

Senate Appropriations Full Committee Hearing - A Review of the President's Fiscal Year 24 Budget Request: Investing in U.S. Security, Competitiveness and the Path Ahead for the U.S. China Relationship

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Presiding: Chair Murray

Video recording of full committee hearing is available here:

<https://www.appropriations.senate.gov/hearings/a-review-of-the-presidents-fy-24-budget-request-investing-in-us-security-competitiveness-and-the-path-ahead-for-the-us-china-relationship>

The following documents are included below:

- Testimony (as prepared) by The Honorable Lloyd J. Austin III, US Secretary of Defense
- Testimony (as prepared) by The Honorable Antony J. Blinken, US Secretary of State
- Testimony (as prepared) by The Honorable Gina Raimondo, US Secretary of Commerce

PREPARED REMARKS BY
THE HONORABLE LLOYD J. AUSTIN III
SECRETARY OF DEFENSE

FOR THE HEARING TITLED:

THE PRESIDENT'S FY24 BUDGET REQUEST: INVESTING IN
U.S. SECURITY, COMPETITIVENESS, AND THE PATH AHEAD
FOR THE U.S. AND PRC RELATIONSHIP

BEFORE THE
SENATE COMMITTEE ON APPROPRIATIONS

MAY 16, 2023

Introduction

Chair Murray, Vice Chair Collins, distinguished Members of the Committee: thank you for the opportunity to testify on American competition with the People's Republic of China (PRC).

I also want to thank Secretary of State Blinken and Secretary of Commerce Raimondo, who are appearing alongside me. The Departments of State and Commerce are vital partners in America's whole-of-government effort to deter aggression and ensure a free and open Indo-Pacific region.

The PRC has a very different view of the region's future. We see a pattern today of unceasing PRC efforts to coerce its neighbors. As President Biden has stated, the PRC is becoming our only global competitor with both the power and the intent to reshape the international system to suit its authoritarian preferences. And increasingly, the PRC is turning to its military in an attempt to advance its revisionist aims. For this reason, the *National Defense Strategy* (NDS) identifies the PRC as our "pacing challenge" and top priority.

In recent months, the PRC has increased its provocative actions, including flying record numbers of warplanes near Taiwan on an almost-daily basis and employing a military-grade laser against a lawfully operating Philippine vessel. The Chinese military has repeatedly conducted risky intercepts against U.S. and allied aircraft in the international airspace over the East and South China Seas, including harassing aircraft helping to enforce U.N. sanctions on North Korea. And we have also seen the People's Liberation Army (PLA) continue to engage in coercive behavior along the Line of Actual Control (LAC) with India.

Meanwhile, the PRC has been rapidly building its military footprint in the Indo-Pacific region, expanding its nuclear arsenal, and extending its influence in space and cyberspace. The PRC is also considering providing lethal aid to Russia to fuel Russia's cruel war of choice against Ukraine.

The Department of Defense is confronting the pacing challenge of the PRC with confidence and resolve, not pessimism and panic. As President Biden has made clear, the United States is not seeking a new Cold War. Rather, we are working to prevent conflict and advance an open international system in which all countries are free from coercion or bullying. We do not seek confrontation, and we are committed to maintaining open channels of communication with the PRC. As I have communicated to my counterparts, open channels of communication are critical for ensuring we resolve any misunderstanding or miscalculation to mitigate the risk of escalation.

Tackling this challenge must be a whole-of-government effort. We will meet this historic task with core American strengths: our democratic values, our economic vitality, technological dynamism, diplomatic clout, and military might. As our NDS explains, the Department is committed to working closely with our partners across the U.S. Government to ensure that any potential foe understands the folly of aggression against the United States.

The NDS also underscores the need to work with others to strengthen peace and stability in the Indo-Pacific region. We will work closely with our unmatched network of allies and partners in the region and around the world.

The Department's mission is clear: to prevent conflict with the PRC through deterrence today, tomorrow, and into the future. So we are aligning our resources with our objectives to meet urgent challenges in the near-term as we increase our investments in deterrence and warfighting capabilities for the future.

