

FDD Media Call: Previewing "China Week"

September 9, 2024

Featuring Craig Singleton, RADM (Ret.) Mark Montgomery, Elaine K. Dezenski, and Bradley Bowman

Moderated by Joe Dougherty

This transcript was edited for clarity.

DOUGHERTY: Good morning, and thank you for joining us for today's call. My name is Joe Dougherty, I am Senior Director of Communications at the Foundation for Defense of Democracies, a nonpartisan research institute focused on national security and foreign policy. We're grateful that you've taken the time to join us for today's call as FDD experts preview China Week in the House of Representatives. Joining us on today's call, Craig Singleton, senior fellow and director of FDD's China program. He previously spent more than a decade serving in a series of sensitive national security roles with the US government where he primarily focused on East Asia. Elaine Dezenski, senior director and head of FDD's Center on Economic and Financial Power. Elaine previously served as senior director at the World Economic Forum, where she led the Partnering Against Corruption initiative and launched the forum's Global Risk Response Network. Rear Admiral, retired, Mark Montgomery, an FDD senior fellow who served 32 years in the US Navy as a nuclear-trained surface warfare officer, retiring as Rear Admiral in 2017.

His flag officer assignments included director of operations at US Pacific Command and Commander of Carrier Strike Group Five, embarked on the USS George Washington stationed in Japan.

And Bradley Bowman, senior director of FDD's Center on Military and Political Power. He formerly served as national security advisor to members of the Senate Armed Services Committee and Foreign Relations Committee, as well as a former active-duty US Army Officer, Black Hawk Pilot and assistant professor at West Point.

Some quick housekeeping, today's conversation is on the record. We will share the transcript and recording from today's call, ideally within 24 hours. FDD is a nonpartisan research institute. We provide our research and analysis to members of Congress on both sides of the political aisle and do not promote legislation. Today's run of show is as follows: First, we'll hear from Craig, followed by Elaine, then Mark, then Brad. We'll then open up the call to your questions. During the Q&A portion, you may submit your questions via chat, or you may use the raise hand feature in which case we'll let you know when you've been unmuted, and you can ask your question. All right, let's get underway. Over to you, Craig. Thank you.

SINGLETON: Thanks Joe, and thanks to everyone for participating in today's call. China Week in the US House of Representatives marks a pivotal and I think long anticipated legislative moment. For months, there was pretty considerable speculation over whether it would be the Senate or the House that would take the lead on addressing critical China-related concerns. And now, Speaker Johnson has made his move, opting for a series of focused bipartisan votes that signal a strategic response to the growing challenges posed by the PRC. But rather than pushing for a sweeping catch-all China Bill, Speaker Johnson has smartly chosen a methodical approach, one that avoids an overly broad legislative package in favor of well-defined, targeted votes on individual bills, many of which, as I said, enjoy very broad bipartisan support. In terms of big-picture framing, House leadership seems to have carefully balanced advancing some very tough-on-China measures while deliberately sidestepping some of the more regulatory-heavy bills currently being debated on Capitol Hill.

This is especially true regarding outbound investment screening, which notably is absent from this week's lineup, but will almost certainly resurface during the lame duck session. The same applies to some other high-profile measures like the Enforce Act, which would grant the Department of Commerce new authorities to curtail Chinese access to certain AI platforms, which I also suspect will come up during the lame duck session. But there's no ignoring the political calculus here. With the 2024 election season already in full swing and with polling data showing that a majority of Americans now view China as an adversary, forcing votes on these China-related bills presents an opportunity for lawmakers to return to their districts with a clear message, "I am tough on China." And in this political environment, it's not just sound policy to take a firm stand against Beijing, increasingly, its smart politics too.



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What's particularly striking about China Week and the agenda is the disproportionate focus on technology.

Chinese Communist Party, Chairman Xi Jinping, has explicitly stated that technological innovation is, "The main battlefield of the international strategic game." He's been adamant that China must avoid becoming a "vassal" in technology and science and must therefore control what he calls "core technologies," which are in his view, central to securing China's dominance in the next industrial revolution. And this mindset really explains why US policymakers are laser focused on curtailing China's access to American technology, while also limiting the spread of problematic Chinese technologies within the United States. Supporting what Xi refers to as "new productive forces," like artificial intelligence and biotechnology and batteries and quantum computing, is now the Chinese Communist Party's top stated policy priority. But by highlighting these areas as essential to reigniting Chinese economic growth, Beijing has actually tipped its hand providing a roadmap for US policymakers to blunt those very industries and make it much harder for China to scale or dominate them.

There are a few notable examples of tech-related bills that are coming up this week. One very clear example is the Countering CCP Drones Act, which is based in part on research and testimony from FDD. And what it does is it really exposes DJI, the Chinese drone manufacturer's deep links with the People's Liberation Army, China's party state, and China's human rights atrocities. And yet, despite these connections, DJI has been actively funding US lobbying groups like the Drone Advocacy Alliance to derail this legislation that is, without registering under the Foreign Agents Registration Act or FARA. This is really a textbook case of a Chinese military-linked company exploiting our lobbying loopholes to protect its market access, which is certainly something US companies are unable to do in China.

And so, if this bill passes, it will initiate a gradual weeding out of DJI drones from US supply chains. But the good news is there are many US drone companies that are already starting to think about how they can fill that gap.

