Testimony of
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"Import Controls: Tools to Counter the CCP's Industrial Policy and Supply Chain Threats"

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Good morning, Chairman Moolenaar, Ranking Member Khanna, and distinguished Members of the Committee. Thank you for inviting me to participate in today's hearing. My name is Oren Cass. I am the chief economist at American Compass, where I was lead author of our white paper titled *A Hard Break from China: Protecting the American Market from Subversion by the CCP*.[1]

My primary message to the Committee is this: The Chinese Communist Party (CCP) distorts the markets for strategic goods as part of a deliberate strategy to secure leadership in affected industries, weaken the capabilities of other nations, and create dependencies that give it leverage. Excluding those non-market goods from the United States is a vital form of protectionism—not protection of particular domestic companies, but protection of American capitalism.

For policymakers, the dichotomy is straightforward: free trade or free markets, pick one.

The United States should use the entire suite of industrial policy tools to combat the CCP's predatory practices. These include investments and subsidies to boost domestic capacity, tariffs to encourage consumption of domestic- over foreign-produced goods, and outright limitations and prohibitions on importation of strategic goods.

I. The CCP Strategy

The PRC has adopted an explicit economic agenda of government subsidies, market access restrictions, and intellectual property theft intended to establish technological superiority and secure control of key supply chains. It complements this approach by suppressing worker power and consumer demand, generating an enormous trade surplus with the United States that has hollowed out American productive capacity and led to the transfer of trillions of dollars in assets.

In principle, traditional trade in manufactured goods could be the least concerning element of the U.S.-China economic relationship: America puts things on boats, China puts things on boats, the boats pass each other somewhere in the Pacific and get unloaded on the far side. But that form of trade, described by classical economists like Adam Smith and David Ricardo, bears little

[1] Available at https://americancompass.org/a-hard-break-from-china/.

relationship to the imbalanced and distorted exchanges occurring between the two nations today. In 2024, the United States imported $440 billion in goods from China while exporting only $143 billion in return.[2] For the most part, the PRC refuses to open the Chinese market to American exports and instead trades its own exports for American assets. This not only compounds the problems of investment and control, but also hollows out American industry, as production for the American market moves offshore but no commensurate foreign demand emerges for what America might produce.

Nor is this hollowing out merely random, or concentrated in areas where China has a genuine "comparative advantage." The CCP has pursued an explicit industrial strategy to capture critical supply chains and leadership in the most promising industries. As Ambassador Robert Lighthizer noted in his testimony before this Committee, "The Chinese economic system is designed to exploit foreign commerce to advance China's geopolitical power."[3]

The CCP does not even bother to disguise the strategy. Its "Made in China 2025" (MIC25) plan, launched in 2015, described the goal of becoming the global leader in innovation and manufacturing by 2049, the PRC's centennial.[4] As the *New York Times* reported, the plan "would provide large, low-interest loans from state-owned investment funds and development banks; assistance in buying foreign competitors; and extensive research subsidies."[5] Germany's Mercator Institute warned that "Chinese high-tech investments need to be interpreted as building blocks of an overarching political program. … In the long run, China wants to obtain control over the most profitable segments of the global supply chains and production networks."[6] According to a report issued by Secretary of State Marco Rubio when he served in the Senate, "The Chinese government is doing more than breaking the formal rules of trade: it is seeking, through state policy and the power of its domestic market, to dictate the real terms for how global trade will proceed, and to whose benefit."[7]

MIC25 focused on ten advanced industries, most of which the United States pioneered and historically dominated, including aerospace, robotics, energy and power generation, and

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[2] U.S. Census Bureau, "Trade in Goods with China." Available at https://www.census.gov/foreign-trade/balance/c5700.html.

[3] "Testimony of Robert Lighthizer Before the House Select Committee on Strategic Competition between the United States and the Chinese Communist Party," May 17, 2023. Available at https://www.americafirstpolicy.com/issues/testimony-of-robert-lighthizer-before-the-house-select-committee-on-strategic-competition-between-the-united-states-and-the-chinese-communist-party.

[4] See, e.g., "'Made in China 2025' Industrial Policies: Issues for Congress," Congressional Research Service, Mar. 10, 2023. Available at https://sgp.fas.org/crs/row/IF10964.pdf.