The support of Congress is vital to our success. Your leadership and oversight are critical to meeting the PRC's challenge, and they underscore the openness and partnership that are hallmarks of American democracy. Above all, the success of a whole-of-government PRC strategy will rely upon on-time resourcing. Conversely, a failure to provide adequate resources for our efforts will profoundly hamper our ability to compete in the 21st-century security environment. Thank you in advance for your attention and your continued support.

A Whole-of-Government Approach to the PRC Challenge

Protecting the American people relies on our teamwork—across federal departments and agencies and branches of government, as well as with state and local governments. Our strategic competition with the PRC is no exception. And we cannot succeed unless all of our teammates have the resources and the authorities they need.

Our State Department colleagues bolster our efforts in the Indo-Pacific region by ensuring continued, close cooperation with our unparalleled network of Allies and partners. More broadly, meeting our national security objectives relies on our partnership with the State Department and on the professionalism and dedication of our diplomatic corps. We are committed to backing the vital work of America's diplomats with the hard power of the most formidable fighting force in history.

Meanwhile, our work with the Department of Commerce tackles some of the biggest economic and industrial challenges that the United States faces. Together, we are focused on strengthening our defense industrial base; reducing reliance on foreign production and supply chains; and finding creative new ways to deepen our technological advantages. That includes supporting the Commerce Department's leading role in implementing the CHIPS and Science Act, which Congress passed and President Biden signed into law in 2022. This work will not only boost the American economy; it will also strengthen our national security.

The Importance of Allies and Partners

The United States is far stronger because of our friends around the world who share our values and strategic goals. Our cooperation with our allies and partners is central to maintaining a free and open Indo-Pacific region—and represents a strategic advantage that no rival can match. So, we are coordinating more on industrial exchanges, integrating our efforts to develop innovative new capacities, and making our military forces more interoperable.

The AUKUS Partnership

This approach is especially clear in the historic AUKUS partnership. It breaks new ground by bringing together three proud democracies and highly capable allies—Australia, the United Kingdom, and the United States—to take on the challenges of the 21st century and promote a free and open Indo-Pacific region. As President Biden has said, we are building bridges among our partners in the Pacific and those in the Atlantic, and AUKUS sits at the center of that endeavor. This initiative will enhance our combined military capabilities, strengthen deterrence, and forge a more stable balance of power in the Indo-Pacific region for generations to come.

On March 13, 2023, Australia, the United Kingdom, and the United States announced our plans for the first major initiative of AUKUS: providing Australia with conventionally armed, nuclear-powered submarines. Our phased, commitments-based approach will deliver this capability on the fastest possible timeline while upholding the highest standards for responsible nuclear stewardship and strengthening the nuclear nonproliferation regime.

AUKUS is also enhancing our three countries' combined military capabilities in advanced-technology areas that will be critical for deterring 21st-century conflict. Our shared priority is delivering the cutting-edge capabilities that our warfighters need now while also investing in our long-term science and technology capacities. At the same time, each of our countries has committed to significant investments to strengthen our industrial bases. Finally, we will deepen our defense-industrial cooperation through enhanced sharing of information and technology.

Deepening U.S. Cooperation with Regional Allies and Partners

Strengthening our peerless network of alliances and partnerships in the Indo-Pacific region is a top priority of the Biden administration. The progress that we have made with critical support from the Department of State in recent months, especially in improving our regional force posture, shows how this approach is making the region more stable and secure.

We are working closely with Japan to deepen our alliance. The United States is forward-deploying more versatile, resilient, and mobile U.S. capabilities to Japan such as the 12th Marine Littoral Regiment, the Marine Corps' most advanced formation. We are also supporting Japan's historic efforts to bolster its own capabilities, including in counterstrike, unmanned vehicles, and counter-hypersonic weapons. We are also increasing trilateral cooperation among the United States, Japan, and Australia.