We're also seeing pretty significant attention on Chinese battery technology. Unlike DJI, Chinese batteries aren't yet fully entrenched in US critical infrastructure systems, but they are very well positioned to do so. There are very few barriers to entry, if you will. Last year's NDAA introduced a ban on the Defense Department's procurement of certain Chinese batteries, specifically from companies like CATL, which is closely linked to the Chinese Communist Party and obviously beholden to all Chinese laws including its intelligence and cybersecurity laws. And so, the bills this week that are battery-focused really do aim to extend those same NDAA prohibitions to Department of Homeland Security (DHS). So as FBI director Christopher Wray has already warned, Chinese hackers are actively positioning themselves within US critical infrastructure ready to, in his words, "wreak havoc," if the time comes. And so, bills like these really do ensure that Chinese batteries don't infiltrate our most sensitive systems, including our critical infrastructure, which I think is really common sense.

Another standout in the China Week lineup is the Biosecure Act, which targets Chinese biotech behemoths with known military links including BGI and MGI tech. In May 2018, Xi Jinping identified biotechnology as a "frontier field," where China must excel. And Xi pointed to gene editing, stem cell research and synthetic biology as vital to China's goal of becoming a "world science and technology great power." And so again, the Biosecure Act is another commonsense measure aimed at protecting US national security and economic interests. But it's really just the beginning. I think we can expect biotechnology to remain a key battleground in the next Congress as US policymakers look to shore up defenses against China's ambitions in this particular cutting-edge sector.

And the same applies of course to executive branch agencies, which have already added Chinese biotechnology companies to the US entity list for developing among other things, "brain control" weapons.

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On the Taiwan front, I also want to flag that several of the bills are, I think as we would expect Taiwan related, but not in the way you might think. As some of you know, an FDD delegation recently traveled to Taiwan to conduct its first ever tabletop exercise examining Chinese economic and cyber coercion, the results of which will be published in an upcoming FDD report in the next few weeks. Stay tuned on that front. It's clear with some of the China Week bills that are Taiwan focused, that policymakers are paying very close attention to this issue, the issue of cyber and economic coercion. One particular bill is the Taiwan Conflict Deterrence Act. This bill requires the Secretary of Treasury to publish a report on financial institutions and accounts connected to senior officials of the PRC and to restrict financial services for certain immediate family members of such officials should there be a war over Taiwan.

Just in closing, before I hand it off to Elaine, I just want to say that I think in short, this week's China week isn't just about advancing a few bills, it's about signaling a shift both to Beijing and to the American public that Congress is fully committed to countering to China's strategic ambitions. The emphasis on technology, critical infrastructure and national security makes it clear that this is not only a matter of economic competition, but also a critical component of our broader strategic posture. And as we look ahead, it's evident that China's aggressive push in areas like AI and biotech and supply chains will remain, I believe, at the forefront of US legislative and policy efforts, regardless of who wins the White House this fall. With that, I'll turn it over to Elaine and look forward to some of your questions at the end.

DEZENSKI: Thanks, Craig. Excellent summary. Good morning, everyone. I just want to pick up on a couple of key points here. First, let's start on the EV battery front. As Craig laid out, there's some good signaling in terms of where these bills would limit, for example, US government exposure to certain Chinese battery technologies. This is really important as a signal in terms of building some bipartisan consensus around the future. And there's the flip side to this, which is what I wanted to discuss with respect to our research at the Center on Economic and Financial Power. We have forthcoming research before the end of the year, this will be published, and it is specifically focused on these vulnerabilities across the EV battery supply chain. So, this legislation is critical, HR-8631 and HR-7980 in terms of identifying that we have a problem that we need to solve by creating a US ecosystem and an allied ecosystem, a North American ecosystem, around EV battery production.

Right now, it's very difficult to import a battery into the US that doesn't have some level of Chinese content. Even for batteries that are coming from South Korea, from Poland, the core componentry of those batteries is still coming from China. I'm talking about the anodes and the cathodes and the separators, all these small pieces that make up the major value of an EV, which is in the battery. So, one of the key points that we'll be talking about in our report is that the midstream vulnerabilities have to be solved, and there are investment opportunities to do that both domestically and working with allies and partners. So, we see this as part of a bigger picture. We want to diagnose where the challenges are and certainly stop those pathways for procuring Chinese batteries, but we also need to recognize that we need to get out of these long-term dependencies, and there are opportunities for us to do that.

The second piece I wanted to pick up on is port security, HR-3169, identifying adversarial threats at our ports. This is also a really interesting bill because it highlights that we have some pretty clear vulnerabilities when it comes to cranes and technology coming into US ports. This is something that I've been writing about together with Senior Fellow, David Rader, and we really need to look holistically at what's happening around ports, not only US ports, but those foreign ports that are critical to our supply chains. Whether we're talking about the influence of Chinese ownership, the potential for integration of Chinese surveillance equipment and the back end, and what I mean by that is the data associated with shipments coming in and out of US ports and foreign ports, and who controls that data. We have a vulnerability there in terms of LOGINK, the back-end data management system that a lot of port operators and carriers are using.

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This is also an issue. So, we're looking holistically at the set of port vulnerabilities that range from critical infrastructure and ownership issues to the technologies behind the data. And that will become increasingly important, this data question, as we think about how to secure ports.

The third piece I wanted to pick up on is around sanctions. HR-5613, the Sanctions List Harmonization Act. This is also a really important signal in terms of not only China-related sanctions issues, but Russia, Burma and the like. Here, what we're talking about is the need to have greater coordination within the US government in terms of our existing tools and authorities to designate entities. So, we've actually been doing quite a bit of work in this area, looking at opportunities to pick up on OFAC SDN designations, and whether these are also linking into commerce entity lists. So basically, there's a lack of coordination right now within the US government.

So, we can help solve that by identifying where there's opportunity to cross-reference on sanctions designations and harmonize that work even further. So again, this is an important signal.

