

DATE: July 15, 2021
TO: Interested Parties
FROM: Brownstein Hyatt Farber Schreck
RE: Senate Finance Subcommittee on Fiscal Responsibility and Economic Growth:
“Defending and Investing in U.S. Competitiveness”

On Wednesday, July 14, the Senate Finance Subcommittee on Fiscal Responsibility and Economic Growth held a hearing titled, “Defending and Investing in U.S. Competitiveness.” The committee heard testimony from economists, researchers, and policy experts regarding China’s global competitiveness with the United States. The discussion centered around China’s lack of regulatory standards and its impact on other countries, particularly the United States and its domestic investments.

Present Committee Members

- Sen. Elizabeth Warren (D-MA)
• *Subcommittee Chair*
- Sen. Ron Wyden (D-OR)
- Sen. Bill Cassidy (R-LA)
• *Subcommittee Ranking Member*

Full committee members Sen. Sheldon Whitehouse (D-RI) and Sen. Sherrod Brown (D-OH) also attended this hearing.

Witnesses

[The Honorable William E. Spriggs, Ph.D](#)
Professor of Economics, Chief Economist
Howard University, AFL-CIO

[Yaya J. Fanusie](#)
Adjunct Senior Fellow
Center for a New American Security

[Roy Houseman](#)
Legislative Director
United Steelworkers

[David M. Luna](#)
Executive Director
International Coalition Against Illicit Economies

[Mary E. Gallagher, Ph.D](#)
Amy and Alan Lowenstein Professor in
Democracy, Democratization, and Human
Rights
University of Michigan

[Jane Nakano](#)
Senior Fellow, Energy Security and Climate
Change Program
Center for Strategic and International Studies

Member Opening Statements:

Chair Elizabeth Warren (D-MA) said that for too long, competing in the global economy has been about catering to multinational corporations. She said that these multinational companies chase a profit, no matter the cost to the American economy and its workers. She believed that the US should re-focus its attention on uplifting the standard of living for the American people by investing in domestic jobs and workers. She stated that economic competition is also political competition, and emphasizing these standards will shine a positive light on American ideals. Chair Warren insisted that American must engage in two areas to achieve greater global competitiveness against China. First, American workers need to have a fair set of trade rules to compete globally. Second, there must be a renewed effort to invest in the

domestic workforce through universal access to child care. She concluded by saying that this is the moment for the US to step up because it is not only the competitive thing to do, it is the right thing to do for America's workers and families.

Ranking Member Bill Cassidy (R-LA) expressed serious concerns about how the United States and the rest of the world deals with China due to its continued threats to defy international norms of behavior. He stated that China consistently achieves greater heights than other nations because they refuse to play by the rules that other countries choose to follow and enforce. Therefore, he urged that strengthening U.S. competitiveness against China is important to defend the nation's workers and common interests. He explained that there should be a robust conversation regarding China's surveillance efforts, its role in fentanyl distribution, production of counterfeit products like personal protective equipment, and its government-backed, blockchain-based service network. He said that China also poses the greatest threat to the climate by releasing more carbon emissions than the European Union and the U.S. combined. He concluded that America has allowed China to lower production costs and incentivized businesses to move away from historical trading partners, as China is not bound to the labor and environmental standards that American trading partners follow.

Sen. Ron Wyden (D-OR) said that America will not be able to outcompete China as long as it has to deal with crumbling infrastructure and struggling workers. He explained that there are many complex factors at play, among them being the link between physical investment and people. As an example, he cited the importance of investing in road, bridges, and new buildings, as well as affordable child care. In doing so, the United States will increase its labor participation by providing more avenues for women to remain in the workforce. He emphasized the necessity to craft effective policy to find solutions towards increasing competitiveness against China. He concluded that he is eager to hear testimony regarding this subject and looks forward to future collaborations with members of Congress.

