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Before the
Senate Committee on Appropriations

"President's FY 24 Budget Request: Investing in US Security, Competitiveness, and the Path Ahead for the U.S. and PRC Relationship"

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Chair Murray, Vice Chair Collins, and members of the Committee, thank you for this opportunity to discuss the U.S. Department of Commerce's strategy to protect our national security and promote America's economic competitiveness in the face of challenges posed by the People's Republic of China (PRC).

Over the past decade, the PRC's leaders have made clear that they do not plan to pursue political and economic reform and are instead pursuing an alternative vision of their country's future. The PRC is committed to constraining the free flow of capital and information, decoupling economically in several areas and accelerating efforts to fuse their economic and technology policies with their military ambitions.

In the face of this dramatically transformed strategic environment, the priorities for the Department of Commerce are clear.

We are bolstering our domestic capabilities and creating new ones to prevent the PRC from undermining our national security and democratic values. We are working with our allies and partners to advance our shared values and shape the strategic environment in which the PRC operates. And we are advocating for U.S. trade and investment and the benefits that come with it.

The President's Budget requests $12.3 billion in discretionary funding and $4 billion in mandatory funding for the Department of Commerce. The investments proposed in this budget will enable the Department to continue fulfilling its mission to create the conditions for economic growth and opportunity for all communities and place our country on a stronger footing to outcompete the PRC.

Today, I will focus on some of the key areas of investment by the Department that strengthen the position of the United States to outcompete the PRC.

First, we are making transformational investments in American innovation, manufacturing, and people.

Our economic competitiveness and national security depend on a bold domestic investment agenda. The Department is revitalizing U.S. domestic manufacturing, particularly advanced manufacturing. Over the past decades, communities across the country have seen manufacturing shut down, businesses close, and the local engines of innovation grind to a halt, as we exported jobs and manufacturing capacity to the PRC and the rest of Asia and reduced investment in the workforce development and infrastructure necessary to maintain our long-term competitiveness. Without manufacturing strength in the United States, and the innovation that flows from it, we are at a clear disadvantage in the race to invent and commercialize future generations of technology.

In just the first twenty months of this Administration, we worked with Congress to enact the American Rescue Plan, the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act. Taken together, they represent historic investments in America and a once-in-a-generation commitment to advancing innovation, technology, manufacturing, workforce training, supply chain resilience, and the infrastructure that we need to ensure our future competitiveness and national security.

The Department of Commerce is investing $50 billion to strengthen and revitalize the U.S. position in semiconductor research and development and significantly increase domestic semiconductor manufacturing capacity to advance our national security and economic competitiveness. By 2030, we will be the premier destination in the world where new leading-edge chip architectures can be invented in our research labs, designed for every end-use application, manufactured at scale and packaged with the most advanced technologies. This combination of technological leadership, supplier diversity, and resiliency does not exist anywhere else in the world today and will reduce our reliance on the PRC for the microelectronics that drive our economy and power our national defenses.

We are building innovation and manufacturing ecosystems in communities across America. At the Economic Development Administration (EDA), we launched the Build Back Better Regional Challenge and awarded 21 coalitions with funds to leverage private capital and regional assets to create high quality jobs. In the coming weeks, EDA will launch the Regional Technology and Innovation Hub Program to ensure a strong foundation for U.S. global leadership in technologies critical to strengthening our national security and economic competitiveness in the decades to come.

We are also investing in America's massive talent pipeline. EDA launched the Good Jobs Challenge to fund employer-led workforce training systems and partnerships to train and place American workers into high-quality jobs and support regional economies. The program was massively oversubscribed, with 12 times the demand for our $500 million in grants.

The President's FY 2024 budget request builds on the foundation of these investments that enable innovation and resilient supply chains to ensure our economic prosperity and national security. The Budget requests $4 billion in mandatory funds and $50 million in discretionary funds to expand the Tech Hubs program. Additionally, it includes $100 million for the Good Jobs Challenge.

The Budget calls for $1.6 billion to support the work of the National Institute of Standards and Technology, or NIST, including $277 million for the Manufacturing Extension Partnership, or MEP. The additional investment we propose in MEP for FY 2024 will enable our 51 MEP centers to expand coordination with private sector manufacturers to narrow gaps in supply chains and adopt critical technologies to make U.S. manufacturers more resilient to global market disruptions.