And then the final issue I wanted to mention is HR-8314, the No Foreign Election Interference Act. This is important in terms of identifying where there may be loopholes for contributions coming from foreign nationals coming into political committees and potentially influencing elections. We see this from a broader set of problems around influence through financial mechanisms, and we're heavily engaged in what's called the Enablers Draft Legislation, which would seek to close loopholes that are facilitated by different entities and actors within the global financial system that allow illicit financial flows into the US to subvert our rules and influence our system. So, we need to get at this question of closing loopholes across the board. One of those, of course, is around foreign election interference. So again, a really important and positive signal. So that's what I wanted to highlight. Happy to take questions later. Craig, back to you.

SINGLETON: Actually, I'm going to kick it over to, I think, Mark first, and then Brad.

MONTGOMERY: Okay, thanks. Good morning, everybody. Hey look, this week, this China week is happening because the House Republican's on the Rules Committee have blocked what would traditionally be national security bills going into the National Defense Authorization Act. The end result of that is that while that is a decision one can make, it makes the National Defense Authorization Act have less non-defense specific national security provisions in it. And as a result, we have to run these independently. We'll see if some still get in through the NDAA, like the Drones Act, as it may get in through amendments that come in the back door or come in through the Senate side. But the reason we're having to do this, in large part, at least for about half these bills, is because they didn't get the traditional look through the NDAA. And that's risky because it ignores the fact that many provisions that the Congress passes may not be DOD centric, but are national security centric, and the NDAA has become the effective cover for national security legislative making over the last 25 years. And that's been slightly upended over the last two years. I hope that tradition stops.

There are a few bills in here I'd want to emphasize. First, I agree with Craig on the countering CCP Drones Act. We got to move past just keeping DJI and other Chinese manufactured drones out of DOD and other federal government agencies, which previous legislation has begun to push. We also need to move them out of state and local emergency responders, fire, police because these drones are operated kind of ubiquitously over a town. And amazingly, there's pretty good relationships between DJI and the towns that house our major military bases. And to the degree that you think there might be a risk with these drones, it's amplified when used by law enforcement and emergency responders in direct proximity to US military facilities. And so, what this is going to do is amend the Secure Trusted Communications Network Act of 2019, to add DJI.

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The other one, I do like is 554, which Craig mentioned earlier, the Taiwan Conflict Deterrence Act. This would normally have been in the NDAA. There's just no doubt. It says that if a crisis occurs, we already have a Prepared list, a non-DOD agency prepares a list so that when we have a crisis, we have the list of people we're going to go after to limit their access to financial services. Because what we found with a lot of our authoritarian adversaries is That why they have no trouble picking a fight with us they would like to keep their money and their children and their schooling over here in the United States at the same time. And what we're going to do is deter their future aggressive action by holding them, by letting them know you are the people we're going to hold accountable at a later date when a crisis builds up between us. This would've clearly, in previous years, been fodder for the NDAA.

And then finally, the Port Crane Inspection Act, we've been working with Representative Gimenez's office for several years on this, and this is the first part of a broad effort to start to control and secure the critical infrastructure that we need for our military mobility. In other words, our military's supplies, equipment, and forces move on civilian rail, ports, aviation, and roads. That's how they get to the ports and the airfields to then go overseas, all that infrastructure, largely owned and operated by the private sector, is usually maintained to some lower level of security. I like to think of it like if we have a train on a flatbed at Fort Cavazos, former Fort Hood in Texas, and we're going to take it to a strategic sea lift port, say in Charleston, when it's at Fort Cavazos, it's got two telecommunications networks, two electrical power grids, although the batteries may be CATL supplied, so we've got to be careful there, but you know what I mean. You've got two of everything, It's like Noah's Ark. Then the train leaves the base, and it enters Mad Max Thunderdome, which is like a private sector rail network all the way to the port or airfield whose cybersecurity is of some unknown variety. Obviously, we have to defend that, obviously that's a national security need, and obviously that should have been handled in the NDAA, but it wasn't. So, the Port Crane Act is the first one.

It's very specific to the US strategic seaports. It's looking specifically at the ZPMC Chinese cranes. And really what bothers us here, we don't need to replace 98 ZPMC cranes. I think that's the administration's push right now. I think we need to assess the cellular modules in those cranes to determine if they pose a security risk. And if they do, replace those cellular modules and create a system where our cranes routine software upgrades, their communication, their maintenance communications are handled all inside the United States by companies not owned by a country of concern.

So, I really like this Port Crane Inspection Act. I think it's on there. I think the Coast Guard's already working. Legislation's a little behind need. The Coast Guard's working it, but they're not getting the appropriations funding necessary. So, passing this bill into law will allow for easier for appropriations in the future. So, some good stuff in here, but let's not fool ourselves. There's more in this China week, and there'll probably be a cyber week and some other weeks over the next couple months, to pick up the material, the deuterium, that's been left behind by not including it in the NDAA, and it makes us less secure not to have it. Brad, over to you.

BOWMAN: Thanks, Admiral Montgomery. Thanks to Craig and Elaine. I really admire all the great research and work you've done on this... Thank you all for joining. Let me do a zoom out that I hope is helpful...

The foundation of what we're seeing here is a geostrategic competition between the Chinese Communist Party and the United States and its democratic partners and allies. And at the heart of this is technology. Mark and I have a military background. We know that in the military space, the outcomes of a particular engagement, battle, or war is determined by the quality of people, the training they receive, and the technology they wield. But it's a mistake to over-militarize this because the challenge, the dangers, threats go way beyond the Department of Defense, as Mark suggested earlier.