Witness Opening Statements

Dr. William Spriggs (Professor of Economics, Howard University; Chief Economist, AFL-CIO) said that his testimony will discuss the gaps in U.S. infrastructure as it compares to the nation's leading global trade partners. While he believes that many of these gaps do not require federal fiscal resources, he said that they require updating American institutions and legal requirements to meet 21st century challenges. He insisted that America will struggle to get back to pre-pandemic levels without updates to its regulatory standards for its workforce. He illustrated that America should cover more workers by Collective Bargaining Agreements (CBAs) since stronger CBAs routinely outperform weaker CBAs. He concluded by saying that providing new guidance for maternity leave and increasing the number of sick days will help lift up American labor market forces by protecting American workers and their families. Dr. Spriggs claimed that these changes will bring greater competitiveness against China.

Roy Houseman (Legislative Director, United Steelworkers) said that the Steelworkers Union provides a unique lens into defending and strengthening US competitiveness. He said that his testimony focuses on three strategic areas: refocusing federal and domestic investments on crucial infrastructure, retooling labor and environmental laws, and exporting both goods and ideals for a just global economy. In regard to investments, he stated that Americans loses millions of gallons of water every minute due to leaky pipes, and the U.S. should invest in carbon capture, utilization and sequestration (CCUS) and direct air capture technologies. He said America should also invest in more robust training programs to retain and retrain domestic workers to keep pace with other leading global trading partners. Lastly, Houseman said that America must build a worker-centered trade agenda because it would protect workers from unfair practices and ensure that services are reaching global markets. He concluded that these initiatives are achievable, but they require a broad cooperation between corporations, the federal government, and U.S. workers.

Dr. Mary Gallagher (Amy and Alan Lowenstein Professor in Democracy, Democratization, and Human Rights, University of Michigan) said that since 2008, China's workplace laws have improved considerably through employment security and access to social and medical insurance for rural and urban residents. However, she believed that these policies are weakly and unevenly enforced because rural workers are marginalized in comparison to their urban counterparts. She argued that China may potentially pass these unfair policies down to the next generation due to a development model based on domestic demand. These short term gains pose long term risks to China's desire to become an advanced and innovative economy. She stated that China lacks women's rights protections and is cracking down on civil society by silencing activists. She concluded that China's previous administration was open to progressive standards, but this new administration is not, meaning that these policies are unlikely to change.

Yaya Fanusie (Adjunct Senior Fellow, Center for a New American Security) said that China's investment in financial technology like blockchain is a new dimension in the power struggle between China and the United States. He suggested that, for China, it is about data collection in order to leverage it for innovation in a new global financial infrastructure. Fanusie said that China's new state-run blockchain service network (BSN) will look to counter American technology advances and provide an upgraded version of America's internet capabilities. He claimed that the disruptive potential of the BSN to the United States is real since the world is increasingly dependent on data. He concluded by offering several solutions to this problem. First, the National Science Foundation should fund a decentralized internet sandbox for colleges and universities. Second, the Small Business Administration must offer grants to U.S. businesses through financial technology research and development (fintech R&D) that supports privacy and national security concerns. Third, the U.S. Federal Reserve should expand its research of central bank digital currencies. Fourth, the Security and Exchanges Commission should provide more regulatory clarity around digital assets and blockchain technology.

David Luna (Executive Director, International Coalition Against Illicit Economies) said the United Nations estimates that the amount of money laundered through illegal activities is between 2-5% of the global GDP, and China plays a prominent role in those numbers. He explained that China engages in the fentanyl trade and IP theft, which sapped the U.S. economy of \$131 billion and 325,000 jobs in 2019 due to the production and distribution of counterfeit products. Luna stated that the proliferation of counterfeited electronics threatens the safety of troops by infiltrating critical military supply chains, while illegal tobacco trade comes primarily from China through unregulated markets. He continued by saying that China is helping to empower the Mexican drug cartels and harbors a vast illegal auto parts trade and fishing trade. He concluded by saying that America must heighten the pressure on China and elevate the global fight against their unregulated economies to make them accountable for their actions and the negative impacts on the rest of the world's market forces.