The Budget also includes $98 million to expand NIST's role in Manufacturing USA. With the funding requested in FY 2024, the Department will finance $60 million in new competitive awards to enable existing Manufacturing USA Institutes to promote domestic production of institute-developed technologies.

The Budget also proposes $26 million for the International Trade Administration (ITA) to make the Department's supply chain resilience efforts more proactive. Of the $26 million, $21 million is to establish a supply chain resiliency office within ITA to identify and assess risks to supply chains; develop strategies to mitigate risks; and implement those strategies. The remaining $5 million is an increase for SelectUSA that will further allow that program to attract foreign direct investment to strengthen supply chain resilience. We are working with the private sector to re-shore or friend-shore core parts of our supply chains. And we are developing a near real-time "common operating picture" of global supply chains for critical industries so that we can address vulnerabilities as quickly as possible.

Second, the Department of Commerce is laser focused on protecting U.S. technologies, capital, and expertise from the threats posed by the PRC.

Outcompeting China to shape and lead the global economy of the 21st century demands that we move nimbly and quickly to harden our defenses against an array of emerging and ongoing practices that tilt the playing field against American workers and businesses and in some cases, threaten our national security.

The PRC Government is deploying its military in ways that undermine the security of the United States and our allies and partners and free and fair international trade. It also seeks to dominate certain advanced technology sectors, while using many of those technologies to advance its military modernization and undermine fundamental human rights at home and abroad. Therefore, we are strengthening our efforts to safeguard our core technologies by strategically and continuously updating our export control policies and investment screening frameworks.

The Bureau of Industry and Security (BIS) has long-maintained controls related to the PRC. Of the over 2,500 entities added to the Entity List for actions contrary to U.S. national security or foreign policy interests, nearly 700 or almost 30 percent, are based in the PRC. More than 200 have been added since the start of this Administration.

These restrictions include license requirements for all military and spacecraft items under Commerce jurisdiction; all multilaterally-controlled dual-use items; a large number of dual-use items with extensive commercial applications if the item is intended, entirely or in part, for a military end use or military end user in the PRC. Furthermore, restrictions apply to all items under our jurisdiction if the item is exported knowing it will be used in certain WMD programs or if it is intended, entirely or in part, for military-intelligence end uses or end users in the PRC.

In addition, BIS controls prohibit certain U.S. person activities that would support WMD-related activities or military-intelligence end use or end users in the PRC absent authorization.

However, as the Committee is aware, this is a dynamic environment and the Department is constantly evaluating existing authorities and updating our controls based on the evolving threat picture.

In October, BIS released unprecedented restrictions that impose systematic and technology-specific export controls to limit the PRC's ability to purchase and manufacture certain advanced computing chips that are used to train large-scale artificial intelligence models, which in turn can improve the speed and accuracy of the PRC military's decision making, planning, and logistics. The restrictions also impose export controls on China's ability to obtain semiconductor manufacturing equipment essential to producing advanced chips, which are vital to the development and production of advanced military and surveillance systems. BIS continues to work with interagency and allied partners to identify and restrict key technologies on a multilateral basis.

When we find conduct prohibited by our export controls, we take action. Just last month, BIS announced a $300 million civil penalty – the largest standalone administrative penalty we have ever imposed – against an American company for selling items to Huawei without a license. BIS, along with the Department of Justice, also established a Disruptive Technology Strike Force in February to prioritize investigations of advanced technologies and impose criminal and administrative penalties against violators, in addition to adding companies to our Entity List, to safeguard U.S. technology. We will continue to take action to protect our advantage and maintain as large a lead as possible in technology sectors critical to national security.

We also continue our review of inbound investment as a member of the Committee on Foreign Investment in the United States (CFIUS). Last year, the President issued a directive—the first of its kind since CFIUS was established decades ago—to sharpen CFIUS's focus on certain risk factors reflective of our modern economy, such as technological leadership, supply chain resiliency, and foreign access to our personal data.

And together with Congress and the private sector, we are working to identify and mitigate the risks to our national security from outbound capital investments in critical technology sectors. As one example, we have prohibited companies receiving CHIPS funding from investing in leading-edge or advanced technology facilities in the PRC for ten years.