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And it's important to understand that there are national security implications and consequences here that go across our society, and it's important to understand that. I think it would be a mistake to view what we're seeing here as simply a competition among companies for market share, market access, or revenue. What we're seeing really is much bigger and more consequential than that. This is really a geostrategic competition, I would say, between two worldviews. One is authoritarian, autocratic, and even totalitarian, and the other is democratic. One is a might makes right model, and the other is rules-based. So, who prevails in this competition related to technology and these other issues really matters, and the world will look different if the CCP enjoys the preponderance of power and is setting international rules and norms. And so, I think it's important to understand that. And if one is a fan of civil liberties, privacy, and ethics, look no further than Xinjiang to understand what a world might look like if CCP is calling the shots.

Quick word on military civil fusion. That was the flavor of the month a few years back. I still think it provides important context for what we're seeing here. As the US government has said, and as Craig knows better than me, as the CCP has said in its own words, this is an aggressive national strategy of the CCP to eliminate barriers between China's civilian research and commercial sectors and its military and defense industrial sectors. That's what they're doing domestically and have been doing for quite some time. There's also an international component to this, as our intelligence community has said. And the international component is trying to acquire technologies, both licitly and illicitly, for the purposes of creating Chinese national champion companies that dominate the international market, and then diverting technologies to the People's Liberation Army that they will use in a conflict in the Taiwan Strait and the South China Sea.

So, when I say this is much bigger than this or that company wanting more market share, that's what I mean. And as I and my colleagues have been saying, I've been saying it at least since 2019, I think we really need to, in the west, we need to understand that the notion of a private Chinese company is an antiquated relic that needs to be retired. There is no such thing, in my view, as a private Chinese company. It's either already working for the Chinese Communist Party or is one phone call away from doing so. So, a lot of Americans are looking at this, bringing their Western paradigms. Americans need to understand the situation we're confronting. These legislative efforts we are seeing are part of a dynamic in which Americans are belatedly waking up.

We've seen one of the largest transfers of intellectual property in human history. We've had American officials testify to that fact. And predators prefer slumbering prey. And when the prey starts to wake up and defend itself, the predator gets upset. That makes it more difficult for them to implement this military civil fusion policy where they're vacuuming up technology wherever they can to create these national champion companies and make the People's Liberation Army more capable.

So, we're seeing accusations of isolationism and xenophobia, which is very cynical. These are mischaracterizations, of course, but they're highly predictable as we've seen this before, because the Chinese Communist Party would prefer that we continue to slumber so they can continue to spy on us more effectively and vacuum up technology.

And one last comment, just pointing you all to the 2024 worldwide threat assessment. This is a quote from them. "In 2023, a key PRC state-owned enterprise signaled its intention to channel at least \$13.7 billion into emerging industries such as AI, advanced semiconductors, biotechnology, and new materials."

That's straight out of the worldwide threat assessment. So, when you have that much money in play and you have something that's so fundamental to what the CCP is trying to do between now and 2049, big surprise that we're seeing such pushback, and they're using our own open democratic system to try to defeat something that is so important to the CCP and its grand strategy. Thanks.

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DOUGHERTY: Thank you, Brad. Thank you, Elaine. Thank you, Mark. Thank you, Craig. An outstanding conversation here as you paint quite a picture as we enter China week in the house. It is now time to open the conversation up to your questions. Just a reminder that you can use the chat feature, or you can also raise your hand, and we will unmute you to ask your question. I will get the question started. In the meantime, I'll start it with Craig, but, of course, open it up to the entire team here. How will Beijing respond to this week?

SINGLETON: Thanks, Joe. I think Beijing probably views these votes as just another indication that US policymakers are aligning bipartisan forces to curb China's global ambitions, particularly in technology, trade, and security. The focus on limiting Chinese access to US technologies and supply chains, will be seen as a direct attempt to contain China. Given the tone of recent Chinese official statements, Beijing may also interpret this legislative push as an escalation of US efforts to "decouple" from China. And I think that could feed into China's narrative that the US is pursuing containment policies rather than a healthy competition, potentially further straining ties.

Domestically, Chinese media is likely to frame these China Week efforts as an unjustified attack on what Beijing perceives as China's legitimate economic and technological ambitions. Beijing will probably seek to portray these moves as attempts to stifle China's so-called rightful place in global leadership, and that will, I think, potentially appeal to nationalist sentiment in China.

We could also see Beijing respond with countermeasures of its own, perhaps more stringent regulatory actions against US companies operating in China, or further tightening its control over critical supply chains or even accelerating its efforts to develop homegrown alternatives to US technology. And last, I would say Beijing is probably thinking about how to use this legislative push as an opportunity to test the limits of U.S. resolve by amplifying retaliatory measures or further leveraging diplomatic and economic relationships with other global actors or powers, including US allies, to perhaps soften the impact of these potential US restrictions.

DOUGHERTY: Anybody like to add to that?

DEZENSKI: Sure. I'll jump in on this one. Thanks, Joe. I think there's the real likelihood that these kinds of legislative efforts will ultimately push Beijing to think through how they can exploit the existing loopholes and opportunities more quickly. That's what I'd be thinking about if I saw this sort of legislative agenda coming forward, which, of course, is a continuation of a huge focus on China in particular. And one area that I'd be thinking about if I were sitting in Beijing is, what can I do to integrate into North American supply chains more quickly and efficiently? And here is where we really need to pay attention what's happening in Mexico, for example. This is a question around EV supply chains in particular, one that we've looked at through our research. There are huge vulnerabilities in the Mexican domestic market, both in terms of Chinese imports, but also Chinese companies that are looking to root their operations, including in batteries, in Mexico, with the idea that that's North American content that can then enter into the US market in some form.