Alongside our valued South Korean allies, we are working to ensure that our combined forces continue to deter the Democratic People's Republic of Korea (DPRK) and support peace and stability in Northeast Asia, including by increasing the scope and the scale of our combined defense exercises. We are taking important steps to strengthen our extended deterrence commitment to the Republic of Korea (ROK), including through the recently promulgated Washington Declaration and the establishment of the Nuclear Consultative Group. We are also advancing critical trilateral cooperation with the ROK and Japan to ensure we can collectively deter the DPRK.

With Australia, we are continuing to rotate significant U.S. air, land, and sea capabilities through Australia, while working with our counterparts to identify additional locations to support

enhanced U.S. presence. We have enhanced our alliance with ambitious, forward-looking initiatives on technology and advanced capabilities, including space cooperation and space domain awareness. And in 2022, we also announced that we will preposition munitions and fuel to support U.S. logistics capabilities in Australia.

We are also modernizing our alliance with the Philippines by enhancing maritime cooperation and improving interoperability and information-sharing. We will have rotational access to four important new locations under the Enhanced Defense Cooperation Agreement to further support our combined training and exercises. These steps underscore our unwavering commitment to the Mutual Defense Treaty with the Philippines.

We are continuing to strengthen our longstanding alliance with Thailand. Our annual Cobra Gold exercise, for example, is a major contribution to peace and security in the Indo-Pacific region, even as it helps to ensure that we are prepared to respond rapidly and effectively to humanitarian disasters.

Meanwhile, we are launching a new chapter in U.S.-India ties. We are working with the world's most populous democracy to advance our Major Defense Partnership and to bolster India's ability to uphold a favorable balance of power across the wider Indo-Pacific region. We will continue to work closely with India to cooperate on technology, such as our Strategic Partnership with the initiative on Critical and Emerging Technology (iCET); deepen our interoperability across key domains, including space and cyberspace; and support the efforts of our broader network of Allies and partners, especially the Quad.

The Defense Department will stay focused on growing and strengthening our alliances and partnerships in the Indo-Pacific region, and we're grateful for the State Department's support to advance this top priority.

The Resources for Strategic Competition with the PRC

The Department of Defense is moving urgently to deter aggression today, while increasing investments in our future deterrence and warfighting capabilities. Our Fiscal Year (FY) 2024 budget is directly aligned to the imperatives of the NDS to ensure that we maintain the most combat-credible force to deter the pacing challenge of the PRC in the near-, medium-, and long-term.

Our FY 2024 Budget Request

To ensure that our forces have what they need to meet today's challenges, our FY 2024 budget requests the largest procurement budget ever at \$170 billion. We are continuing to modernize across all domains, including upgrading our ground formations, buying more of our premier surface-ship and submarine classes, and investing in additional fifth-generation fighter aircraft, as well as in continuous upgrades to these platforms. The FY 2024 budget also requests \$146 billion to ensure a high level of readiness. We are increasing funding for flying hours and ship sustainment and investing in training so that our Joint Force is prepared to fight tonight. We are also buying offensive and defensive cyber tools to compete in the critical cyberspace domain.

Meanwhile, through an all-time high investment of \$9.1 billion in the Pacific Deterrence Initiative, we are enhancing our posture in the Indo-Pacific region and demonstrating our capability through joint exercises and campaigning (including in the First Island Chain), even while investing in logistical capabilities that will bolster our ability to project power and sustain distributed operations.

One of the Department's biggest near-term priorities is munitions, and we are investing more than \$30 billion in them in this budget. This includes expanding production capacity and buying the maximum number that industry can produce of munitions most critical to Indo-Pacific deterrence—such as the Tomahawk (including maximizing the Maritime Strike variant), the Long-Range Anti-Ship Missile, and the multi-mission SM-6. The Department is also leveraging new authorities from Congress to pursue multi-year procurement contracts for several critical munition types, combined with novel approaches to maximize procurement efficiency, expand inventories, and improve supply chain resilience. This sends a clear and stable demand signal to industry and encourages further investment in this important supply chain.