[5] Keith Bradsher and Paul Mozur, "China's Plan to Build Its Own High-Tech Industries Worries Western Businesses," *New York Times*, Mar. 7, 2017. Available at https://www.nytimes.com/2017/03/07/business/china-trade-manufacturing-europe.html.

[6] Jost Wubbeke et al., "Made in China 2025: The making of a high-tech superpower and consequences for industrial countries," Mercator Institute for China Studies, Dec. 2016. Available at https://merics.org/sites/default/files/2020-04/Made%20in%20China%202025.pdf.

[7] Sen. Marco Rubio, "Made in China 2025 and the Future of American Industry," Senate Committee on Small Business and Entrepreneurship, Feb. 13, 2019. Excerpts available at https://www.sbc.senate.gov/public/index.cfm/2019/2/rubio-releases-report-outlining-china-s-plan-for-global-dominance-and-why-america-must-respond.

agricultural machinery. China now controls 70% to upwards of 90% of the global supply of inputs required to make key pharmaceuticals.[8] Its subsidies for solar panels caused prices to plummet by 80% as it flooded global markets with below-cost products that allowed it to build domestic scale while suppressing investment elsewhere.[9] Solar is one of many industries that the PRC supports through the dominant position that it has cultivated in rare earth elements, used in advanced technologies like batteries, avionics, and energy machinery, often with defense applications. The PRC maintains export quotas and levies export taxes, advantaging domestic industry and incentivizing foreign entities to produce in China where inputs are cheaper.

Thus, trade with China presents a three-fold problem:

1. Imbalanced Trade That Mortgages the Future. The PRC suppresses household consumption to increase investment, allowing it to trade cheap goods in exchange for assets. This builds China's manufacturing capacity and expertise, while reducing American capacity and committing the American economy's future produce to China.

2. Loss of Strategic Leadership in Critical Industries. The PRC deploys industrial policy and mercantilism to warp market incentives, drawing American capacity to China in the most critical sectors like aerospace, energy, and health care. To participate there, American firms are forced to transfer technology to local entities through joint ventures.

3. Dependence on an Adversary. Once dominance is established, the PRC uses its position to leverage further market distortions. As more components of supply chains become entrenched in China, moving related production becomes more attractive as well. The COVID-19 pandemic illustrated how supply chain shortages could cripple American industry and endanger American citizens. From washing machines, to clothing, to F-35 fighter jets, American supply chains are disturbingly reliant on China.

To protect America's economic sovereignty and counter CCP subversion, U.S. policymakers must rebalance trade flows, prevent CCP dominance in critical industries, and reinvigorate domestic production. Policy should rely upon the private sector to drive this effort by fostering the conditions for American enterprise to invest and innovate. American firms must develop talent, conduct research, and expand capacity. Federal, state, and local governments must channel private capital toward productive uses.

II. China's Asymmetric Advantage

Proponents of deepening the American economic relationship with China often make the case for a foolish consistency. China built its industrial economy by luring foreign producers to invest there, transferring technology and talent in the process. If we now seek to rebuild the American

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[8] Thomas J. Bollyky et al., "The Pharma Choke Point: How to Reduce U.S. Dependence on Chinese Pharmaceutical and Biotechnology Supply Chains," Council on Foreign Relations, Jun. 2026. Available at https://www.cfr.org/reports/the-pharma-choke-point.

[9] "Department of Commerce Issues Preliminary Determination of Circumvention Inquiries of Solar Cells and Modules Produced in China," Press Release, Dec. 2, 2022. Available at https://www.commerce.gov/news/press-releases/2022/12/department-commerce-issues-preliminary-determination-circumvention.

industrial economy, shouldn't we encourage Chinese firms to invest here?[10] Or conversely, if we are intent on blocking Chinese investment here because it poses strategic dangers for us, shouldn't we be eager to get American investment into China, where it would presumably pose strategic dangers for them?[11] Likewise with export and import controls: If we are so determined to impose export controls because we think selling our technology to China benefits them, shouldn't we enthusiastically welcome China selling its technology to us?