So, there are many aspects to these challenges, particularly around critical supply chains that have a North American dimension, and we really need to be mindful of those vulnerabilities as well. That's something that, I think, we'll probably see more focus on in terms of congressional action, but I think these are immediate challenges for us as well.

DOUGHERTY: Thank you, Elaine. Thank you, Craig. We do have some questions that have come in. We will start with Eliot of The Wire China. Eliot, over to you.

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ELIOT CHEN: Hi. Good morning, all. Thank you very much for setting up this call. It's been really informative. My question is for Mark. With regards to the comments that you were saying earlier about the rules committee blocking some of these bills from entering the NDAA, I was wondering if you could expand a little bit on what was the justification that the rules committee gave for not including some of these national security bills as part of the NDAA this year? And if I may, a second question for anyone in the group, Speaker Johnson indicated earlier this year... that de minimis was another priority that they wanted to address this year, but it doesn't appear that we're seeing that this week. Just in general, what's going on with that and is that going to come up late in that session? Thank you.

MONTGOMERY: All right, I'll do number one then I'll pass it to Craig for the second part. So what I was saying earlier is that the Rules Committee isn't required to explain themselves to us, but from the best we can see, there's been an active effort, an aggressive effort, to not have legislation either through the mark or through amendments that is not a majority or plurality Department of Defense. Now, look, there's exceptions to that that are made for committee chairman on a handful of issues and things like that, but the vast majority, things that impact national security like the military mobility issues I mentioned, would normally have had no trouble getting into the National Defense Authorization Act in the past, and there's been an active move to keep things whose primary committee of jurisdiction is not the Armed Services Committee, or the Intel Committee when they have an Intel Authorization Act attached to the NDAA, to not have those types of legislation in the NDAA.

And you can certainly see the product of the 2024 NDAA and what is the current version of the House 2025 NDAA are significantly less expansive than the, say '22, '23, '21, '20 kind of National Defense Authorization Acts. And in the past, on a bipartisan basis, leadership allowed a much wider latitude of provisions into bills, and I think this is an intentional effort. I think it's one of the reasons, if you remember during the McCarthy leadership election, there was maneuvering by some conservatives to gain control of the Rules Committee, and it was for exactly this sort of purpose. They really want things to be done in normal order, by traditional bill clearance markup and voting. The problem, of course, is there's not near enough floor time to do that, which is why the NDAA became a catch-all over time. Craig, if you want to talk about de minimis and probably outbound investment as well.

SINGLETON: Sure. No, great question. Great to connect, Eliot. In a world where voters see China as a top adversary, maintaining a strong stance on China is quickly becoming the most bipartisan move in DC. But again, all politics is local and the de minimis exclusion is an example of that. Removing some of those de minimis rules could potentially increase prices on some Chinese goods, particularly those sold on sites like Temu or Shein. And I suspect because of those potential increases in consumer prices right before an election, Members are perhaps thinking twice about whether that's something that they would want to be confronted with on the campaign trail or perhaps whether such moves could provide fodder for their political opponents before the election. That said, I suspect we will see movement on de minimis in the lame duck once the election has been decided.

DOUGHERTY: Thanks, Craig. Thanks, Mark.

DEZENSKI: Joe, I can-

DOUGHERTY: Yes, please do. Elaine.

DEZENSKI: Sorry, I just wanted to jump in on de minimis. Yeah, this is, I think, a huge issue and where we have a gaping security loophole, particularly as it relates to fentanyl shipments. And this is an area where we don't see anything specific right now in terms of China Week legislation, but I could envision that this topic could come up before the end of the year and fentanyl may be the way to get a de minimis provision moving in some legislation.

DOUGHERTY: Thanks, Elaine. Phelim, Politico, over to you.



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PHELIM KINE: Hi. Good morning, Joe. Good morning, everyone. Can you hear me?

BOWMAN: Yes.

PHELIM KINE: Hi. Thanks so much for doing this. Quick follow up on Eliot's question. There's been expressions of disappointment on the Democratic side about how the Speaker's office has handled the preparation and execution of China Week in terms of bipartisan bills that have been worked on for quite a while being excluded from China Week, de minimis not being part of the mix outbound investment, not being part of the mix. I guess my wide question to the panel is what's missing from this current China Week lineup that we know and see already and what are the implications of those omissions? Thank you.

SINGLETON: Happy to jump on and then defer to others. You're right, Phelim. There is some brute force here and the Speaker's office is, I suspect, evaluating the political context to these votes, which are occurring in a highly contested political environment. That said, most of the bills that are being discussed here enjoy broad bipartisan support, worked their way through committee and have D and R cosponsors or at least bipartisan support behind them. I think there were a few like de minimis and outbound that ultimately the Speaker's office just decided were too controversial or perhaps could be seen as overly regulatory.

Now, just because they're not included in China Week doesn't mean that they're not going to get their fair shake during this Congress. I think that there are some pretty serious indications that outbound, which already enjoys broad support, I think it was a 90 to 10 vote in the Senate in favor of some initial outbound investment screening and de minimis and a few of these other bills are going to see after the election and we'll have to wait and see what kind of a lame duck we have.

Obviously, the results of the presidential election will determine the context for the lame duck, whether the former president is successful and perhaps Republicans decide they want to overplay their hand and hold back on some of these bills and then vote for stronger versions of them during the next Congress, or whether there's a broad sense that they should drive forward and claim these wins during the lame duck before facing a Harris administration. I think some of those political dynamics will be based on how the presidential election is decided and what the fallout is from that.

