination and re-opening, China's adherence to zero-Covid to the point of economic collapse demonstrated a focus on state control over economic dynamism. Despite optimism about a China re-opening, the previous year has seen the continued crackdown on private sector activity: domestically focused efforts have cracked down on big tech, finance, real estate, and other high-flying companies and their CEOs; and raids on foreign due diligence firms have demonstrated a tightening of control on information. Sometimes, when applied to areas like health care or housing, it reflects the party's new emphasis on socializing public benefits, reducing income inequality, and undoing the excesses of past development policies and plans. Still, this creates further uncertainty across a wide range of

¹ Keith Bradsher, "China's Leader, With Rare Bluntness, Blames U.S. Containment for Troubles." The New York Times. March 7, 2023. <https://www.nytimes.com/2023/03/07/world/asia/china-us-xi-jinping.html> and CSPEC March 2023 Geotech Report <https://www.thepresidency.org/geotech-report-2023>

fields, and entrepreneurs are confused about their future prospects.² In other areas, such as technology or education, there are concerns about not only private sector power but also the foreign influence—financial, cultural, and values-based—that comes with doing business with the outside world. While some Chinese officials speak of the importance of doing business with the outside world, this business will be done on Beijing’s terms.

Expansion of National Security Laws & Exit Bans

Where western government and companies should share concern is over the expansion of national security laws and rhetoric to encompass what was traditional business and responsible due diligence—particularly in the areas of advanced technology or strategic supply chains. Officials in Beijing apparently watched with alarm as western think tanks were able to use open source data to map things like China’s Military-Civil Fusion, ties between companies and Uyghur slave labor, or other information that might counter or merely tarnish the CCP narrative—or force western companies to answer difficult questions about their business arrangements.³ All of this has resulted in a crackdown on the outgoing data from China, as well as an ever-broadening expansion of what data or information is related to national security or state secrets. This was then reflected in the crackdown on domestic and foreign due diligence and consultancy firms including Capvision, Bain & Company, and Mintz.⁴ At the same time exit bans have trapped foreign executives in China, with recent national security laws expanding the authority to ban departure from China.⁵ More recent cases have used crackdowns on major Chinese financial, tech, and industrial figures as reason to detain foreign bankers or consultants doing business with these corporate leaders. The more recent case of the Charles Wang Zhonghe, head of investment banking in China for Japanese bank Nomura, illustrates such a detention in mainland China of a Hong Kong-based executive for a foreign company.⁶

2 Samuel Shen and Summer Zhen. “China’s crackdowns rewrite investors’ private sector playbook.” Reuters. August 17, 2023. <https://www.reuters.com/markets/asia/chinas-crackdowns-rewrite-investors-private-sector-playbook-2023-08-17/>

3 Lingling Wei, “U.S. Think Tank Reports Prompted Beijing to Put a Lid on Chinese Data.” The Wall Street Journal. May 7, 2023. <https://www.wsj.com/articles/u-s-think-tank-reports-prompted-beijing-to-put-a-lid-on-chinese-data-5f249d5e>

4 Ryan McMorro and Demetri Sevastopulo, “China raids multiple offices of international consultancy Capvision.” Financial Times. May 8, 2023. <https://www.ft.com/content/fc364119-979d-4090-83bf-2e6a24d5b175>; Helen Davidson, “Authorities raid Beijing offices of US Mintz Group detaining five Chinese staff.” March 23, 2024. <https://www.theguardian.com/world/2023/mar/24/authorities-raid-beijing-offices-of-us-mintz-group-detaining-five-chinese-staff>; and Daisuke Wakabayashi and Keith Bradsher, “U.S. Consulting Firm is the Latest Target of a Chinese Crackdown.” The New York Times. April 27, 2023. <https://www.nytimes.com/2023/04/27/business/bain-china.html>

5 James Pomfret and Angel Woo, “China’s exit bans multiply as political control tightens under Xi.” Reuters. May 1, 2023. <https://www.reuters.com/world/china/chinas-exit-bans-multiply-political-control-tightens-under-xi-2023-05-02/>

6 Joe Leahy, Leo Lewis, et al. “Senior Nomura banker barred from leaving mainland China.” Financial Times, September 24, 2023. <https://www.ft.com/content/115b87c9-532d-468d-903c-127f8f31667b>

Chinese leaders continue to emphasize the importance of security measures, as indicated in the remarks of Minister of State Security Chen Yixin:

Insisting on putting political security in the first place is the lifeline of national security work in the new era. The core of political security is the security of political power and the system, and the most fundamental is to safeguard the leadership and ruling position of the Communist Party of China and the socialist system with Chinese characteristics...We must coordinate security in all fields from the height of political security, improve political judgment, political comprehension, and political execution, strictly prevent security risks in other fields from intertwining and transmitting to the field of political security, and build an all-around national security barrier.⁷

Now empowered by vague and expansive national security laws, party officials may see their future careers depending on arrest numbers or spycatching metrics to a greater extent than economic data. As these trends continue, it is an ominous sign for doing business in China, creating a new level of risk, despite the rhetoric surrounding the recent high-profile corporate visits. Added risk for companies and their executives is one aspect changing the perception of doing business in China, but as China's economy has slowed, we have also seen Xi's ideology in action.

Growing Economic Retaliation

Over the past year, we have also chronicled a greater willingness by China to respond to U.S. economic security measures with a growing number of retaliatory measures. While it appeared that China had been reticent in the past, or sought to avoid demonstrating the limits of its retaliatory options, Beijing is demonstrating a greater willingness to use these economic security tools. The most notable recent example has been the expansion of critical mineral restrictions during the summer of 2023. On July 3, the Chinese commerce ministry announced that it will levy export controls on two minerals critical to the production of semiconductors and electric vehicles – gallium and germanium.⁸ In the production of semiconductors, Gallium serves as an inexpensive alternative to other chip minerals like platinum and palladium.⁹ It also

⁷ Bill Bishop, "Official love for platform companies; Chen Yixin on the counter-espionage law; German China strategy; Kerry to China; Hack." Sinocism. July 12, 2023. <https://sinocism.com/p/official-love-for-platform-companies>

⁸ Amy Lv and Brena Goh, "Beijing jabs in US-China tech fight with chip material export curbs." Reuters. July 4, 2023. <https://www.reuters.com/technology/us-firm-axt-applying-permits-after-china-restricts-chipmaking-exports-2023-07-04/>

⁹ Nick Carey, "China gallium curbs raise chip questions for future EV models." Reuters, July 11, 2023. <https://www.reuters.com/markets/commodities/china-gallium-curbs-raise-chip-questions-future-ev-models-2023-07-11/>

reduces the weight and increases the efficiency of Electric Vehicle (EV) batteries, lowering EV costs for consumers. Given that China produces 80% of the world's gallium supply, the new export controls pose significant challenges to U.S. manufacturers.

In May 2023, China also moved to ban the U.S. chipmaker Micron from infrastructure projects, citing national security risks. The Cybersecurity Administration of China (CAC) issued the ban but did not provide any further details on any identified risks. This move came as the United States moved with allies to strengthen restrictions on semiconductor technology exported to China, and was announced after the G-7 summit statement on countering Chinese economic coercion.¹⁰

Finally, despite the visits of Apple CEO Tim Cook to China and the company's extensive supplier and assembly relationships in China, Chinese authorities appear to have announced policies discouraging their employees from using iPhones and other Apple products at state-owned industries or government offices. While Chinese officials denied that there was a formal ban, informal messages from managers and party cadres in Chinese companies' management have encouraged Chinese employees to find alternatives. The reports about such comments regarding iPhones also came at the same time that Huawei announced its Pro Mate 60 phone with microprocessors that appeared to go past what U.S. export controls aimed to restrict.¹¹

[The Response to China's Economic Slowdown](#)

It is important to remember that for Xi Jinping and those in his inner circle, the economic growth of the past decades that has young Chinese yearning to work for Google or Goldman Sachs—or create the Chinese version—is a nightmare to their Communist psyche. Xi, the princeling of Cultural Revolution era politics, has reportedly said that the hardships of the period built character and resilience in the Chinese people. Eschewing what he has described as “welfarism”, Xi has steered stimulus to state-owned industries.¹² This is not mapped easily onto the right-and-left of western politics, but he believes in a right-wing skepticism of government handouts to individuals but left-wing faith in the ability of the state to manage the economy.