Over the medium-term, our budget request seeks to sustain our military advantage over the PRC by investing in integrated air and missile defenses and operational energy efficiency so that our forces can operate flexibly in the Western Pacific. This year's budget also requests \$1.4 billion in research, development, technology, and evaluation (RDT&E) to advance the development of Joint All Domain Command and Control. We are laser-focused on expanding our data and information advantages, because the future battlefield in highly contested environments will belong to those who can act on the best information.

The Department is also committed to maintaining and modernizing our nuclear triad in the face of a growing PRC nuclear arsenal. The FY 2024 budget request, including an investment of \$37.7 billion in FY 2024, fully funds the nuclear triad and nuclear command, control, and communications, demonstrating our commitment to maintain reliable and effective legacy systems while pursuing their timely replacements.

The Department continues to invest in the next generation of advanced weapons. That includes a request of \$11 billion to deliver a mix of hypersonic and long-range, subsonic missiles. By the end of this decade, we aim to have hypersonic weapons that can strike from land, air, and sea. We are also investing to make key parts of the defense supply chain more resilient, such as rare-earth elements, castings and forgings, batteries, and microelectronics.

To compete over the long term, the Department of Defense's budget request includes the largest ever investment in research and development—a total of \$145 billion in FY 2024. This includes more than \$17 billion for basic science and technology research. These investments will lay the foundation for critical future weapons systems, including resilient space architectures, directed energy systems, and advanced autonomous and remotely crewed systems. At sea, Large Uncrewed Surface Vessels will enable the Navy to effectively distribute fires, while new Combat Collaborative Aircraft can revolutionize our pursuit of air dominance in the Western Pacific. In space, the Department is requesting \$33 billion in resilient reliable communications, surveillance, and early warning systems, all while working with the commercial sector wherever possible.

Finally, this budget request continues to responsibly make the transition away from systems that do not support our strategy, enabling us to invest in the maintenance and development of more advanced systems that provide greater combat power today and into the future.

Stronger Deterrence in the Taiwan Strait

One of the Department's top priorities is supporting Taiwan's self-defense capabilities. The United States has a vital national interest in preventing conflict across the Taiwan Strait. Indeed, the entire world has a stake in peace and stability in the Taiwan Strait, and we are committed to working with our Allies and partners to build our ability to operate together to deter conflict. U.S. leadership remains vital to upholding the status quo, and the United States continues to uphold our commitments under the Taiwan Relations Act (TRA) and to sustain our longstanding one-China policy, which is guided by the TRA, the three Joint Communiques, and the Six Assurances.

To strengthen deterrence in the Taiwan Strait, the Department is doing more than ever to provide Taiwan with materiel and non-materiel support. Given the growing nature of the PRC threat, this will require a comprehensive, "all-of-the-above" approach. That means drawing on the statutory authorities and tools passed by Congress and signed into law by the President, including Presidential Drawdown Authority, Foreign Military Sales, and Foreign Military Financing, as well as third-party support and Taiwan's own indigenous capacity. We are focused on closing the critical gaps in Taiwan's self-defense capabilities, which will require that authorities are matched with sufficient resources.

The Importance of Congressional Support

The single most important way that Congress can support our strategic competition with the PRC is to pass a full-year, on-time appropriation. Operating under continuing resolutions (CRs) handicaps us for months out of every year and stifles our ability to compete—while the PRC is investing with single-minded focus.

Under a CR, we are prohibited from undertaking new initiatives, which effectively freezes our efforts to transform our military to meet the PRC's challenge. Specifically, a CR would prevent us from spending \$9.7 billion in our shipbuilding account. Production rate increase restrictions would prevent the award of the second Columbia Class Submarine and prohibit the start of new multi-year procurement contracts for Virginia Class. A CR would also delay new starts for Conventional Prompt Strike and preclude award of production increases to numerous critical munitions, including Guided Multiple Launch Rocket Systems (GMLRS), Tomahawks, Advanced Medium-Range Air-to-Air Missiles (AMRAAMs), and MK-48 Torpedoes. Within the Air Force and Space Force, a CR would inhibit high priority programs such as Sentinel, Battle Management Command and Control, Joint Strike Missile, and Combat Collaborative Aircraft development. A CR also delays the modernization of our nuclear triad, and we will lose valuable time in investing in our space-technology architecture. Meanwhile, CRs harm the readiness of our force by slowing our efforts to improve quality of life for service members and their families and delaying important investments in military infrastructure.

