



DEPARTMENT OF THE TREASURY
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**“COUNTERING CHINA: ADVANCING U.S. NATIONAL SECURITY, ECONOMIC
SECURITY, AND FOREIGN POLICY”**

**HEARING BEFORE:
THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

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WRITTEN TESTIMONY

Chairman Brown, Ranking Member Scott, and Distinguished Members of the Committee:

Thank you for the opportunity to testify today on “Countering China: Advancing U.S. National Security, Economic Security, and Foreign Policy.” I also want to thank the Committee for its work on addressing our relationship with the People’s Republic of China (PRC). Your partnership is critical to clearly convey to the leaders of the PRC that the United States speaks with one voice in advocating for our national interests and protecting our national security.

The United States and the PRC are the two largest economies in the world. For decades, the PRC’s economy grew as it implemented market reforms and opened itself up to the global economy. And despite the current tension in our relationship, cooperation between our two countries is absolutely critical in addressing important global challenges like the climate and managing international debt distress. As Secretary Yellen has recently noted, the United States does not seek conflict, but rather a constructive and fair economic relationship with China, one where we can work together, when possible, for the benefit of our countries and the world.

That is why we seek expanded engagement with the PRC to work through the difficult issues that we face. While no two countries’ interests will ever perfectly align, responsible nations must ensure that those differences do not threaten each other’s safety and security.

Our economic approach to China is guided by three objectives: securing the national security interests of the United States and our allies and partners and promoting respect for human rights; seeking an economic relationship with China that fosters growth and innovation in both countries through healthy competition; and cooperating on the urgent global challenges of our day.

As a steward of the U.S. economic and financial system, the Department of the Treasury plays a vital role in protecting U.S. national security. For most of the post-9/11 era, Treasury’s targeted national security work involved cutting terrorists and WMD proliferators off from the U.S. and international financial system. But now, in addition to addressing these threats, Treasury plays a key role in conducting broader economic statecraft to advance a host of our national interests.

As I have responsibility for coordinating Treasury policies to address, expose, and target national security threats, I will address security challenges related to the PRC, and the tools at Treasury’s disposal to address them.

Security Challenges Related to the PRC

As an overarching principle, we deploy economic tools in line with the principles that Secretary Yellen has laid out: narrowly scoped and targeted to clear objectives; easily understood and enforceable, and readily adaptable when circumstances change; and whenever possible, coordinated with our allies and partners.

The first of our national security concerns related to the PRC is its challenge to global norms—norms that have maintained peace and had a part in enabling the PRC’s economic growth.

Just recently at the G7 Hiroshima Summit, leaders discussed economic coercion. As the G7 leaders recognized, economic coercion “not only undermines the functioning of and trust in the multilateral trading system, but also infringes upon the international order centered on respect for sovereignty and the rule of law, and ultimately undermines global security and stability.” Specifically, we have seen instances when the PRC has not only targeted U.S. persons, but also those located in our allies and partners like Australia, Canada, South Korea, the Philippines, and Lithuania. Another way we have observed China exploit economic vulnerabilities and dependencies is through enabling corruption. Take, for example, Wan Kuok Koi, a PRC national and former member of the Communist Party of China’s Chinese People’s Political Consultative Conference. Wan, also known as Broken Tooth, and his organization, the World Hongmen History and Culture Association, were designated by Treasury in December 2020 for corrupt practices, specifically the use of economic and business influence to co-opt elite figures in Malaysia and Cambodia. It should come as no surprise to Beijing that the economic, finance, and trade teams among the G7 are actively thinking through ways to build resiliency and support one another as well as other nations.

We also see efforts by PRC-related actors to conduct economic espionage against sensitive sectors of the economy. A recent example is the 2022 criminal prosecution by the Department of Justice and sentencing of Yanjun Xu, a PRC intelligence officer ultimately convicted of attempting to steal technology and proprietary information from aerospace companies based in the United States and abroad. This opacity in the PRC military-industrial complex and its military-civil fusion strategy is a national security concern of the United States and one of the reasons why many PRC aerospace companies are currently subject to economic restrictions, including from the U.S. Treasury.

We are also concerned about PRC-based transnational crime, including professional money laundering, cyber-criminal networks, and drug trafficking. Last year, Treasury submitted to Congress our assessment on money laundering threats emanating from the PRC, which highlighted many of these criminal activities. We continue to pay close attention to this type of criminal activity, and on April 23, Treasury identified and sanctioned Wuhan Shuokang Biological Technology Company and its leadership for the sale of fentanyl precursor chemicals. This action complemented indictments from the Department of Justice last month that connected these PRC companies to drug cartels in Mexico. These actions not only are against the letter of U.S. law and contrary to our national security interests—they also have had a devastating effect on our communities.