Our request for FY 2024 includes funding for BIS and ITA to continue activities that advance U.S. national security, foreign policy, and economic interests. The Budget includes $6 million ($3 million at BIS and $3 million at ITA) to continue supporting CFIUS examinations and $36 million to continue to develop the Information and Communications Technology and Services (ICTS) program within BIS to protect ICTS in the United States from foreign adversaries. The Administration is also considering the establishment of a program to address national security risks associated with outbound investments to prevent U.S. capital and expertise from financing advances in the critical sectors of countries of concern that could potentially undermine U.S.

national security. The Budget includes $5 million to enable ITA to assist the Department of the Treasury in scoping and implementing such an outbound investment program.

Third, the Department of Commerce is strategically addressing PRC's non-market economic practices, working with our allies and partners to advance our shared values, and shaping the strategic environment in which the PRC operates.

We know that the PRC employs a range of economic practices that disadvantage U.S. and other foreign companies trying to compete in the Chinese market. The PRC also gives unfair advantages to its own industries in ways that displace American workers and businesses – and those of our allies and partners – from the global market. The Department will continue to press the PRC to address its non-market economic practices that result in an uneven playing field, such as its massive support – financial, regulatory, or otherwise – to its state-owned and private firms, forced technology transfer, and egregious intellectual property theft.

We are continuously working with our G7 allies on a shared approach to these issues. We are working with the Quad Critical and Emerging Technologies working group with Japan, Australia, and India, and we are leading working groups to align our approaches to secure supply chains, ICTS security, export controls, technology standards, and small and medium-sized businesses' access to digital tools through the U.S.-EU Trade and Technology Council, or TTC. Taken together, these multilateral engagements reflect the shared values of the United States and its partners and allies, amplify the power of the United States, and provide the basis for future global growth that is sustainable and inclusive.

The Budget also includes $420 million for ITA's Global Markets program to ensure that U.S. businesses and commercial interests have a robust advocate and first line of engagement on foreign trade and market access barriers. This includes an additional $17 million for Global Markets to counter economic coercion by the PRC and enhance U.S. export competitiveness in strategic markets worldwide. The Budget also includes $3 million to proactively reaffirm U.S. economic engagement in the Indo-Pacific region, by tackling mutual challenges, promoting long-term inclusive growth and stability, and advancing shared values through the Indo-Pacific Economic Framework for Prosperity, and $2 million to expand the standards attaché program in ITA.

Robust funding for ITA helps create prosperity by strengthening the international competitiveness of U.S. businesses and workers, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements – and this mission is more important than ever in the context of the U.S.-China relationship. Annual trade between our two countries has grown exponentially from $4.7 million in 1972 to more than $750 billion today. This trade provides revenues for American companies, jobs for American workers, and connectivity with the Chinese people.

China is now our third largest export market, and those exports directly support 750,000 American jobs. The benefits from these exports go not only to our large multinationals but also to more than 25,000 small and medium-sized enterprises (SMEs) that exported $33 billion to China in 2020. To support these smaller businesses, the Commerce Department recently launched an export promotion initiative around personal care products. We aim to boost exports by helping SMEs navigate the market, while ensuring that their intellectual property (IP) is protected. China is also the U.S.'s largest agricultural market, and our farmers are on track to export $36 billion in agricultural goods this year to China.

The Department is committed to appropriately using its tools to protect our companies and counter unfair economic practices, including egregious IP theft by the PRC. For example, we maintain a team of IP experts in China that helps address our companies' needs while seeking to drive important changes to China's IP laws over the longer term.

We seek fair competition – because no one can outcompete the U.S. if we are playing by the same rules.

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These investments only scratch the surface of the Department's efforts to drive U.S. innovation and global competitiveness, foster inclusive capitalism and equitable economic growth, and expand opportunity and discovery through data.

The effectiveness of all these investments would be threatened by a misguided return to FY 2022 enacted levels or a draconian 22 percent reduction to our spending in FY 2024. Either scenario would cause significant damage to our national security by, for example, reducing BIS's administration and enforcement of critical export controls, including those that keep sensitive goods and technology out of the hands of the PRC and other countries of concern. Furthermore, these cuts would weaken our economic competitiveness by reducing ITA's capacity to promote trade and investment and ensure fair trade and compliance with trade laws and agreements. In either funding scenario, we would also be forced to implement a hiring freeze and potentially a reduction in force. Our workforce is our great asset, and we need a strong, reliable Federal workforce to impartially, efficiently, and effectively oversee the Department's programs, services, and investments that strengthen our national security and economic competitiveness.

I look forward to working with members of this Committee to enact the President's FY 2024 Budget and continue the important work of the Department to outcompete the PRC and lead the global economy of the 21st century. I am happy to take your questions.