In addition, the effects of CRs on the defense industrial base are profound. The absence of a full-year appropriation puts U.S. industry at a serious competitive disadvantage, especially in the race to field emerging technologies. A CR places supply chains at risk and leaves workers in limbo.

Every failure to pass a full-year, on-time appropriation harms our national security. We must break this pattern. CRs cost us time as well as money, and no amount of money can buy back the time we lose.

Additionally, reducing the Department's funding to the FY 2022 appropriated level of \$742.3 billion would be similarly damaging to our strategy. Such a reduction would constitute a cut of \$73.7 billion relative to current funding and nearly \$100 billion relative to the President's FY 2024 budget request. Cutting the current request to FY 2022 levels would have profound consequences for our efforts to modernize the force and to take care of our people. Critical investments that would be jeopardized include the Pacific Deterrence Initiative, which remains the cornerstone of our defense efforts in the Indo-Pacific region; a reduction in our shipbuilding plan, with the elimination of at least two capital ships; and enormous reductions to funding for space-based missile warning and ground-based missile defenses critical to defending the homeland—along with many critical programs in every priority area for the Department.

Finally, such budget reductions would significantly hamper our competition with the PRC even if the Department of Defense were to be exempted and the entire burden of these budget cuts were to fall on the non-defense departments and agencies. Meeting the PRC's challenge requires much more than military strength. It requires the entire U.S. Government to have the capabilities and the resources to focus on this generational challenge. I urge Congress to ensure that our teammates can continue to do their part to boost America's competitive advantages and protect the American people.

Conclusion

The PRC's bullying behavior and military buildup pose a historic test—and in the face of it, America has shown extraordinary unity and resolve. Thanks to the support and the leadership of Congress, we have bolstered U.S. deterrence and expanded America's competitive advantages. We ask for your support to continue meeting this momentous challenge today, tomorrow, and in the decades to come.

We remain committed to working with Congress to be responsible stewards of hard-earned American taxpayer dollars. Partnership with Congress has always been critical to a strong national defense. I look forward to working with all members of the committee to continue to keep America safe and to continue the proud American tradition of strong, principled, global leadership in the service of democracy and freedom.

Secretary of State Antony J. Blinken
Senate Appropriations Committee Hearing on U.S.-China Competition
May 16, 2023

Chair Murray, Vice Chair Collins; State and Foreign Operations Chair Coons and Ranking Member Graham; distinguished members of the Senate Appropriations Committee: thank you for the opportunity to testify before you.

I'm pleased to be here with Secretary Austin and Secretary Raimondo. This Administration is committed to leading a bipartisan, whole-of-government China strategy that advances U.S. interests and values and delivers for the American people.

We stand at an inflection point. The post-Cold War era is over. There is an intense competition underway to shape what comes next.

China represents the most consequential geopolitical challenge we face today: a country with the intent and, increasingly, the capability to challenge our vision for a free, open, secure, and prosperous international order.

We of course cannot dictate Beijing's path. And we cannot wait for China to change its trajectory. But we can put ourselves in a position of strength to compete intensely to shape the broader strategic environment around China and advance our vision.

We are not trying to contain China. And in fact, the United States continues to have a comprehensive trade and investment relationship with China, as do most of our allies and partners. We are for de-risking and diversifying, not decoupling. That means investing in our own capacities and in secure, resilient supply chains; pushing for a level playing field for our workers and companies and defending against harmful trade practices; and ensuring that U.S. and allied technology isn't used against us.

The world is watching how we – and Beijing – manage this relationship. And it's in our best strategic interest to do so responsibly, in a way that promotes security and prosperity and delivers solutions on shared challenges that matter to the American people and to people around the world.