As a result of this, the Chinese economy and its engagement with the world are changing from the model that we have known—with its considerable benefits and drawbacks—to one that has

¹⁰ Peter Hoskins, “China bans major chip maker Micron from key infrastructure projects.” BBC News. May 22, 2023. <https://www.bbc.com/news/business-65667746>

¹¹ Rohan Goswami, “China says it hasn't banned iPhone or foreign devices for government staff.” CNBC. September 13, 2023. <https://www.cnbc.com/2023/09/13/china-says-it-hasnt-banned-iphones-or-foreign-devices-for-government.html>

¹² Lingling Wei and Stella Yifan Xie, “Communist Party Priorities Complicate Plans to Revive China's Economy.” The Wall Street Journal. August 27, 2023. <https://www.wsj.com/world/china/communist-party-priorities-complicate-plans-to-revive-chinas-economy-84a156d7>

business leaders looking for alternatives as well as many Chinese wondering about their economic future. Xi has eschewed traditional economic perceptions, at a time when confidence in the Chinese economy is falling at home and abroad. In some industries, there is significant interdependence with China that will continue, but for many others that had long assumed that business growth would come from access to the China market. Separate from the off-balance-sheet costs of IP theft, forced technology transfer, joint-venture arrangements, and increasing CCP organizing in the private sector workforce, Beijing's policies are either pushing foreign business elsewhere, aiming to build a Chinese competitor to those companies, or both.

As U.S. and allied policymakers consider both economic policies towards China and the protection of our technological innovations, it is important to right-size the nature of China's economic challenge—a significant challenge, but one where we need to be aware of China's own flaws and shortcomings—as well as ensuring that policies are not counterproductive in terms of damage to our own economy and corporate innovation leaders. While the business environment in China is no longer as conducive as it once was, companies will still continue to look there for production until there are real alternatives in other nations. In fact current economic conditions in China may be a catalyzing influence on President Xi's plans to participate in APEC meetings in San Francisco, make some symbolic gestures by meeting President Biden, and attempt to court U.S. CEOs to continue doing business in his country. Shared interdependence will continue, but the risk of economic countermeasures, or other tit-for-tat politics escalating towards a miscalculation—and potential conflict—could rise as economic ties and the influence of multinational business leaders no longer serves as a brake on military confrontation.

China's leaders see myriad looming crises—debt, demography, and degradation—where the financial, human, and environmental costs of past decades' rapid growth come due. Whether a greater consolidation of party authority and a more statist economy is the answer to this remains to be seen, but Xi has chosen his course. Still there are questions: Has Xi consolidated power to overcome the challenges ahead? Has he been successful in consolidating power, or will cliques and factionalism inevitably return to intra-party politics? If Xi has consolidated power successfully, has he created a system where feedback on the course of these policies and any adjustment is now impossible? If these policies fail, can Chinese officials tell their new emperor that he has no clothes?

China Competition, U.S. Politics, & Congress's Response

Changing perceptions of China have now spanned multiple presidencies, and despite historic levels of partisanship in the United States, there is agreement on the scope and importance of the China challenge. Policymakers' responses have focused not only on the threat of military competition but also the technological and economic challenge. As U.S. policymakers became aware of how China had moved ahead in 5G technology in the 2010s, telecom and IT equipment became the first critical technology of concern, but this was broadened by the intensification of China's efforts in areas like AI, quantum technologies, supercomputing, 5G/6G networks, biometrics, and biotech. Furthermore, during pandemic disruptions, supply chains for semiconductors, pharmaceuticals, and critical minerals became a greater concern, while the growth in popularity, and subsequent controversy, of Chinese-owned social media platform TikTok has reminded our policymakers of the value of user data and the power of algorithms. All of these issues have their own domestic factors, such as innovation policy, communications and network regulation, education and workforce, and laws related to privacy and data management, but the competition with China has served to focus lawmakers' attention on these topics in ways that we had not previously seen.

First, it is important to consider the change in perception of China in the American grassroots. While there had long been skepticism of China's, concerns about the economic impact of trade with China, and legitimate grievances regarding China's human rights record. Perceptions about China shifted during the late-2010s as trade confrontation grew during the Trump administration, but then the COVID-19 pandemic accelerated this shift in perception. Now, across U.S. political factions, Americans have largely unfavorable opinions about China, often by at least a three-quarters majority. Furthermore, with the Russian invasion of Ukraine and resulting conflict, Americans have seen China's ties with Russia as an area of concern. In fact more see China-Russia ties as concerning than they do China's threats to Taiwan.¹³

In line with Americans' global attitudes, it reflects some isolationism and reluctance regarding U.S. power, particularly when it comes to assistance to Taiwan. Yet, at the same time, the authoritarian threat and the Moscow-Beijing alliance does worry the American people. Perceptions of the China threat to the U.S. homeland however, continue to increase in terms of both economic concerns and security concerns. The economic concerns are largely seen in terms of Chinese investments in U.S. facilities and real estate, and Congress has turned its attention to these concerns in its activities.

13 Laura Silver, Christine Huang, et al. "Americans are Critical of China's Global Role—as well as Its Relationship with Russia." Pew Research Center, April 12, 2023. <https://www.pewresearch.org/global/2023/04/12/americans-are-critical-of-chinas-global-role-as-well-as-its-relationship-with-russia/>

However, besides the sense of broader economic displacement by China, the security threat has become more palpable to the American people. The appearance of the Chinese spy balloon in early 2023 heightened the public sense of the China threat. Since then, U.S. media has also continued to report on Chinese encounters with U.S. Navy ships in international waters claimed by China as well as the growing number of Chinese and Russian incursions near U.S. airspace in the Pacific.

Therefore, lawmakers in the United States are likely to continue to reflect public opinion on China in their rhetoric and actions. Hardening attitudes among the American people could drive harsher response to future Chinese provocations or incidents. However, what is yet unclear is the extent of economic pain that the American people would be willing to endure in the event of conflict or some other impetus that brings about a breach in the economic relationship. Lawmakers' and public perceptions of U.S. economic and trade interdependence with China is less focused on the opportunities of trade or even its ability to deter conflict between the nations. Now, lawmakers increasingly see U.S.-China economic ties in terms of vulnerabilities and question companies' continued reliance on Chinese supply chains or their continued business in China.

American politics regarding China are unlikely to move in the direction of relaxing or reducing pressure on China, and future incidents will likely serve to only intensify public concerns about China or public willingness to endure the economic costs of a worsening U.S.-China relationship. With a cross-partisan consensus at the grassroots that is unfavorable to China, both parties are likely to engage in measures that reflect their constituents' concerns about China. Some of these follow the traditional political cleavages but are united in their shared concern about Beijing's policies. Finally, among some on the Republican right, the China threat is seen as the main concern for the United States, and even Ukraine assistance is seen as a distraction from the preparations necessary for confronting a threat as immense as China.

Partisan, election-year dynamics as well as the tension over executive versus legislative prerogatives could intensify the state of U.S.-China politics in the coming months. First, as the 2024 election nears, even the slightest action that could be perceived as "weak on China" becomes more politically fraught. For the Biden administration, it becomes a challenge to pursue and strengthen national security and economic security related while not harming the U.S. economy before an election year. A too relaxed approach, on the other hand, will invite criticism on the aforementioned grounds of weakness. Beyond the election year politics, partisanship in Congress, as well as Congress's own institutional prerogatives, could further push tough-on-China policies if the administration is seen as acting too weakly.

Select CCP Committee

In Congress, the U.S. House Select Committee on the Strategic Competition between the United States and the Communist Party of China (better known as the “Select CCP Committee” for brevity) is most significant conduit for China-related hearings and the broader issues of strategic competition. While the committee does not have the power to introduce legislation—but can refer recommendations to other committees—under the leadership of Rep. Mike Gallagher (R-WI) and Raja Krishnamoorthi (D-IL), it has examined a range of concerns regarding the U.S.-China relationship and the responses that U.S. policymakers can carry out.

Focused on the prospects of conflict between the United States and China, the committee has already undertaken exercises including a wargame of Taiwan to better understand the security and economic matters at stake in the U.S.-China relationship and the growing competition between the powers. The wargame allowed a more direct and hands-on opportunity for the Committee to analyze and understand how a conflict could unfold and how the impacts would be felt at home—especially in terms of a conflict’s economic impact. The wargame did demonstrate the difficulties with supply of Taiwan, given its island geography and distance from the United States.¹⁴ From the wargame, the Select CCP Committee evaluated not only the military scenario but also the economic impact. What policymakers noted was the significant economic and financial costs of the conflict due to U.S. and Chinese interdependence. While the military balance and questions about deterrence over a Taiwan conflict remain, the Committee’s focus moved towards these more complicated economic factors and policymakers’ concerns about China’s ability to affect the U.S. economy and/or financial health.