The problem is that the ordinary rules of economics, which we are all accustomed to applying in a capitalist market like America's, do not apply when that kind of market is brought into contact with state-controlled, non-market firms. Americans invest in China and sell to China as private individuals and firms. They use any control that they can exercise, or data and technology that they can access, to advance their private interest—generally, without consideration of their nation's interests. They subject themselves, meanwhile, to the control of an authoritarian government that has shown no compunction manipulating foreign investors and leveraging market access to advance its national interest. Firms have typically been required to enter the country through joint ventures with China-based entities, and transfer technology to them. If an American investor or firm were somehow to establish sufficient control to act contrary to the CCP's interest in China, the CCP could simply expropriate the assets.

Conversely, when Chinese firms invest and build factories in the United States, they do so from a posture opposite that assumed by the American firms that entered China. American firms, with no obligation to their home country beyond the imperative to maximize shareholder value, gladly transferred vital technology in return for market access. Chinese firms enter the United States only with the approval of the CCP and subject to its priorities. They will transfer no technology that the CCP does not want transferred. In both the Chinese and American markets, the China-based firms receive state backing to push American firms out.

Capitalism operates on the assumption that economic actors in a free market pursuing their self-interest—namely, profit—will advance the public interest as well. This holds true only under certain conditions, when socially valuable activities like investment in technology development, capacity expansion, job creation, and productivity enhancement are the best path to profit. On one hand, when everyone plays by the same rules, government constrains unproductive behavior, and a strong social fabric supports workers and their families, the assumption does hold and the market can generate unparalleled prosperity. On the other hand, bring the capitalist market into contact with a state-controlled one, allow foreign policymakers to create conditions in which the most profitable activity is serving the foreign state in word and deed, and too many capitalists will gladly do just that.

Even were China to disarm tomorrow, credibly forswearing any aspirations beyond its borders, its influence as an economic actor would remain deeply corrosive to American liberty and prosperity. Asking American firms and workers to compete with their Chinese counterparts

[10] See, e.g., Brian Deese, "The Case for Letting China In: American Businesses Need More Foreign Capital and Know-How," *Foreign Affairs*, Sep. 10, 2026. Available at https://www.foreignaffairs.com/china/case-letting-china-american-businesses-brian-deese.

[11] See, e.g., Letter from Rep. Patrick McHenry to Secretary of the Treasury Janet Yellen, Sep. 27, 2023. Available at https://downloads.regulations.gov/TREAS-DO-2023-0009-0013/attachment_1.pdf.

grants CCP policymakers the power to shape American capital allocations and labor-market conditions from the far side of the Pacific. The more distortion China introduces on behalf of its producers, the greater the pressure on the U.S. government to respond in kind.

III. The U.S. Response

Conditioned to seek out "market failures" and craft tailored interventions that enhance economic efficiency, American policymakers must shift their mindset to one that prefers the blunt and the bold. The goal is not to make a "Chimerican" market work better; it is to obstruct and discourage operation of such a market altogether, creating instead a *bounded market* that has robust barriers to the intrusion of foreign distortions for the sake of allowing free-market capitalism to flourish within the boundary.[12]

Choosing a free but bounded domestic market over globalization implies neither "central planning" nor a "closed economy." A great benefit of defining clear boundaries for the market and then deferring to private-sector competition therein is that this strategy requires far *less* state intervention than with the enormous demands placed on bureaucracies to make free trade work with countries like China. Competition policy, investment policy, labor policy, and financial regulation, for example, all play roles in creating the conditions in which the invisible hand leads the individual "to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country," as Adam Smith put it.[13] Greater returns must not be available through the pursuit of monopoly rents or financial speculation. Incentives must exist to reward innovation and expansion that generate a high ratio of public to private returns. Workers must possess sufficient power in the labor market to advance their interests. A bounded market lessens the need for government action on these fronts.

The PRC uses a range of trade abuses to distort global markets and establish a dominant position in strategic supply chains, strengthening the Chinese economy while weakening the American one and giving the CCP economic leverage. Trade that occurs under these conditions is neither efficient nor based in comparative advantage. To the contrary, it reflects decisions by the CCP to build advantages in strategic sectors. Such a trading relationship is not in America's interest and should be disrupted by any means necessary. Trade with China can still be constructive, but only if distortions are countered and dominance prevented.