Jane Nakano (Senior Fellow, Energy Security And Climate Change Program, Center for Strategic and International Studies) said that China's emergence as a global competitive force in the energy and technology sectors is a complex and evolving story. Despite making numerous commitments, Nakano said that China continues to be the largest producer and consumer of coal and leads many high-carbon energy projects. Nakano added that unlike its peers, China's leading financiers are not obligated to adhere to OECD's restrictions governing coal powered finance. She believed that a key factor underpinning China's competitiveness in these energy technologies is its commanding position along the supply chains for rare earth elements, minerals, and metals that are vital to these technologies. She explained that China is becoming a leader in nuclear energy and will have the second largest nuclear powered generation fleet, only behind the United States, by 2025. China does this by operating outside of the OECD's regulations, and she concluded by saying that America has to do more to enhance its energy technology competitiveness to compete with China in a 21st century global market.

Discussion

Domestic Investments

Chair Warren asked Dr. Spriggs how many U.S. manufacturing workers lost their jobs due to increased imports from China, and how it specifically affected Black communities. **Dr. Spriggs** responded that he estimates the U.S. manufacturing sector lost six million jobs due to increased imports from China, and nearly one million jobs were lost for Black Americans.

Chair Warren asked Houseman how much power the Labor Advisory Committee (LAC), workers themselves, and the U.S. Trade Representative have in trade negotiations and how these deals affect different communities. **Houseman** responded that the LAC only provides advice and comment and does not have influential power over trade negotiations, and workers rarely get to see draft texts or have input on trade agreements. He concluded that in these trade agreements, there is a severe lack of language regarding communities of color or communities with high levels of poverty.

Chair Warren asked Houseman about the outcomes if America follows China's model to make investments in green technology research but does not invest in worker protections. **Houseman** said that 70% of America's GDP is made up by workers, meaning that foundational and effective labor standards are necessary to protect those that play a critical role in growing the US economy.

Chair Warren asked Houseman about America's potential global competitiveness if America applied a minimum protections framework across all domestic investments. **Houseman** responded that expanding labor rights and protections will further broaden the base of domestic investments, meaning that the American worker will be more competitive in global markets.

Sen. Sheldon Whitehouse (D-RI) asked Dr. Spriggs and Houseman on the competitive disadvantage American businesses suffer when the U.S. accommodates offshoring advantages for big corporations. **Dr. Spriggs** responded that it is unfair to both domestic manufacturers and the low income nations that cannot leverage against corporations to raise their labor standards. **Houseman** responded that holding corporations accountable for offshoring practices will help both domestic workers and companies.

Sen. Sherrod Brown (D-OH) asked Mr. Houseman to elaborate on his experience with the PVLT tire case. **Houseman** responded that the dumping of tires by China in the United States undermined U.S. workers, and it highlights the necessity of protecting workers and holding China accountable for its actions.

Sen. Brown asked Dr. Spriggs about what the erosion of American manufacturing jobs has done to the overall U.S. economy. **Dr. Spriggs** responded that it has hollowed out communities critical to American society. He believed that more funding is necessary to target labor policies for protecting young and vulnerable workers.

Sen. Brown asked Dr. Spriggs about the importance of the expanded child tax credit to working families. **Dr. Spriggs** responded that it will help make child care affordable, which, in turn, will increase the female labor participation and enable families to obtain the necessary income to achieve economic mobility.

Chair Warren asked Dr. Spriggs whether or not other wealthy countries follow the United States in not providing universal access to affordable child care. **Dr. Spriggs** responded that, contrary to the United States, competitive nations have realized that infrastructure means getting individuals to work, which means access to child care and elderly care.

Chair Warren asked Dr. Gallagher about the competitive advantages American workers have over China and their labor force. **Dr. Gallagher** responded that American workers are better educated, more productive, and have less government restrictions on their movement and occupational opportunities. Chair Warren also asked Dr. Gallagher about how the lack of universal child care undermines these advantages. Dr. Gallagher responded that the absence of child care means that more women are leaving the work force which underutilizes human capital at a time when it should not be expendable.

China's Regulatory Enforcements and Current Social Climate

Chair Warren asked Dr. Gallagher if China's commitments when joining the World Trade Organization (WTO) included enforceable labor protections such as prohibiting forced labor or allowing the establishment of unions. **Dr. Gallagher** responded that China's inclusion in the WTO did not include enforceable labor protections. She said that most labor issues were either directed to the International Labor Organization (ILO) or diluted down to companies to engage in private regulation.