The May 17, 2023, hearing of the Select CCP Committee examined the economic policies of the CCP related to economic coercion, forced technology transfer, and how China has aimed to supplant or replace foreign companies in areas that the party determines to be of strategic importance. As we have chronicled in past Geotech reports, the Committee and its witnesses chronicled how the CCP policies are designed to close the technology gap between China and its overseas competitors, while also leveraging China’s role in critical supply chains and its overall economic heft to intimidate other countries. This examination was not limited to only high tech industries, and also included debt and equity markets as well as areas of more conventional manufacturing and industry.¹⁵

¹⁴ Laura Kelly, “‘Resupply is not an option’: Lawmakers wargame Chinese invasion of Taiwan.” The Hill. April 20, 2023. <https://thehill.com/policy/international/3960945-lawmakers-wargame-chinese-invasion-taiwan/>

¹⁵ Hearing of the Select CCP Committee, “Leveling the Playing Field: How to Counter the Chinese Communist Party’s Economic Aggression.” May 17, 2023. <https://selectcommitteeontheccp.house.gov/committee-activity/hearings/hearing-notice-leveling-playing-field-how-counter-chinese-communist>

The Committee followed up its May hearing with July 13, 20, and 26 hearings respectively on the growing risks for companies doing business in China, the Biden administration's China strategy, and how the United States can maintain its technology leadership in critical technologies in the 21st century.

The July 13th hearing on the risks of doing business in China chronicled not only the crackdown on due diligence and information gathering under the aegis of national security laws but also the detention of individuals who run afoul of the party or are ensnared in broader anti-corruption crackdowns that reflect elements of the CCP jockeying for power. This hearing featured stunning testimony about Whitney Duan, who has been held incommunicado for the past six years, except for the time that she was allowed to contact her overseas ex-husband to discourage him from publishing a book about her disappearance.¹⁶

The July 26th hearing was also notable for its focus on critical and emerging technologies. This testimony chronicled the shift in assumptions that economic and technology ties with China would be mutually beneficial to one where the United States and its allies must protect its technology leadership from policies like Made in China 2025 and Military Civil Fusion. In this hearing lawmakers heard from witnesses on technologies like artificial intelligence, 5G and 6G networks, quantum computing, and biotechnology. As the witnesses reiterated to the Committee, the challenge from China is not only that it will meet and surpass the United States and its allies and partners in key technology areas, but also China has shown in the past with Huawei and currently with green technology how it pursues, at government direction, to sell the technology at the world, undercut overseas competitors, and foster global dependence on China.

Following the return from summer recesses, the Committee resumed its hearings with an offsite hearing in New York that looked at the interdependence between the U.S. and Chinese financial systems, the risks posed to the U.S. financial system by Chinese influence over Wall Street, and how U.S. investors could knowingly or unknowingly be investing in China's future technological and military goals of supplanting the United States and our allies. The witnesses illustrated how the combination of economic interdependence, China's shift away from international norms of doing business, and the growing geopolitical tensions all raised significant financial vulnerabilities. Testimony did not suggest that an immediate or full decoupling between the U.S. and Chinese economies was desirable, but that the risk had grown. While witness did discuss growing geopolitical tensions between the United States and China, there was also significant focus on the deteriorating position of the Chinese economy, including its real estate sector and

16 Hearing of the Select CCP Committee, "Risky Business: Growing Peril for American Companies in China." July 13, 2023. <https://selectcommitteeontheccp.house.gov/committee-activity/hearings/hearing-notice-risky-business-growing-peril-american-companies-china>

declining consumer confidence. Similar to themes discussed at the previous hearing, concerns about the availability and accuracy of Chinese economic data were raised. Therefore, recommendations coalesced around greater transparency of what U.S. companies face significant issues of dependency on China and the risks inherent to such companies should conflict or other rapid geopolitical deterioration end up severing U.S.-China financial and economic ties.¹⁷ Committee members have also taken to naming and shaming specific American firms for investments in China they deem too close to Chinese defense industries. This rhetorical lever is likely to play as big a role in the coming year as actual policy enactment.

While the Select CCP Committee only has the power to recommend legislation to other committees rather than originate it itself, the Committee reflects the bipartisan consensus on U.S.-China strategy and the need to raise awareness about our vulnerabilities. Among the members there is divergence on how hawkish our response needs to be, given some disagreement on the scope or immediacy of the China challenge. However, there is consensus on raising public and private sector awareness of China's behaviors, how policies are changing, and the risk to American companies in this environment. As the U.S. Congress considers strengthening China policies, the Select CCP Committee will serve as a useful conduit. Still the Congressional proposals are coming forward in other committees and complement or extend administration actions. Other proposals go further than the administration. Despite the agreement on the China challenge, there are still differences within Congress on just what the right solution is.

More broadly, our current politics poses two significant challenges for China policymaking. First, lawmakers will face continuing pressure to enact policies that promote U.S. economic security and restrict China's capabilities. These policies need to be considered carefully, not in order to delay our response or coddle Beijing, but to ensure that we are not harming our own competitiveness or driving our allies and/or potential partners towards China. Policies grounded in real threats or vulnerabilities can be explained to the American people and our allies, while paranoia fed by an unstable political cycle will be counterproductive. Second, our Congress cannot act on the China threat if it cannot function. The dysfunction within American politics has spread to the functioning of government. The delays in military nominations and diplomatic nominations by individual Senators has an impact on military readiness and our ability to craft Geotech and economic security policy. The inability to reach agreement on spending plans bodes poorly for long-term preparedness and planning, but now we see new, historic levels of political dysfunction that bode poorly for this competition.

¹⁷ Hearing of the Select CCP Committee, "Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability." September 12, 2023. <https://selectcommitteeontheccp.house.gov/committee-activity/hearings/hearing-notice-systemic-risk-chinese-communist-partys-threat-us>

U.S. Industrial & Economic Security Policy Developments

In response to the economic and technological challenge posed by China and other authoritarian nations, U.S. policymakers have sought to promote U.S. development and manufacture of strategic critical technologies, while also raising the barriers to protect U.S. and allied technology from finding its way into the authoritarian hands. Promotion of U.S. technology and innovation leadership was cemented by the passage of the bipartisan CHIPS and Science Act and the more partisan Inflation Reduction Act. As we have tracked the implementation of these packages questions remain about their implementation, the long-term support needed for these industries, and how these measures fit within the broader ecosystem of American innovation in critical technologies and green energy.

While promoting innovation and manufacture in the United States, “nearshoring”, or “friendshoring” to reduce reliance on geopolitically unreliable supply chains, U.S. policymakers have also sought to strengthen the protections applied to U.S. technology, as well as to address concerns that U.S. funds are knowingly or unknowingly financing Chinese technological and military innovation. Therefore, while promoting U.S. innovators and industries, the U.S. government is now moving for greater protections on technology and capital as it considers the Geotech challenge.

As noted in the previous Geotech reports, the shift by the Biden administration to restrict and openly disrupt Chinese development in strategic critical technologies such as artificial intelligence, facial recognition, and telecommunications systems demonstrates how U.S. policymakers no longer see a relative advantage to China as being beneficial, but rather focus on an absolute technological advantage. This has led policymakers to focus on strengthening and harmonizing export controls, as well as pushing forward with outbound investment review—with a White House Executive Order starting such a process, as well as Congressional pressure and proposals to implement such reviews.

Among lawmakers, outbound investment review and enhanced export controls were discussed in some ways as an “either...or” proposition, with technology protections combining with incentives to steer innovation and manufacturing away from China and towards the United States, allies, and partners. However, the unveiling of the Huawei Pro Mate 60 phone with a microprocessor more advanced than controls on U.S. and allied technology should allow has shifted opinion in Congress towards more stringent controls on U.S. technology and expertise being shared with China. Measures to harmonize export controls have been proposed as well as some to strengthen and institutionalize outbound investment review in a more robust way than the administration’s earlier efforts.

This section will examine the proposals to promote and protect U.S. technology innovation and note some of the political and policymaking dynamics around these proposals and their current or planned implementation.

Finally, while there are political pressures to move ahead with these proposals, the devil is, of course, in the details. On one hand, while there is unity in the importance of these issues, there are still differences in philosophy regarding the scope and role of government in this industrial and technology policy. At the same time, while some lawmakers are focused on the China challenge, others suggest a more holistic approach, considering the impact of these regulations on U.S. innovation leaders and their business models, as well as the hurdles for U.S. and allied innovators created by the second- and third-order effects of greater technology subsidies and protections.