BOWMAN: I'm eager to hear from Mark on anything he thinks might be missing. As someone who worked in the US Senate for almost nine years, I would just make a general comment that I hope is useful and that is the following: Floor time, whether it be in the House or the Senate, is the most precious commodity on Capitol Hill. It is always precious and in the months before a presidential election, where you have a longer than normal recess so people can get back to their districts and campaign, floor time becomes even more of a rare commodity. And so, when you have constraints on floor time, that affects legislative strategies and processes to get things done and what you do and what you don't do and how ambitious it is and so forth. So that's definitely the dynamic that we see playing out.

Often, almost always, there are legitimate complaints regarding the process that is followed by the majority party in either chamber. Often, those criticisms are legitimate, but what you also see is sometimes when someone has a policy objection that they're not really eager to show in the light of day, they resort to process complaints. So, whenever you see a member complaining about process, there's probably a kernel of truth to it. There's probably a fair criticism there and sometimes, not always, it is a policy objection masquerading as a process objection. Thanks.

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MONTGOMERY: Yes, thanks. One thing I'd add is look, I didn't think outbound was going to be there because I think you really don't have the chairman of the Jurisdictional Committee of financial services fully on board, so we'll have to see. I don't think things get any easier in lame duck, both in terms of what Brad mentioned of floor time because I assume there's going to be a massive amount of appropriations that may or may not get handled depending on how the November election goes, but certainly, there'll be the NDAA in there and there'll be a lot of other retiring members using their final grasp on relationships to try to get things done. So that's going to be tough. Things that don't get handled here and are thought to be handled in lame duck, I think that the lame duck menu is going to be much bigger than what the lame duck stomach can digest.

DOUGHERTY: Thank you all. We have a few more questions still in the queue. Up next we're going to go with Chris Buckley of the New York Times and we're going to go to Michael at Reuters and then Bochen over at the South China Morning Post. Christopher let's start with you.

CHRIS BUCKLEY: Thanks very much for doing this, it's very useful. I'll confine myself to one question. I guess it's mostly for Craig who is discussing drones in this legislation. I'm interested in the broader question about... It sounds like you see this legislation as part of a broader effort to roll back the ubiquity of Chinese-made drones and drone technology in the United States. I'm just wondering how you see that playing out. Is that an initiative that enjoys broad bipartisan support and how does it unfold?

I ask that in particular because here in Taiwan as well, DJI drones are everywhere, and I think one of the problems that faces Taiwan's drone makers is establishing the scale and the skills to begin making innovation in the military sector is much harder when they really can't get a foothold in the civilian sector. So, any thoughts on that from Craig or anybody would be useful. Thank you.

SINGLETON: Yeah, no, sure, Chris. Look, DJI drones, I think it's best to think about them as Huawei with wings. This is one of those examples where through brute force economics, Beijing has fostered a Chinese champion that controls the current consumer market. It's undeniable. About 80% of consumer drones are produced by DJI, just as we saw similar correlations with Huawei technology throughout our telecommunications infrastructure and allied telecommunications structure. And policymakers recognize they waited far too long to address the Huawei threat, and then when they did with 'rip and replace' policies, they quickly recognized that it was tremendously expensive to do so.

Recognizing China's outsized market share, the goal appears to be to wage a war of attrition on DJI drones – not to ban them outright per se like TikTok, but to slowly make it increasingly difficult for them to operate in the United States. Doing so also provided U.S. drone companies with an opportunity to scale up, to secure contracts, and to bring costs down, such that over time China's drone dominance decreases and America's drone market share increases.

MONTGOMERY: I'll pick up on that and say this is not about anytime in the next five to 10 years, DJI is probably going to be the drone of choice for my teenage son to go spy on the next-door neighbor, right? Probably DJI because of the cost differential is going to have that business. But as Craig said there, it's first we got them out of DOD, then we got to get them out of the federal government, and that's slowly happening. Then we have to get DJI drones out of law enforcement and emergency responders and state and local government, and that may require some incentivization from the federal government over time, I think, to help that happen in the more underserved communities.

And then I think the final step for this kind of tranche is to get them out of our critical infrastructures. As Craig said, when I was the US Pacific Command J3, if I'd gone to bed at night my dream would be when I woke up that I'd have had a US drone company map Chinese infrastructure and pass it to my targeteers, I'd have been pretty happy.

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Right? And that doesn't happen for the United States in any way, shape or form in China, but it is happening in the United States. Absolutely, the potential to map our electrical power grids, to map our telecommunications networks, to map our rail networks, all these things to a much more refined degree than, say, overhead imagery could provide. That is really important. And I think there is just too much communication between these drones for legitimate maintenance, or logistic purposes or maybe not legitimate maintenance and logistic purposes with Chinese networks.

And we know the Chinese intelligence collection rules and the national laws that have been passed requiring companies to cooperate with the intelligence services. I just think it's too much risk across those systems. Over time, as US companies get that government market, they will have rebalanced from the inequitable playing field that existed five and 10 years ago, biasing towards DJI and other Chinese firms, and create a commercial market where the US could compete or not compete for the personal drone market.

DOUGHERTY: Thank you, Mark. Thank you, Craig. We will now go to Michael at Reuters. Over to you, Michael.

MICHAEL MARTINA: Hi there. Thanks for this briefing again. Appreciate you guys doing this. It's another useful briefing, so appreciate that. But hopefully my question is not redundant, but I think one of the challenges, at least for me as I watch the votes in the House this week, is how serious this China Week actually is. There has been some criticism that I've seen at least that it's more of a messaging exercise. I wonder how fair you think that is, that this is more of a messaging exercise. Mark already mentioned the snafu with the NDAA.