A comprehensive response to China's distortionary policy and the damage already wrought on the American industrial base requires a wide range of policies. Here, I will focus in particular on import controls that seek to ban outright the importation of strategic goods. On one hand, tariffs are most effective in situations where the nation is seeking to tilt the overall balance of trade and promote reshoring wherever it is most economically efficient. On the other hand, restrictions (e.g., local content requirements) and bans (e.g., categorical listings) are most effective in

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[12] See Oren Cass, "Searching for Capitalism in the Wreckage of Globalization," American Compass, Mar. 9, 2022. Available at https://americancompass.org/searching-for-capitalism-in-the-wreckage-of-globalization/.

[13] *An Inquiry into the Nature and Causes of the Wealth of Nations*, bk. 4, ch. 2 (1776). Available at https://www.gutenberg.org/cache/epub/3300/pg3300-images.html.

situations where specific goods or industries have been identified as strategically critical, such that dependency on adversaries must be broken, or reshoring for domestic production accomplished, very quickly and even at high cost.

The past year has seen an unprecedented level of action of this type from both Congress and the Trump administration, targeting goods ranging from humanoid robots and power inverters[14] to biotechnology equipment[15] to drones,[16] internet routers,[17] and vehicles.[18] The *Connected Vehicle Security Act*[19] and the *GUARD Act*,[20] both pending in Congress, represent particularly important codifications of administrative action already underway on vehicles and robots, respectively.

Congress should proceed with legislation that would make initial administrative actions permanent, which would both preclude any "trading away" of the restrictions in future negotiations with adversaries and provide potential domestic producers with the greatest possible certainty that investments in domestic capacity will be worthwhile and will not be undermined by a future wave of subsidized Chinese competition. Both the administration and Congress should also extend this strategy to additional sectors, including port equipment, battery storage, medical devices, and legacy semiconductors.

We can dream of a world in which all countries left commercial decisions and outcomes to the market, balanced trade facilitated efficient production that helped all sides prosper, and no one ever needed to worry about attacks on critical infrastructure or interruption of supply chains. In the real world, unfortunately, the CCP has the scale and control to frustrate those expectations worldwide. The market will not determine what the United States produces. Our choice is to grant the CCP the power to decide what we can make here, or to insist upon deciding for ourselves.

[14] "FCC Adds Foreign-Produced Power Inverters and Robots to Covered List," Public Notice, Jul. 28, 2026. Available at https://www.fcc.gov/document/fcc-adds-foreign-produced-power-inverters-and-robots-covered-list.

[15] See, e.g., "BIOSECURE Act Becomes Law, Limiting Grants With 'Biotechnology Companies of Concern,'" Latham & Watkins, Dec. 31, 2025 (discussing inclusion of *BIOSECURE Act* in FY2026 NDAA). Available at https://www.lw.com/en/insights/biosecure-act-becomes-law-limiting-grants-with-biotechnology-companies-of-concern.

[16] "Public Safety and Homeland Security Bureau Announces Addition of Uncrewed Aircraft Systems (UAS) and UAS Critical Components Produced Abroad, and Equipment and Services Listed in Section 1709 of the FY2025 NDAA, to FCC Covered List," Public Notice, Dec. 22, 2025. Available at https://docs.fcc.gov/public/attachments/DA-25-1086A1.pdf.

[17] "FCC Updates Covered List to Include Foreign-Made Consumer Routers," Public Notice, Mar. 23, 2026. Available at https://www.fcc.gov/document/fcc-updates-covered-list-include-foreign-made-consumer-routers.

[18] "Securing the Information and Communications Technology and Services Supply Chain: Connected Vehicles," 90 Fed. Reg. 5360, Jan. 16, 2025. Available at https://www.federalregister.gov/documents/2025/01/16/2025-00592/securing-the-information-and-communications-technology-and-services-supply-chain-connected-vehicles.

[19] H.R. 8730, introduced May 11, 2026. Available at https://www.congress.gov/bill/119th-congress/house-bill/8730.

[20] H.R. 9129, introduced Jun. 3, 2026. Available at https://www.congress.gov/bill/119th-congress/house-bill/9129.