Last year, I set out the Administration's comprehensive PRC strategy to "invest, align, compete." We've made historic investments at home – including the bipartisan infrastructure law, CHIPS and Science Act, and Inflation Reduction Act – to strengthen our ability to compete. We've aligned our approach with key partners in Europe, Asia, and beyond, working methodically to elevate our engagement around the world – and as a result, have achieved greater convergence to deal with the challenges China poses than ever before.

As we compete, we will work to maintain open lines of communication at all levels with the PRC to avoid miscalculation and prevent competition from veering into conflict. Senior level engagements over the past few weeks demonstrate that commitment.

We will purposefully engage with Beijing, not as a favor, or with engagement as an end unto itself, but in ways that reflects our values and where we can find areas of cooperation that are in our mutual interest. That's what the world expects of responsible powers.

So, we'll push for progress on priorities like the climate crisis, macroeconomic stability, and public health. And we will continue to press the need to curb the flow of precursors that exacerbates the fentanyl and synthetic opioids crisis – and I appreciate the leadership of this committee on this most urgent challenge.

We've heard from members in both parties, on both sides of the Hill, that this unprecedented challenge requires an ambitious resourcing strategy. We agree. That is what the President's

proposed FY2024 State Department Budget aims to do: giving us the resources and agility to advance our strategy.

This budget positions the United States to up our game in the Indo-Pacific: the frontline in our competition with Beijing. The Indo-Pacific is the most dynamic and fastest growing region in the world – with 50% of its population, 60% of global GDP, and eight out the top 10 U.S. export markets. It has driven 75% of global economic growth over the past five years. China invests 50% of its assistance and economic and diplomatic resources there.

Our budget proposal will allow us to further deepen our diplomatic footprint in the Indo-Pacific – with \$140 million in discretionary funding for new missions in the Pacific Islands and a surge of new positions in the region and beyond, including in the areas of greatest contestation with Beijing like technology, economics, and regional and international organizations.

Beijing understands that diplomacy is a critical tool. It's why it has invested heavily in building up its diplomatic capacity and reach, and in fact increased its diplomatic budget last year at a faster rate than its military one, and why it today has more diplomatic posts around the world than we do. If we're serious about this competition, we must demonstrate the same diplomatic seriousness of purpose across the board.

We are not demanding that other countries "choose" between us and China – but rather, are offering a more attractive choice. If we can spark a race to the top, that would be to everyone's benefit. Our budget sets us up to work with like-minded partners to strengthen our offer, and ensure it is relevant and responsive to the needs and aspirations of people around the world.

That's why our budget includes \$2 billion in new investments in high-quality, sustainable infrastructure, rather than low-quality, opaque, extractive projects that leave countries mired in debt.

It would invest \$2 billion to bolster Indo-Pacific economies and help the United States compete in areas where the PRC currently dominates and in key priorities for the region, including maritime security, disease surveillance, clean energy, and digital technology. This complements nearly \$2.2 billion in discretionary funding for our Indo-Pacific partners to support critical investments in good governance, rule of law, clean energy, health security, security assistance, and vital regional institutions.

And it contains over \$7 billion to extend our economic engagement with the Freely Associated States via the Compacts of Free Association: a critical component of the Administration's Indo-Pacific and National Security Strategy.

Altogether, these funding streams, including new and innovative mandatory funding to complement our ongoing investments with discretionary funding, ensure we can meet a generational challenge that is testing American diplomacy like few in recent memory and demonstrate our long-term commitment on issues that matter most to our partners in the region.

During this decisive decade, our efforts and investments – together with our partners – will determine whether we succeed in advancing our shared affirmative vision for the international system, or whether the PRC can erode or replace the global rules and norms that guarantee peace, security, and stability in the world.

I'm grateful for this committee's partnership to sustain the resources and policies required by this challenge. And I look forward to answering your questions today.

**Statement of Gina M. Raimondo
Secretary
U.S. Department of Commerce**

**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”

Tuesday, May 16, 2023

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 billion 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.

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.