So, I'd be interested in your thoughts on that. How do we assess where the Senate is on these? And ultimately, what I'm getting at is what is the prospect that some of these measures are going to be law by the end of this Congress? Thanks.

MONTGOMERY: Hey, I'll jump on this first. First, I would say that if you'd interviewed me two weeks before the TikTok legislation became law, you'd have been asking how much of this is a public narrative, and I'd hopefully kept my mouth shut. And the truth is that became law. So, I don't want to underplay any of these eventually becoming law and having an effect. Now, none of them, I think will have the effect of the TikTok divestiture legislation, which Craig and I and a lot of other people worked on, but I believe that these do have impact. Now, look, when there's loopholes, as Elaine said, when there's loopholes in them, they have less impact. But I think over time, some of these... I mean simple ones like Craig and I both mentioned, 554, the Taiwan Conflict Deterrence Act. It seems like a small thing, but I got to tell you, when you name names, when you create lists that say, "Look, we're going to hold you accountable if China does this, and you're going to lose this access and your family's going to lose this access," you can have a deterrent effect. I do think some of these are real.

Now the issue becomes, is there a path to Senate versions and Senate reconciliation? Yes, I think there is. I think the Senate will shadow much of this just like they did with TikTok. And then you'll build a reconcilable bill that you can bring the two together and get the president's sign off. Look how much of it will be done before the election? Probably very little to none. How much it will be done after election because it matches with something the Senate passed in their version of the NDAA or one of their amendments to the NDAA, which I know they haven't passed, but will be used for administrative purposes? Or how much of it will be matched up with an actual piece of legislation passing?

Look, it'll certainly won't be the 16 or 18 bills that you kind of see floated around right now. It'll be a much smaller number, but to some degree, this is a lot more legislation than I would've expected unless you turn back time and have more in the NDAA. Hopefully that wasn't too long an answer.

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BOWMAN: I would just quickly add, in addition to Mark's great comments is that many of these problems were years or decades in the making and we're not going to solve them unfortunately in one year. And so, I suspect a lot of the sponsors and co-sponsors are viewing this both out of realism and necessity as an iterative process or a process that will unfold over many years. Back when I was working in the Senate, you would want to do X, but you realize you couldn't get all of X done in the first year. So, you make a good start and then you plan on building on it in future years. And the more finite the floor time, the more truncated the timeline, often the less ambitious you have to be.

The Senate Majority Leader will have disproportionate power in what comes to the Senate floor. The majority leader will look at how the votes go in the House. How successful are the votes, and what is the partisan breakdown of the votes? And then the majority leader will look at his own political and parochial interests. He'll check with his caucus, he'll check with the administration, and then he'll make decisions about how to allocate his finite floor time. And again, you have this pre-election, post-election dynamic as well that will be in the mix.

DEZENSKI: If I could jump in on this question about signaling as well. I actually think that this is really important right now. From my perspective, it's less about the comprehensive nature of these bills because mostly they're not. They're increased reporting requirements or looking at specific procurement activities, but the broader message to the marketplace is one that really matters right now. Why? Because these types of legislative activities, they signal to the marketplace, to investors, to those who are thinking about investment in China and elsewhere, that the government is acknowledging certain kinds of risks, and that then needs to be conveyed into the process by which companies make decisions about where they're going and where they put their investment.

So, this is actually critical, and this is where I see the primary benefit of this approach with these bills. It is kind of a piecemeal group of legislative initiatives. I think we touched on that in terms of these being areas where there's bipartisan support, where there's an opportunity for a quick hit, and that matters, of course. We're seeing a confluence of that along with this broader objective, which is signal to the markets that there is a new level of risk that needs to be incorporated into decisions that the private sector makes about where it invests.

BOWMAN: Hey, Joe, 30 seconds if I may.

In addition to signaling to companies, as Elaine so rightly highlights, and frankly signaling to Beijing, there's also signaling to allies and partners. Because these problems are so much bigger than just the United States. They are affecting our democratic partners. I'm thinking of Japan and South Korea and Australia and many others. And so, they're dealing with many of these same challenges.

And any effective solution will require the United States to cooperate and have a common unified strategy as much as possible with our democratic allies and partners. And so, what happens on Capitol Hill this week and in subsequent weeks will be watched by our allies and partners as well. And hopefully they will say, "Oh yeah, we need to be doing some of those things too, because an effective solution will require us to work closely with Seoul and Tokyo and others."

DOUGHERTY: Didi, we will be getting to you just a moment. I'm going to ask Bochen's question from SCMP. "Craig, you said that the house majority is deliberately sidestepping some of the more regulatory heavy bills, suggesting that the ones on the schedule are low-hanging fruit for the House. Looking ahead to the Senate and Biden, do you or any of the panelists see any that will face significant hurdles?"

SINGLETON: Yeah, I'm not sure I would call them low-hanging fruit. I mean, these are pretty serious bills, and they do enjoy broad bipartisan support. I'm not sure that makes them low hanging. Look, I think, and my colleagues have hinted at this, for some of these bills, there isn't one defined path forward for them to become law. There are actually many avenues ahead here. Being tough on China isn't just a headline, right? It's becoming a hallmark of smart politics in Congress.

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And so, while some of these measures, like the Biosecure Act, which passed overwhelmingly in the Senate, and if it passes this week, I suspect that's one of those bills that you could see attached to the NDAA and signed into law. The same goes for the Countering CCP Drones Act, which was included in the House passed NDAA. And if there's a big overwhelming bipartisan vote just like there was with a TikTok bill, again, I think you can see these things become riders onto the NDAA. Others, as we've mentioned here won't, but the signaling is important. And I think to Elaine's point, it really does create market risk.