Ranking Member Cassidy asked Dr. Gallagher if she believed that China is entering a negative phase of their demographic period due to declining populations and lower child birth rates. **Dr. Gallagher** responded that China is facing this new demographic reality due to a smaller working class percentage, lower fertility rates, and rapid aging. She said that by 2050, 50% of Beijing's population could be ages 65 and older.

Ranking Member Cassidy asked Dr. Gallagher if the residents in rural areas of China have less potential to be productive than their urban counterparts. **Dr. Gallagher** responded that given their demographic challenges, rural individuals face more obstacles to be productive labor participants than urban residents.

Ranking Member Cassidy asked Dr. Gallagher if she agreed with the view that China will struggle to overcome their demographic challenges over the next fifty years and if their global competitiveness will be undermined. **Dr. Gallagher** responded that she agreed with this viewpoint, but acknowledged that China is aware of this situation as well, which is why they discontinued their one child policy.

Ranking Member Cassidy asked Luna about the validity of \$1 billion leaving China every day due to capital flight. **Luna** responded that he believes that figure is correct, and they could even be conservative estimates. Ranking Member Cassidy also asked Mr. Luna if he believed that China's participation in trade-based money laundering (TBML) is a way for the country not to further criminal activity, but to export their capital. Luna said that was a fair assessment, especially since China's money laundering hub could be in excess of \$2 trillion every year.

Ranking Member Cassidy asked Luna how China is incapable of capturing \$1 billion of capital flight per day in their country and where there could be points of cooperation with China. **Luna** responded that provincial complicity plays a prominent role in their incapability to capture this outflow of money, and political pressure from America could help alleviate this issue.

Ranking Member Cassidy asked Mr. Luna if there is a tension in China between exporting goods to boost their economy and simultaneously creating vehicles for capital flight through those exports. **Luna** responded that they do exploit illicit trade to move capital flight and criminally-derived proceeds which creates tension.

Ranking Member Cassidy asked Nakano if she agreed with the assessment that China's lack of emissions regulation will encourage high emission-producing companies to move their business to China. **Nakano** responded that she agreed, which is why the EU is interested in crafting new regulations to stop these incentives.

The Role of Cryptocurrencies

Chair Warren asked Fanusie if he believed that cryptocurrencies are a threat to the US financial system. **Fanusie** responded that cryptocurrencies are now a part of the global financial ecosystem, and while there are concerns, there is encouraging process in finding new ways to regulate the cryptocurrency market.

Chair Warren asked Fanusie about the importance of U.S. leadership in regulating the cryptocurrency market. **Fanusie** responded that U.S. leadership is critically important to ensuring a protected and productive market, especially since this technology is currently outpacing regulatory measures.

Ranking Member Cassidy asked Fanusie to clarify the understanding that some cryptocurrencies provide a platform for legitimate transactions. **Fanusie** responded that cryptocurrencies are usually anonymous, and the way to regulate that is to ensure that the platforms used to move these cryptocurrencies are regulated properly.

Ranking Member Cassidy raised concerns about China producing cheaper hydroelectric stations which incentivizes bitcoin miners to move to China and if this enables China to have control over monitoring this cryptocurrency. **Fanusie** responded that China is currently enforcing standards on cryptocurrency due to threats made by the cryptocurrency trading sector, meaning that many miners are leaving instead of entering the country.

Climate Change

Sen. Whitehouse asked Nakano what her position was on climate action and favored policies that go along with it. **Nakano** believed it was imperative to electrify the climate sector by decarbonizing power and energy sources. Sen. Whitehouse also asked Ms. Nakano if a price on carbon emission is a helpful policy in achieving those goals. Nakano agreed with that approach.

Sen. Whitehouse asked Nakano about her opinions on America's push to combat China's increasingly commanding position in electrical vehicle (EV) production. **Nakano** responded that China has been able to give a clearer signal on infrastructure development, and America should take a closer look at protecting their supply chain in EV production.