The CHIPS Act 1st Anniversary

In August of 2023, the Biden administration marked the one-year anniversary of the CHIPS and Science Act. This act, meant to promote American independence in the manufacturing of semiconductor chips, provides the Commerce Department with over \$50 billion in funding to invest in the manufacturing and research and development of semiconductors.

Riding the wave of the initial announcement, tech companies have announced over 50 new projects across the United States.¹⁸ These projects total over \$200 billion. They seek to improve current semiconductor manufacturing facilities, create new manufacturing facilities, and improve adjacent industries that provide materials or support semiconductor production. Given this strong first push for domestic production, it is now up to the Department of Commerce to follow through by providing funding. The department is working with a force of 140 employees to evaluate over 460 statements of interest from around the country. The first rollout of funding is expected to begin by the end of 2023. This is an important deadline as many companies are relying on CHIPS Act funding to begin construction.¹⁹

Though CHIPS has provided an effective spark for restarting semiconductor manufacturing in the US, it leaves much to be desired. Morris Chang, the founder of Taiwan Semiconductor Manufacturing Company (TSMC), called the legislation “a good start” when asked by then

18 Robert Cassanova, “The CHIPS Act Has Already Sparked \$200 Billion in Private Investments for U.S. Semiconductor Production.” Semiconductor Industry Association, December 14, 2022.

<https://www.semiconductors.org/the-chips-act-has-already-sparked-200-billion-in-private-investments-for-u-s-semiconductor-production/>

19 Kristina Partsinevelos and Cait Freda, “Semiconductor makers wait for checks one year after Biden signs CHIPS Act.” CNBC. August 9, 2023. <https://www.cnbc.com/2023/08/09/chips-act-semiconductor-makers-wait-for-checks-one-year-on.html>

Speaker Nancy Pelosi (D-CA) during her trip to Taiwan in August 2022.²⁰ So far the CHIPS and Science Act has done an effective job at incentivizing the creation of new projects in the U.S., but, as Chang points out, the nation will need continued investment as well as improving costs and workforce development. Chang doubts that the United States is fully committed to this effort.

Creating a domestic chip manufacturing capability in the U.S. is certainly not cheap. For instance, TSMC, the global leader in advanced semiconductors, promised a \$40 billion project to improve production in Phoenix, Arizona. TSMC estimates that construction of their Arizona facilities will cost between three and four times as much as it would cost to produce in Taiwan.²¹ Furthermore, the U.S. workforce is still lacking in the skilled labor needed to operate these plants. The same TSMC facility in Arizona delayed projected chip output from 2024 to 2025, for instance, due to a worker shortage. According to a Semiconductor Industry Association report, job demand in the U.S. is expected to grow from 345,000 to 450,000 jobs by 2030. However, 67,000 of these new positions risk going unfilled at current university degree output rates.²²

Fortunately, the semiconductor industry is still committed to increased domestic production within the United States, and TSMC has stood by its Arizona project. With 65 percent of TSMC customers residing inside the U.S., executives understand that the demand exists for increased domestic production with governmental support. However, the current political schedule and Congressional make-up make new investment in the industry unlikely in the short term. With a tumultuous, divided House and the 2024 election on the horizon, any chance of a federal follow-up will likely have to wait until after the 2024 election has concluded.

Without further federal measures, the U.S. government and its partners must make the most of CHIPS to prove its commitment to the semiconductor manufacturing industry. To secure benefits in the long run, universities, corporations, and state governments will have to demonstrate that federal support is both effective and in high demand.

So far, these partners have strong shown signs of meeting the challenge. For instance, Purdue University has launched a \$100 million program to create a tech hub, hire new faculty, and offer new semiconductor degree programs. Additionally, the rising demand within the industry has

20 Alexander Burns, "Taiwan's Tech King to Nancy Pelosi: U.S. Is in Over Its Head." Politico. February 14, 2023.

<https://www.politico.com/news/2023/02/14/taiwan-tech-king-pelosi-powerhouse-microchip-industry-00082646>

21 John Liu and Paul Mozur, "Inside Taiwanese Chip Giant, a U.S. Expansion Stokes Tensions." The New York Times. February 22, 2023. <https://www.nytimes.com/2023/02/22/technology/tsmc-arizona-factory-tensions.html>

22 "Chipping Away: Assessing and Addressing the Labor Market Gap Facing the U.S. Semiconductor Industry." Semiconductor Industry Association. July 2023. https://www.semiconductors.org/wp-content/uploads/2023/07/SIA_July2023_ChippingAway_website.pdf

caused a massive increase in recruitment.²³ Firms are looking to appeal to younger talent by offering 40.5 percent more internship positions than the year before. Even at the state and local level, Arizona officials are working around the clock to demonstrate their state's capabilities while enticing the semiconductor industry with funding and subsidies.²⁴

While the moves by policymakers to support U.S. semiconductor manufacturing have shown both initial promise as well as the scope of remaining challenges, policymakers should also note that the manufacture of semiconductors is one part of the entire semiconductor ecosystem, and that we cannot let U.S. advantages in the design of semiconductors and their integration into other technologies atrophy while focusing on bringing manufacturing home. Government incentives are certainly helping with the manufacturing part of the equation, but the entire semiconductor ecosystem, from research and development to manufacturing to packaging and systems integration must be considered as future or follow-on chips policy is designed.

Outbound Investment Review

In August 2023, the Biden administration also released its long-awaited Executive Order on outbound investment review. Lengthy consulting periods with industry and allied countries slowed the release of the final product. In the meantime, the Senate passed its own version of an outbound investment review regime, the Outbound Investment Transparency Act (OITA) led by Senators Bob Casey and John Cornyn, as part of the National Defense Authorization Act (NDAA).

With Senate passage of OITA and the Executive Order released, a clearer picture of how the United States plans to regulate cross-border investments is emerging as the Executive Branch and Congress jockey to shape the rules and details.

The Executive Order creates a process for the Treasury Department, in consultation with the Commerce Department and other agencies as appropriate, to establish rules regulating outbound investment flows involving three categories: semiconductors, quantum computing, and artificial intelligence. The administration opted for a targeted approach that seeks to principally address technologies that could provide a material military advantage to countries of concern and thus threaten U.S. national security. Most critically, the Executive Order provides the government with the authority to require notification of or prohibit certain transactions. It will not function as a "reverse-CFIUS" as some commentators initially posited, as there will be no case-by-case review of outbound investments. Instead, transaction parties will be required to

²³ "Industry spotlight: Why early talent is eyeing the semiconductor industry." Handshake. Accessed August 2023. <https://joinhandshake.com/blog/network-trends/industry-spotlight-why-early-talent-is-eyeing-the-semiconductor-industry/>

²⁴ Cecilia Kang, "How Arizona is Positioning Itself for \$52 billion to the Chips Industry." The New York Times. February 22, 2023. <https://www.nytimes.com/2023/02/22/technology/arizona-chips-act-semiconductor.html>

follow established guidelines to determine whether a proposed transaction is prohibited, requires notification, or is permissible without notification.

Overall, the administration has proposed a more cautious approach than originally anticipated. It reflects recent efforts by the administration to dial down tensions with China. That Treasury and Commerce are taking the lead is an important factor. While the two agencies are natural fits given their experience regulating export controls and inbound investment, Secretaries Yellen and Raimondo have also been critical proponents within the administration of a more targeted approach to outbound investment that limits harm to U.S. companies.

OITA similarly takes a measured approach and is largely compatible with the Executive Order. While it expands the countries impacted, to include Russia, North Korea, and Iran, and broadens the technology areas to cover satellite communication, hypersonics, and networked laser scanning systems, it does not provide prohibition authority. It serves solely as a notification bill.

