

U.S.-China Economic and Security Review Commission Hearing

“China’s State-Owned and State-Controlled Enterprises”

562 Dirksen Senate Office Building



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Intelligence Subcommittee on Terrorism, HUMINT, Analysis, and
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STATEMENT FOR THE RECORD

Commissioner Cleveland, Commissioner Wessel – thank you for allowing me the opportunity to come before your commission and offer my perspective on Chinese government-affiliated telecommunication companies, specifically Huawei Technologies Co., Ltd. This is an issue that I care about and have worked on for the past several years.

Our government's relationship with the People's Republic of China (PRC) is unprecedented in nature. The United States shares very significant trade and economic ties with the PRC – ties that bind our two countries together and force a level of cooperation. More importantly, however, are the overt tensions and disagreements that still exist between our governments on a wide range of issues.

For example, the PRC does not value basic human rights, human life, religious and other freedoms on the same level as the United States. The PRC consistently lends its support to some of the world's most oppressive regimes – including the North Korean government and the brutal Assad regime in Syria. The PRC actively develops its military and naval capabilities to pursue anti-access strategies intended to prevent our government from protecting our interests in the region – primarily our efforts to sustain Taiwan's democratic existence. The PRC is notorious for its currency manipulation. And finally, it is well documented that the PRC government has developed cyber warfare capabilities and promoted cyber attacks against western companies, infrastructures, and government entities. The PRC is not an inherently trustworthy government.

When we consider Chinese-based companies, especially companies that provide sensitive telecommunications equipment and technologies, it is important to understand the significance of government-affiliation and the associated influence that the PRC, and subsequently the People's Liberation Army (PLA), has over those companies. Companies based in China do not operate in a private sector that is similar to the private sector in the United States – the line dividing public and private sectors is blurred. Furthermore, there is no line between the PRC and the PLA.

Certainly, PRC and PLA involvement in telecommunication companies poses a problem for the United States when those companies attempt to increase their share in the U.S. market-place – both in the civilian and government sectors. We cannot have companies that are directed and subsidized by the PLA providing sensitive telecommunication equipment to any entity in the United States.

Huawei Technologies is one example of a PRC-affiliated telecom company that, over the past several years, has attempted to gain a larger share of the U.S. market place. Huawei is one of the world's largest telecommunications equipment manufacturers, and the company's close relationship with the PRC and PLA has been documented by multiple sources – including by your commission and the U.S. Department of Defense. In the Defense Department's most recent unclassified report on Chinese security issues entitled "Military and Security Developments Involving the People's Republic of China 2011," Huawei is specifically named in the report as having intimate ties with the PLA.

Both Huawei's chairwoman, Sun Yafang, and its founder and CEO, Ren Zhengfei, have had previous careers working as high level officials within the PRC and the PLA. Additionally, it has been reported that many of Huawei's employees have direct ties to the PLA. These facts are disconcerting, and it is important to realize that this is not comparable to former U.S. government or military officials achieving high level positions within U.S.-based corporations.

The PRC has a history in developing and implementing cyber warfare, and given Huawei's close ties to the PLA, it is a significant risk to allow them to distribute sophisticated telecommunications equipment in the United States that could potentially compromise our government infrastructure, military, law enforcement or private citizens. It is simply bad policy to overlook our concerns and leave our country vulnerable to Chinese espionage.

Huawei is also a company with a questionable business history:

- The Iraq Survey Group accused the company of doing business with Saddam Hussein's regime in potential violation of U.N. sanctions;
- It is reported that the company did business with the Taliban before its fall in Afghanistan;
- The company has supplied technology to Iran that appears to violate the Comprehensive Iran Sanctions Accountability and Divestment Act of 2010;
- Multiple lawsuits have been filed in U.S. courts against Huawei alleging its participation in a variety of illegal activities, including patent and trademark infringement.

Capitalism and free market enterprising are relatively new concepts in China. Many Chinese government officials were raised on the pretense that capitalism and free markets are wrong. Only recently has there been a push by the PRC to move certain industries into a quasi-private sector to compete internationally.

China's version of capitalism is heavily state-dominated, and the ultimate goal of the government is to sustain and enhance Communist Party rule. Huawei, and other similar state-capitalist companies, provoke interesting questions for the American market. The American market is built on openness, freedom of opportunity, transparency in operations, and separation of government and industry. Such Chinese companies do not share those values, and they may also very well act as de-facto agents of the PRC and PLA. For these reasons, I am not convinced that Huawei's increased role in the U.S. economy is beneficial.

I'd like to thank the commission for its work on this issue. It is important to have a thorough review of PRC-affiliated telecommunication companies so that industry leaders, who are choosing to do business with such companies, and government entities with a regulatory role can make informed decisions when dealing with Huawei and other similar PRC-affiliated entities.