And I do think that already, market moves, absent of things like mandatory outbound investment screening and bans have already resulted in massive capital outflows from China. And we've already seen a tremendous drop in foreign direct investment in the Chinese market. And so private sector stakeholders already see the writing on the wall. They already see the trajectory of where Congress is moving vis-à-vis China, and they already see that there's broad bipartisan consensus. And so what that means is that whether some of these bills may get through and are signed into law in this Congress or not, is frankly not as important as the fact that they're being introduced and will continue to be reintroduced because there is absolutely no political cost to being tough on China.

BOWMAN: Hey, Joe, 30 seconds. Craig's talking about the bipartisan support for these policies. I completely agree with him on that. If you look at polling, Republicans and Democrats can't agree that the sky is blue, but there's a tremendous amount of consensus regarding the threat from the People's Republic of China if you look at poll after poll, because Americans are waking up and they're seeing some of the stakes we talked about. And there's also bipartisan consensus on this because people who feel strongly about defeating Putin's aggression Ukraine are aware of what the Washington Declaration said during the NATO Summit this summer: "The PRC has become a decisive enabler of Russia's war against Ukraine..."

And those who feel strongly about Iran understand the growing relationship between China and Iran. So, we're seeing this axis of aggressors develop. And so, people understand the threat for the PRC itself. They also understand how the PRC is working with Putin and also working with Khamenei in Iran, and that makes Americans even more concerned about China and more motivated to do more.

DOUGHERTY: Didi, over to you, please. Thank you.

DIDI TANG: Thank you so much for doing this. And I think Brad, you just now, you spoke very eloquently regarding those legislation versus the market share. One question I have is about the need for local jobs and employment. And one thing that came out of this weekend is Representative Congressman McGovern has come out to oppose a Biosecure bill, and probably by coincidence, he is in a district where we see biologics has this, a massive kind of a plan that has been halted over the biosecure, so he has come out to speak against it.

So, I sort of want to get your feel on how likely some of those bills could have that pushback because of the need, the local jobs, economic development, those needs. So, the case is the Biosecure, and then we see biologics in, I think that's just outside Boston. And the second question is about China initiative. I mean, that's a very controversial one, and I'm a little bit kind surprised that... I mean, I haven't checked the latest one, but last week it's on the schedule. So, what's behind this China initiative for this to be so controversial and for it to come back this week in the House? Thank you.

SINGLETON: I think I'm happy to chime in at the start and then sort of refer to colleagues too. I think what we're seeing is a clear example of weaponized interdependence at play, right? Where China's framework emphasizes weaponizing economic and technological interdependence for geopolitical leverage. And it's a strategy that seeks to directly threaten US technology giants and industries. And this is a clear example where I think the risks of dependency on Chinese components and companies are no longer seen as theoretical.

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And so, in the case of Wuxi and BGI Tech and others, there's ample evidence that they're tied to the Chinese Communist Party and China's military, in particular. But it's not unsurprising that members of Congress, particularly in an election year, would be thinking about the impact on their districts and what the local politics angle to some of these bills is. Ultimately though, whereas in the past, industrial policy was something of a four-letter word in Washington, that's no longer the case.

And so I think what we can expect to see in the coming years is a greater focus from policymakers on how to ensure that the people and Americans working in these industries, but particularly those may be working for Chinese companies, are given opportunities to transition to perhaps US companies that are capable of filling some of these looming market voids.

DOUGHERTY: Would anybody else like to weigh in on that as we're about to wrap up the call? If not, I will ask each of our experts here to leave us with one key thought before we depart. But before we do that, first of all, thank you to everyone who participated in today's call. A reminder that if you'd like to arrange a one-on-one conversation with one of our experts, please do so. Reach out to us at the email, press@fdd.org and we will help arrange that conversation, whether it's today or anytime this week during China Week.

Special thank you to Ellie Bufkin for her terrific work behind the scenes. Craig, over to you to get us started with just a key thought that you want to leave us with, then we'll go to Elaine and Mark and wrap up with Brad.

SINGLETON: I would just say Xi Jinping has put his chips on technology, but by highlighting his top priorities, he's given us the blueprint to block his winning hand.

DEZENSKI: Thanks, Joe. I would emphasize that we've got a huge job ahead of us in terms of building supply chain resilience, and economic resilience in general. And as important as it is to diagnose the problem, I think a lot of that's been done, and now we really need to get to work on a much deeper public-private collaboration and an investment strategy to start removing some of these supply chain vulnerabilities. Thanks.

MONTGOMERY: I look forward to a return to the old normal order, which is where we handle national security inside the National Defense Authorization Act. Today's way of doing things is inherently not agile. Legislation is already a slow way to solve a problem. It only gets slower when you tie it up in ad hoc House and Senate passed bills that infrequently get done. One chamber does it one does it one cycle, the other does it the next Congress, and you eventually have to bring them together. We should use the National Defense Authorization Act to promote our national security and protect our national security, and that gets done through the old way of doing business.

BOWMAN: I would just say that I think the challenges confronting Americans and our democratic allies and partners are huge and daunting, but I am cautiously optimistic that as we wake up to the nature, scope, and severity of what the Chinese Communist Party is doing, that the bipartisan consensus that we've been discussing will only grow, these efforts will gain momentum. And once Americans are awake, we tend to do pretty well. We're slow to wake up, but we're awake now, we're moving out, and I wouldn't want to bet against the United States in this moment. Thanks.

DOUGHERTY: Craig, Elaine, Mark, Brad, thank you very much. Again, thank each of you for participating in today's call, and this does conclude today's call.

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