Despite the symbiosis between the Senate and the White House, a welcome aberration in a deeply partisan policy environment, some corners of Congress are pushing the administration to do more. Rep. Mike Gallagher, Chair of Select CCP Committee, has been among the most influential voices urging the administration to be more active in curbing Wall Street's support of China. In a letter transmitted to President Biden prior to the Executive Order's release, Gallagher called on the President to take a more expansive approach focusing investment restrictions on companies associated with Chinese human rights violations and those that threaten U.S. technological advantages in addition to firms that pose a military or national security threat. Furthermore, Gallagher called for a wider swath of investments to be covered to include public market investments which "represent the majority of U.S. capital flows to the PRC," opposing the administration's preference to focus on active investments including joint ventures, equity investments, and mergers and acquisitions.²⁵ Other House Members have echoed these sentiments including Foreign Affairs Committee Chairman Michael McCaul and Gallagher's Democratic counterpart on the Select Committee, Ranking Member Raja Krishnamoorthi.²⁶

25 Select CCP Committee, "Gallagher Calls on President Biden To Adopt Restrictions on US Investments to China." August 3, 2023. <https://selectcommitteeontheccp.house.gov/media/press-releases/gallagher-calls-president-biden-adopt-restrictions-us-investments-china>

26 U.S. House Foreign Affairs Committee, "McCaul on Executive Order Curbing US Tech Investment in China." August 9, 2023. <https://foreignaffairs.house.gov/press-release/mccaul-on-executive-order-curbing-us-tech-investment-in-china/> and Office of Rep. Raja Krishnamoorthi, "Ranking Member Krishnamoorthi Statement on Executive Order to Strengthen National Security on Outbound Investments to the PRC." August 9, 2023. <https://krishnamoorthi.house.gov/media/press-releases/ranking-member-krishnamoorthi-statement-executive-order-strengthen-national>

The most critical push back to Gallagher’s position comes from his own Republican colleagues in the House. House Financial Services Chair Patrick McHenry opposes new outbound investment screening tools, preferring the government instead look to existing policy mechanisms like sanctions and export controls to guide its competition with China. Upon the release of the Executive Order, McHenry praised the administration for showing restraint calling it, “a more thoughtful and targeted approach than initially reported.”²⁷

These differences represent broader tensions between U.S. national security policy objectives and U.S. economic policy which has traditionally embraced and encouraged free capital flows. For now, the administration is in the driver’s seat and looking to achieve a delicate balance between the two. The Treasury Department is currently undertaking a comment period and is expected to take a year to develop the specific regulations enabled by the Executive Order.

Though Senator Casey and others have urged Congress to continue its efforts to codify outbound investment screening into law, the contentiousness around NDAA process may curtail the legislative body’s ability to shape investment rules. Disagreement between House proposals, as well as the broader legislative dysfunction witnessed in late September and October make it an uncertain pathway forward, though defense measures continue to be the most likely legislative vehicle.

Strengthened AI Semiconductor Restrictions

On October 17, 2023, the Biden Administration unveiled new restrictions on the export of AI chips and manufacturing equipment to China citing a need to cover loopholes from previous export controls launched last year in 2022. According to the new restrictions the sale of high-end AI chips to China such as those developed by American companies such as Intel and Nvidia are banned without a license while the shipment of “gray zone” chips just below the required thresholds will now require government approval.²⁸ These “gray zone” chips include Nvidia’s H800 and A800 chips whose capabilities lie just below existing export controls while still being able to be applied to AI technology and which have been almost exclusively exported to China. The new regulations also seek to crack down on the use of “chiplet” technology where smaller parts of a chip are combined to form a chip with full capabilities. To prevent China from avoiding U.S. regulations by buying chiplets and reassembling them into complete chips the Biden Administration’s new rules created a performance density threshold meant to end this

27 U.S. House Committee on Financial Services, “McHenry, Luetkemeyer Statement on Biden Administration’s Outbound Investment Executive Order.” August 9, 2023.

<https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=408946>

28 Asa Fitch, Yuka Hayashi. “U.S. Tightens Curbs on AI Chip Exports to China, Widening Rift with Nvidia and Intel.” The Wall Street Journal, October 18, 2023. <https://www.wsj.com/tech/u-s-tightens-curbs-on-ai-chip-exports-to-china-widening-rift-with-u-s-businesses-3b9983df>.

loophole.²⁹ Along with other new control measures such as regulating the export of semiconductor manufacturing equipment and expanding the blacklist of companies to which all exports are prohibited, the new rules seek to further maintain U.S. technological dominance while preventing Chinese technological advancement.

A reason behind the Biden Administration's push for new updated export controls is the release of Huawei's new phone the Mate 60 Pro on August 29, 2023. What makes the new 5G phone so alarming is that it is powered by the Chinese state owned company Semiconductor Manufacturing International Corp (SMIC)'s new domestically made Kirin 9000 chip created using domestic 7 nanometer (nm) technology.³⁰ This comes as a shock as the United States had implemented sanctions against Huawei in 2019 aimed at decimating their smartphone division by cutting them off from critical chip making technology and software made by the U.S. and their allies. The U.S. and its allies, particularly the Netherlands and Japan went so far as to restrict Chinese access to EUV lithography machines which are needed to make the most advanced chips.³¹ Coupled with the October 7, 2022, export control measures aimed at limiting the export of U.S. made AI chips to China it was assumed by many that Chinese semiconductor manufacturing and Huawei's 5G phone would be setback years.

Instead, Huawei's apparent circumvention of U.S. sanctions has got American policymakers in an uproar with many arguing for stronger export controls, the elimination of potential loopholes, and tighter regulations. Many U.S. lawmakers consider it a manner of national security with Rep. Mike Gallagher (R- WI) the Chairman of the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party stating "The time has come to end all U.S. technology exports to both Huawei and SMIC to make clear any firm that flouts U.S. law and undermines our national security will be cut off from our technology."³² Responding to this the Biden Administration released the previously discussed new export controls targeting AI chips. However, despite the new Huawei phone being the catalyst behind the new export

29 Stephen, Nellis. "How the US Will Cut off China from More AI Chips." Reuters, October 17, 2023. <https://www.reuters.com/technology/how-us-will-cut-off-china-more-ai-chips-2023-10-17/>.

30 Warren, Murray. "China Dodges Western 5G Chip Embargo with New Huawei Mate 60 Phone." The Guardian, September 6, 2023. <https://www.theguardian.com/technology/2023/sep/06/huawei-mate-60-pro-mobile-phone-china-dodges-5g-chip-embargo>.

31 Potkin, Fanny, and Yelin Mo. "Chinese Chip Equipment Makers Grab Market Share as US Tightens Curbs." Reuters, October 18, 2023. <https://www.reuters.com/technology/chinese-chip-equipment-makers-grab-market-share-us-tightens-curbs-2023-10-18/#:~:text=China%20has%20not%20been%20able,lithography%20systems%20from%20entering%20China>.

32 Freifeld, Karen. "Exclusive: US Tackles Loopholes in Curbs on AI Chip Exports to China." Reuters, October 16, 2023. <https://www.reuters.com/technology/upcoming-us-rules-ai-chip-exports-aim-stop-workarounds-us-official-2023-10-15/>.

controls, chips used in phones, video games and electric vehicles are purposefully left out from the latest regulations.³³

The revelation that ASML equipment has been used in the process to create the Pro Mate 60's processor will also increase the pressure from U.S. policymakers on key semiconductor allies Japan and the Netherlands to further tighten export and technology controls to China. However, it remains to be seen what impact this will have as China has already stockpiled the equipment necessary to produce more advanced chips.³⁴ The questions regarding restrictions that remains to be seen are first, whether China can produce the chips at scale, profitably—though the government may backstop losses—and second, what pathway will China next take towards indigenous technology development, industrial espionage, and/or forced technology transfer to further circumvent U.S. and allied restrictions. Pressure to respond will continue to grow.

Export Control Proposals

Lawmakers have also proposed strengthening or harmonizing the U.S. export control lists, citing concerns about Chinese access to technology, circumvention of controls by U.S. and foreign companies, and dissatisfaction with the Commerce Department's approach towards export control review and licensing. The calls have intensified in the autumn of 2023, as the unveiling of the Huawei Pro Mate 60 phone and the details of its microprocessor reached U.S. officials and lawmakers.

While questions remain about the chip, handset, and the commercial viability of the Huawei technology—i.e. can it be produced at scale?—U.S. lawmakers have seized on the unveiling to call for harsher restrictions against Huawei and Semiconductor Manufacturing International Corporation (SMIC), a partially state-owned Chinese semiconductor foundry company.

Proposals to harmonize export controls should be considered carefully and within the broader frameworks of existing U.S. and multilateral technology control regimes and the context of other economic security tools currently being implemented or considered. Colleagues at CSIS have embarked on such an effort.³⁵ On one hand, the idea of list harmonization and coordination provides for added simplicity and ease of enforcement, but it also risks losing some nuance and granularity necessary to adjust or tweak export controls rather than enforce a one-size-fits-all approach that could just as easily harm American companies or technology

33 Toh, Michelle, and Kayla Tausche. "US Escalates Tech Battle by Cutting China off from Ai Chips" CNN Business, October 18, 2023. <https://www.cnn.com/2023/10/18/tech/us-china-chip-export-curbs-intl-hnk/index.html>.