Nor can we overlook PRC’s human rights abuses. Treasury has acted to promote accountability for the ongoing abuses in Xinjiang, Tibet, and Hong Kong. In addition, we have acted to promote accountability for PRC-based entities connected to serious human rights abuses, such as the Treasury designations of Dalian Ocean Fishing, Pingtan Marine Enterprise, and their affiliates. Over the years, vessels affiliated with Pingtan violated multiple countries’ laws across the Pacific Ocean, including in Ecuador and Indonesia. Dalian Ocean withheld food and pay from their crew, refusing to let some of them disembark for over a year. On one vessel where crew were abused, five crewmembers died.

Another growing concern we have is the PRC's role in geopolitical conflict around the world. While the PRC seemed initially apprehensive about its economic relationship with Russia after Russia's full-scale invasion of Ukraine, we have seen bilateral China-Russia trade tick up, including certain transactions that the United States has now identified as circumventing U.S. sanctions and export control laws. Take King-Pai Technology Hong Kong, for example. This PRC-based supplier, now subject to blocking sanctions as well as export restrictions on the Commerce Department's Entity List, supplied the Russian military-industrial complex with components used in cruise missile guidance systems. Another example is designated PRC-based firm Spacety (Changsha Tianyi Space Science and Technology Research Institute Co. LTD), which sold radar satellite imagery that enabled the transnational criminal organization Wagner Group to enhance its combat operations in Ukraine on behalf of Russia. In coordination with our interagency partners, we will continue to expose and disrupt PRC entities that provide support for the Russian war effort.

The PRC has also been troublingly consistent in its support for North Korea, which allows Pyongyang to conduct numerous weapons tests contrary to international law. In the meantime, North Korea has relentlessly worked to maintain and improve its weapons systems, including an ICBM capable of striking the continental United States, and multiple missiles it has flown over inhabited Japanese territory. These increasing capabilities, combined with the hostile rhetoric coming from North Korea, are direct threats to the national security of the United States and its partners and require a U.S. response; and we believe the PRC can and should play a more constructive role in stabilizing the region.

Finally, we are closely watching the PRC's own rapid militarization of international spaces. This militarization takes many forms. Earlier this year in the South China Sea, for example, the PRC Coast Guard directed a military-grade laser at Philippine Coast Guard personnel and just last month, the PRC Coast Guard also aggressively maneuvered near Philippine patrol boat lawfully operating within the Philippines' Exclusive Economic Zone (EEZ), nearly causing a collision. As Department of Defense officials at multiple levels have attested, the PRC has also increased activity along its border with India, and routinely engages in risky operational behavior in international airspace over the East and South China Seas. Each time the PRC conducts risky military activities, there is a chance for a mistake or miscalculation, which again goes directly against our national security interests in preserving freedoms of navigation and overflight and keeping our allies and partners secure. This is why the People's Liberation Army is already subject to many financial and economic restrictions—we do not want funds and goods to go to the PLA to enable this type of destabilizing behavior.

Treasury's National Security Tools

I want to turn now to our tools at Treasury, and how we deploy them in service of our national security concerns.

First, Treasury publicly exposes threatening activity. This can, for example, take the form of targeted financial sanctions, when we designate individuals and entities undermining U.S. national security. By publicly outing these individuals and entities through a designation,

financial institutions and other organizations are able to build a fuller picture of the illicit activity and take action to distance themselves from the threats.

The second way we act to protect U.S. national security interests is through targeted disruption and interdiction efforts. Treasury regularly engages the private sector directly, providing information to help financial institutions, money service businesses, and other actors in the economic and finance space to identify and disrupt violations of our sanctions laws and regulations. Treasury also engages partners and allies who share similar concerns and are willing to take joint actions and enforcement.

A third way we protect our national security interest is by raising international financial standards and building partner consensus. Leadership in the Financial Action Task Force, the international standard-setting body for anti-money laundering and countering the financing of terrorism, is a major way we accomplish this. For example, my team helps lead the international virtual assets contact group, working to define the rules of the road for international financial systems in regulation of digital assets and countering their use in money laundering. By leveraging this international forum and building consensus around model laws and best practices, we increase the costs for actors to reject these norms.

To conclude, the United States can effectively manage our relationship with China by clearly conveying our interests and intentions, and by talking to each other about real examples, as I have done today. Indeed, the health of the global economy rests on how we, both the United States and the People's Republic of China, can manage our relationship and address pressing shared challenges. And while it is my job to address our national security interests through financial measures, I share Secretary Yellen's view: the world is big enough for the both of us. Our path is not preordained nor are we destined for open conflict, so long as we both choose to communicate clearly and act responsibly.