34 Cagan Koc and Diederik Baazil, "Controversial Chip in Huawei Phone Produced on ASML Machine." Bloomberg, October 25, 2023. <https://www.bloomberg.com/news/articles/2023-10-25/controversial-chip-in-huawei-phone-was-produced-on-asml-machine>

35 William Reinsch, Emily Benson, et al., "Optimizing Export Controls for Critical and Emerging Technologies." CSIS, May 31, 2023. <https://www.csis.org/analysis/optimizing-export-controls-critical-and-emerging-technologies>

cooperation and trade with allies as much as it could restrict Chinese access to technology. Proposals that effectively move all companies to the most-severe list of restrictions threaten to do more harm to U.S. business and relations with allies than they would to Chinese companies—while Chinese leaders would continue to paint the actions as U.S. provocations and unfounded paranoia. Measures to address Chinese risk must be well-founded in a clear risk case, well-communicated to the private sector and allies and partners and designed to give policymakers a range of effective tools rather than one questionably effective one.

A loss of nuance or flexibility in the application of export controls would either force the administration to apply severe restrictions and penalties, harming U.S. industry and inviting retaliation by economic foe and friend alike, or render such measures unimplementable, as the economic pain would be greater than any security benefit. Overly securing U.S. technology discourages international cooperation, even in areas where we can work with allies to push back against Chinese forced standards. However, when the perception is that the U.S. response to China's technology advances is driven by populism or politics, rather than grounded technical or security concerns, we are unlikely to marshal allies' support.

As lawmakers think they are hamstringing China with their reviews, measures, and restrictions, the reality is that many of these costs in compliance and regulatory measures fall on U.S. companies and the opportunity cost will be reflected in U.S. jobs, investment, and competitiveness. Securing our technology advantages need not come at the cost of American economic and business dynamism. While determining to win the competition with China in development of advanced technologies and maintaining an edge in defense related capabilities, it will remain vital to balance the maintenance of some stability in related policies such that American businesses in technology and manufacturing can plan around long-term horizons, rather than constantly shifting political priorities and inclinations.

Cooperation with Allies & Partners

As we have noted in past Geotech reports, the cooperation with allies and partners is critical to the success of U.S. Geotech efforts. The global economic and technological competition requires that the United States work with its allies and partners, while also seeking opportunities to strengthen global ties in economics, trade, and technology. While lawmakers and policymakers have recognized the economic and technology challenge posed by China, domestic politics, protectionism, and labor and environmental special interests have continued to limit what U.S. policymakers can accomplish. Still, such engagement continues in the Indo-Pacific Economic Framework (IPEF) as well as U.S., allied, and partner participation in key international summits.

While allies and partners differ in their perception of China risk, there is a growing consensus about the need to reduce dependence and reshape the economic and geopolitical risk calculus. This also comes as global attitudes towards China have matched U.S. public opinion in shifting in opposition to China's policies. Still, there is a divergence between close U.S. allies in Europe and Asia and the growing middle powers of the Middle East, Africa, South and Southeast Asia, and Latin America.³⁶

Established allies remain important partners. The U.S.-Japan relationship has been considered a model for security cooperation—especially in military matters, as Japan strengthens its defense capabilities—but cooperation is increasing too in economic security and supply chain cooperation. U.S. and Japanese leadership in bilateral and multilateral forums is critical for both Washington's and Tokyo's trans-Indopacific and global security and economic interests. Questions of economic security have continued to be important for Japanese policymakers, as they have worked to coordinate export control measures with the United States and address Chinese embargoes of critical minerals. Furthermore, the Japanese public has become more concerned about Chinese economic coercion following Chinese boycotts of Japanese seafood over controversies regarding the release of treated water from the Fukushima recovery site. As policymaking and economic security cooperation grow, it is important to also deepen the political ties between the United States and Japan, particularly between the U.S. Congress and Diet of Japan.

The U.S.-India relationship is also growing in importance, as both Washington and Delhi realign for great power competition with shared concerns about China's power. Indian Prime Minister Narendra Modi's state visit to Washington and President Biden's visit to India for the G20 summit reflect the deepening leader-to-leader cooperation. Economic and military cooperation

³⁶ Laura Silver, Christine Huang, and Laura Clancy, "China's Approach to Foreign Policy Gets Largely Negative Reviews in 24-country Survey." Pew Research Center. July 27, 2023. <https://www.pewresearch.org/global/2023/07/27/chinas-approach-to-foreign-policy-gets-largely-negative-reviews-in-24-country-survey/>

can continue to grow, even as leaders navigate the baggage of India's historical alignment towards Moscow, concerns about minority rights, and challenges that exist to foreign investment and doing business on the subcontinent. As a geopolitical power, India will be a critical partner for the United States and its allies, but it will also serve as a growing influence within the community of developing and Global South nations.

On one hand, the United States can and should continue to emphasize the legitimate risks and threats to global stability and prosperity posed by China's changing policies. However, where the world seeks to hedge between Beijing and Washington in this competition, U.S. policymakers need to be sure to remain grounded in their assessment of the China threat, and not succumb to a level of paranoia that would in turn push third countries towards China in light of what is seen as U.S. overreaction.

As this competition becomes more heated, and particularly more contested via economic, development, and technological ties with the Global South, the United States and their allies will need to compete as much, if not more, on the benefits and advantages of working with the United States and allies, rather than simply trying to stand against the Chinese option. Coordination with allies and close friends could be rationally expanded leveraging existing policy platforms, for example applying support for new battery technology and other decarbonized drive train across a larger group of economies, to create strong incentives within a block of countries competing with China in transportation leadership, while also enhancing economies of scale. Additional "friendshoring" approaches applied to supply chains could also be an important step toward a future that could include American engagement in more comprehensive regional trade arrangements—possibly a revamped Trans-Pacific Partnership.

[Coordination of Economic Security, Intellectual Property, & Innovation Policies](#)

While there have been shared concerns about the competition with China, there are still matters of economic security, innovation policy, and regulatory policy that require better coordination among the United States and its allies. As policymakers look to build stronger coordination between the United States and our partners and allies, we must be mindful of the precedents set by policies regarding the message sent to our friends and competitors. Certainly, there are differences in regulatory philosophy between Washington and Brussels, Washington and Tokyo, and certainly between Washington and New Delhi, but still these policies must be coordinated in managed in a way that understands how innovation works in a global economy, the complexity of innovation ecosystems and their underpinning supply chains, and the impact of policies on international standards and norms.

One area of continued importance for international coordination is in intellectual property and given the focus on semiconductors and telecommunications as critical technologies,

policymakers should pay careful attention to standards-essential patents (SEPs). As we have described them in greater detail in previous geotech reports, they remain important for recognizing and rewarding the innovation made by equipment innovators, while balancing goals to improve transparency and ease of access to licensed technology by new market entrants.

Efforts underway by the European Union to reform the SEP process threaten to derail existing SEP arrangements by opening the door to a more litigious process that simply delays reaching a binding decision on intellectual property licensing. While efforts to improve transparency to ensure that patent holders and technology manufacturers can reach fair agreements are important, further measures to weaken intellectual property protections or create new layers of byzantine legal complexities will only harm our innovative edge. As U.S. policymakers work with their European counterparts on SEPs and other areas of policy coordination, they must also remember that policies create precedents for China and other competitors to either ignore, manipulate, or mimic new policies in their favor.

IPEF Developments & Other Multilateral Summits

The Indo-Pacific Economic Forum, an initiative launched by the Biden administration in late May of 2022, has involved countries such as Australia, Brunei, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam—a major gathering that represents 40% of global GDP.³⁷ The scope of this U.S.-led project has been to cultivate an Indo-Pacific economic framework that is certainly designed to address one primary competitor: the People’s Republic of China, by reducing economic dependence from Indo-Pacific partners on China, and tightening economic relations with the U.S. Since then, the forum has sought to leverage America’s diplomatic ties to strengthen commercial enterprise, build resilient supply chain networks, and to enhance economic development.

Throughout December 2022 to the time of this writing, late October 2023, the members of IPEF have been involved in six major rounds, hosted in the United States and throughout the Indo-Pacific regions, to discuss and address common challenges: climate change, green energy and energy security, trade logistics, fair and open economies, and extensive negotiations on supply chains.³⁸

37 The White House. “FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity.” May 23, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>

38 Office of the United States Trade Representative. “Joint USTR and U.S. Department of Commerce Readout of Sixth Indo-Pacific Economic Framework Negotiating Round in Malaysia.” October 25, 2023. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/october/joint-ustr-and-us-department-commerce-readout-sixth-indo-pacific-economic-framework-negotiating>

The United States and its partners in the Indo-Pacific Economic Framework (IPEF) met in Detroit on May 27 and announced the “substantial conclusion” of an agreement related to supply chains. The proposal, which still needs member states’ domestic approval and legal review, creates three new coordination bodies: a Supply Chain Council, that appears to be a forum for information sharing and policy coordination; a Crisis Response Network; and Labor Rights Advisory Board with a mechanism to examine facility-specific labor allegations. The U.S. Department of Commerce called the Detroit announcement a “landmark agreement” and a “major achievement.”

Critics have called the proposal a “framework within a framework” that lacks real commitments. While this “substantially concluded agreement” is short on substance, it could still be a worthwhile step for several reasons. The proposal should be viewed as a signal to private sector investors that a set of like-minded governments will lend political support to efforts that establish trading channels and partnerships for materials that are deemed critical or for which there is only a single source. Secondly, this proposal could serve as a platform for the future removal of trade barriers, including binding commitments by governments. Third, the Detroit agreement has bothered the PRC government, whose state-run media called the proposal “discriminatory” and “nothing but a trojan horse” that seeks to isolate China. Beijing seems to suddenly be concerned about a process it has tried to downplay over the past year. The Indian government said they expected the pact would help bring new manufacturing facilities to India and strengthen that country’s role in global supply chains, a signal of support and positive incentive for major Global South players.

Negotiations continued and on September 7, 2023, the Biden administration released, alongside partners, the IPEF agreement on supply chains. This measure would create a coordinating body among the IPEF members to promote supply chain security and transparency, while also coordinating around supply chain disruptions and implementing policies to protect labor interests.

In their most recent session which lasted between October 15 to October 24, the negotiating round of IPEF mentioned unspecified progress on issues of trade, clean energy, and anti-corruption policies.³⁹ However, this ambiguity can only lead one to conclude that while the United States and its Indo-Pacific partners may have produced meaningful progress on lasting agreements, the absence of any official agreement is a sign of potential trouble in landing the plane this year. With the looming APEC summit due in mid-November in San Francisco, China’s commercial enterprise abroad has only raised tensions with its Indo-Pacific neighbors, the

39 David Lawder. “UPDATE 1 – U.S. Cites Progress but No Agreements, in Indo-Pacific Economic Talks.” October 25, 2023. <https://www.reuters.com/article/usa-trade-indo-pacific/update-1-u-s-cites-progress-but-no-agreements-in-indo-pacific-economic-talks-idUSL1N3BV1L0>

members of IPEF are running out of time to show significant additional results for their sessions by the time of APEC.

There are indications of veiled disappointment in some of IPEF's contributing members such as Singapore whose prime minister, Lawrence Wong, who recently remarked, "We are working on how we can add substance to the different pillars of IPEF ... We hope there will be something to announce by the time of the APEC summit."⁴⁰ Furthermore, this apparent lack of progress will certainly ferment stronger opposition from congressional forces who have been criticizing Amb. Katherine Tai and the Office of the Trade Representative, for potentially neglecting issues such as digital trade and transparency issues surrounding negotiations. Specifically, Rep. James Comer (R-KY) described an explicit issue taken with the office, citing that they were "troubled by the FTC's unwarranted influence in the IPEF negotiations and USTR's failure to transparently engage with Congress during such negotiations, contradicting its own stated principles."⁴¹

Confronted by both domestic and international challenges, the pressure will only continue to grow on the United States and its partners to come to a meaningful and substantial economic agreement. With plenty of hopes and enormous amounts of energy being invested into this potential deal, it would behoove the members of IPEF to consolidate their efforts to match an ascending China, or risk stronger dependence on their markets. But these risks will also be matched by another economic hurdle for many of IPEF's members: their preexisting economic dependence on Chinese goods and services. Data gathered from 2010 to 2021 reflects that China was still the top source of manufactured goods for IPEF's members, excluding Brunei, and their topmost export destination.⁴²

In the event that a substantive agreement is reached, the road to achieving an Indo-Pacific economic ecosystem that is decoupled from Chinese markets will be a long and risky venture. It remains to be seen how IPEF will be navigated in the coming months, especially as the United States continues to engage in several fronts of geopolitical confrontation, and risks disillusionment from its Indo-Pacific partners on the prospects of IPEF.

Combined with other summits and efforts U.S. negotiators also have to ensure interoperability between IPEF supply chain commitments, G7 joint statements, and APEC declarations—which is not an easy task. Finally, IPEF's supply chain resilience provisions need to be interoperable with

40 Reuters. "Singapore Hopes for Substantial IPEF Progress by APEC." October 13, 2023.

<https://www.reuters.com/markets/asia/singapore-hopes-substantial-ipef-progress-by-apec-2023-10-13/>

41 Rep. James Comer (R-Ky.) "Letter to USTR, re: IPEF." October 12, 2023. <https://oversight.house.gov/wp-content/uploads/2023/10/Letter-to-USTR-re-IPEF.pdf>

42 Abigail Dahlman, Mary E. Lovely. "Most IPEF Members Became More Dependent on China for Trade over the Last Decade." October 25, 2023. <https://www.piie.com/research/piie-charts/most-ipef-members-became-more-dependent-china-trade-over-last-decade>

the critical mineral agreements that the United States has signed with Japan and hopes to reach with the European Union. It will also remain important to maintain any momentum established through the IPEF process into a period of greater use of American geoeconomics levers, for example including additional partners in economic benefits from recent legislation like the Inflation Reduction Act provisions, as a potential pathway to grander regional trade discussions is explored.

Still, with IPEF as one area of effort, the Biden administration has also sought to work with allies and partners in the major 2023 international summits. The G7 summit in Hiroshima was notable for the coordination among the members to push back against Chinese economic coercion, as well as planning for cooperation on technology policy and outreach to the Global South. The G20 summit in New Delhi, with Xi Jinping's absence, also marked another opportunity for the United States and allies to demonstrate their economic and technological engagement and development alternatives to China.

The IMEC Deal & Multilateral Development

In early September 2023, the G20 Leaders' event on the Partnership for Global Infrastructure and Investment announced a memorandum between the United States, India, Saudi Arabia, the United Arab Emirates, Germany, Italy, and the European Union that they would collectively develop an economic corridor that is to be known as the "India–Middle East–Europe Economic Corridor."⁴³ This memorandum was a major milestone in uniting three distinct regional communities of the international order in establishing a trade network that would facilitate the connection of commercial hubs, the linkage of energy and telecommunication networks, and the promotion of international business.

This comes at a time when the United States and its allies must strategically compete with China's Belt and Road Initiative, which despite its shortcomings, has continued to foster stronger relations between the Chinese and many other lucrative markets in regions such as Africa, the Middle East, and Central Asia. President Xi's recent gathering in Beijing on October 18th, 2023, with international representatives and Russian President Putin, commemorated the tenth anniversary of the BRI project, and demonstrated an eagerness on China's behalf in expanding its outreach to developing countries that are eager to buy Chinese goods and services.

Despite this development, Prime Minister Modi has independently proven receptive to the IMEC project, particularly because it bolsters the Indian economy into a more competitive

43 The White House. "FACT SHEET: World Leaders Launch a Landmark India-Middle East-Europe Economic Corridor." The White House Briefing Room. September 9, 2023. <https://www.whitehouse.gov/briefing-room/statements-releases/2023/09/09/fact-sheet-world-leaders-launch-a-landmark-india-middle-east-europe-economic-corridor/>

position against China.⁴⁴ By establishing themselves at one end of IMEC, India is certain to benefit from IMEC, securing stronger ties to the United States and the contributing members of IMEC. This coalition of economic development achieved more in the domain of geopolitics. The G20 Summit also welcomed the African Union into its ranks, evolving the conference into the G21, and introduced the Trans-African Corridor to connect African countries with the rest of the world market. By bridging the AU with the G20, the United States enters a more favorable position to strengthen an opposition program against the BRI.⁴⁵

However, these developments come with a tacit warning. The recent crisis in the Middle East concerning Israel has led to strong tensions in the region. An expected summit between President Biden, the Palestinian Authority, Egypt, and Jordan was canceled by King Abdullah II of Jordan, casting a cautionary light on American efforts to navigate an increasingly sensitive conflict with Israel in the Gaza Strip, initiated by Hamas terror attacks.⁴⁶ The IMEC agreement involved a significant amount of the Middle Eastern countries such as Israel, Jordan, and Saudi Arabia to support the corridor; but with increasing agitation in the region, the conflict now challenges the foundations of last month's memorandum on IMEC. Furthermore, IMEC itself had few guarantees or solidified plans for how it could be realized. Past efforts by the G7, the United States, and the EU to develop economic networks comparable to the BRI were also notably disappointing in their results, with programs such as the Build Back Better World Initiative and the EU Global Gateway programs failing to muster any progress in the years since their launch.⁴⁷ Without mobilizing the appropriate funds and resources to build these networks, mere announcements alone cannot turn the tide in competing with an economically rising China.

Beyond the political fallout of IMEC's increasingly unlikely future, IMEC is confronted by numerous physical challenges that will slow its implementation if geopolitical division was somehow overcome: goods would have to be reloaded twice—from ship to rail, from rail to

44 Tiziana Marino. "The Pacific – Middle East – Europe Corridor in Europe's Indo-Pacific Strategy." *The Diplomat*. September 21, 2023. <https://thediplomat.com/2023/09/the-india-middle-east-europe-corridor-in-europes-indo-pacific-strategy/>

45 Cara Anna. "The African Union is Joining the G20, A Powerful Acknowledgement of a Continent of 1 Billion People." *Associated Press*. September 9, 2023. <https://apnews.com/article/g20-membership-africa-economy-india-ae58459261bc2722b54da422debc5b83>

46 Colleen Long, Aamer Madhani, Chris Megerian. "Summit with Arab Leaders in Jordan Called Off as President Biden Heads to Israel." *PBS News Hour*. October 17, 2023. <https://www.pbs.org/newshour/world/summit-with-arab-leaders-in-jordan-called-off-as-president-biden-heads-to-israel>

47 Stuart Lau, Barbara Moens. "EU to Launch Global Gateway Projects, Challenging China's Belt & Road." *POLITICO*. December 20, 2022. <https://www.politico.eu/article/global-gateway-european-union-launch-china-belt-and-road/>

ship—and despite reducing transportation time by approximately 40%, it may not be financially feasible in comparison to utilizing the Suez Canal.⁴⁸

The escalating crisis in the Middle East combined with some of these physical, logistical challenges may prove to be the death blow to an agreement as pivotal as IMEC, all within the span of a few months. It remains to be seen how IMEC will proceed for as long as the extremely elevated level of conflict continues, and tensions remain high in the region.

48 Jürgen Rüländ, Elisabetta Nadalutti. "Is the India-Middle East-Europe Economic Corridor Dead on Arrival?" The Diplomat. October 17, 2023. <https://thediplomat.com/2023/10/is-the-india-middle-east-europe-economic-corridor-dead-on-arrival/>

Conclusion & Recommendations

Geotech competition is intensifying, but it is important that we continue to be thoughtful in our policies and “right size” the perception of risk. As we recognize the challenge ahead, we need to avoid the temptation as we have often said to “out-China, China”. We can provide support for manufacturing and innovation in the United States, without resorting to overly bureaucratic or sclerotic approaches to industrial policy. While our politics experiences dysfunction and suffers from the malincentives of our system, it will be ever more critical for lawmakers to provide a sense of strategic and economic consistency and predictability to U.S. policy making. As we embark on implementing industrial policy and supporting U.S. innovation, policymakers should aim for a strategic and coordinated approach that ensures U.S. and allied innovation leaders in the private sector can continue to make breakthroughs in cutting-edge technology.

Leading free societies encountering the authoritarian threat requires both consistency in policy and the leadership to communicate legitimate concerns about China that do not devolve into counterproductive paranoia. Nothing can justify the horrors inflicted upon the Chinese people by their government, nor the threats that it routinely makes to disrupt global security and prosperity should it embark on an invasion of Taiwan. This does not mean however that we should pursue policies without consideration to the impact on our own economy or our relationships with important allies and trading partners.

Finally, much will depend on how our own political system can function to not only address these challenges but also demonstrate that a democratic system can respond and act in the 21st century. If anything, this is the aspect of the competition that we have the most control over. How are leaders choose to conduct themselves during this competition, as well as the choices we the voters make, will be as consequential to this challenge as much as any choice Xi Jinping makes.

Recommendations

- **Let Existing Measures Come into Effect Before Intensifying Efforts:** The United States, in partnership with key allies, has already put into place greater protections around critical technologies and the expansion of tools like export controls and review of outbound investment. Policymakers should let these existing efforts continue, hone them, and evaluate their impact before moving ahead with further measures. Politics and provocations will intensify pressure, but for the sake of economic security and U.S. leadership a tempered, nuanced, and patient approach is needed. Furthermore, as efforts have only begun to secure supply chains and prepare for economic retaliation, it is risky to be intensifying an economic offensive before we have prepared our defenses.

- **Ensure Consistency in Economic Security Efforts:** Economic security and industrial policy are already fraught due to the impact of politics on decisions that should ideally be grounded in technical or economic reasoning. If the U.S. government is to embark on strategies to support critical technologies via government policy, particularly through the lens of international competition, then policymakers should strive for a bipartisan consensus and other political elements needed to ensure the consistency of this policy. While this is a tall order during a time of significant U.S. partisanship and polarization, predictability in policy is necessary for improved cooperation with allies and partners and the success of private sector innovation leaders.
- **Communicate Right-Sized Assessments of the China Challenge to the American People and the World:** That the policies of Beijing pose a threat to our security and prosperity is well-established. However, the perceptions of the threat from China often range from overly dismissive to hyper alarmist. Policymakers should communicate the real and changing risks of doing business in China, the shift towards a security state, and the other very real consequences of the CCP's policies. Right-sized and realistic assessments of the China challenge will demonstrate U.S. credibility in the information and intelligence domains—particularly as great power competition becomes increasingly hyperbolic—and illustrate the reliability of the United States as a commercial and technological partner.
- **Continue to Coordinate with Allies on Economic Security Responses:** At the various forums and summits over the past year, the United States has worked closely with important allies like Japan, the United Kingdom, France, and others to promote economic security engagement. The G7, G20, and upcoming APEC summits have been and will be opportunities for engagement with traditional partners and new outreach to the Global South. Given the global nature of the challenge and the diffuse nature of technology and innovation expertise, global partnerships and multilateral approaches to Geotech challenges are necessary for the United States, allies, and partners to outcompete adversaries.
- **Pursue Proactive Policies towards the Global South:** The contest for future technology growth and innovation will play out not only between the West and China, but across the Global South. In that competition, many nations will choose to seek benefits from both sides, and U.S. policies should reflect this in a proactive way designed to out-compete China, rather than being responsive to China. Further building the U.S.-India partnership and embracing the foundation of the U.S.-Japan development aid relationship are two important areas for policymakers to continue to pursue.

Acknowledgements

On behalf of the Center for the Study of the Presidency & Congress, I want to thank the following for their contributions to CSPC's work on Geotech strategy. The Japan External Trade Organization, Qualcomm, NTT, NEC, and the Dr. Scholl Foundation for their continued engagement and generosity in supporting this work, as well as the leadership of the Nakasone Peace Institute for its continued partnership.

I want to also thank all those who have engaged in these dialogues and worked with CSPC staff on these important policy challenges and identifying meaningful solutions. I extend my thanks to the Members of Congress, Members of the Japanese Diet, and their staff members who have facilitated meetings and shared their insights in discussions. I would also like to acknowledge the U.S. and Japanese corporate leaders who worked with us for their vital insights into the commercial and technological aspects of this competition.

The Trustees and Counselors of CSPC, thanks to their support and wisdom, CSPC is able to ensure its mission of learning the lessons of history, address today's strategic challenges, and educating the leaders of tomorrow. Our erstwhile David M. Abshire Chairholder, former House Intelligence Chairman Mike Rogers, as he has continued to demonstrate his strategic vision, leadership, and a commitment to protecting the United States while championing a bi-partisan approach to national security.

Dan Mahaffee, Senior Vice President and Director of Policy at CSPC, for his leadership of this project and related corporate and transpacific outreach, as well as writing and editing many of our Geotech materials; Joshua Huminski, the Director of the Mike Rogers Center, for his research work on great power competition and technology, outreach to authors and leading thinkers, and coordination of transatlantic outreach; and CSPC Vice President Erica Ngoenha, for leading outreach to Capitol Hill and managing extensive in-person meetings, roundtables, and dialogues.

Our Senior Fellows and Advisors who contributed to this project— Hidetoshi Azuma, Ethan Brown, Samantha Clark, Rob Gerber, Andy Keiser, James Kitfield, Dr. Joshua Walker, Zaid Zaid—who applied their expertise from a range of fields to analyze the impact of these technologies and the challenges they pose for policymakers.

Our staff and interns Kyle Flagg, Sophie Williams, Sydney Johnston, Ben Pickert, Zachary Moyer, Gracie Jaime, Elise Misarek, Ryan Bender, Julian Mancillas, and Kory Yueh for their contributions and support.

Finally, I would like to thank all of those who dedicated time to our effort by organizing and attending roundtables and offering frank and invaluable advice.

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