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Remarks by Congressman Ro Khanna

Constructive Rebalancing with China

Stanford University

Ambassador McFaul and Dr. Zegart, thank you for hosting me.

I'm honored to be back at Stanford.

Geo Saba, my Chief of Staff and a student of mine when I taught economics here, helped me write this speech —so you can be the judge if Stanford graduates can outperform chat GTP.

Our nation's foreign policy must aspire to help create a world at peace while affirming the values of self-determination, respect for sovereignty, and human liberty. Today's China debate, dominated by discussion of war games and winning a new Cold War, clouds that vision of working toward peace. There is nothing weak about peace. A just and lasting peace is the highest ideal for a people who believe, as we do, that every

human being is endowed by their Creator with dignity and basic rights.

As a famous American statesman once said:

“Let us examine our attitude toward peace itself. Too many of us think it is impossible. Too many think it unreal. But that is a dangerous, defeatist belief...to see conflict as inevitable, accommodation as impossible, and communication as nothing more than an exchange of threats.”

This was President John F. Kennedy’s American University’s Commencement Speech in 1963, during the height of the Cold War. Like many of Kennedy’s speeches, the words stand the test of time. We can draw inspiration from Kennedy in our approach to China.

Today, we need a constructive rebalancing with China. This requires us to be clear-eyed about the threats we and our allies in Asia face, but hopeful that our diplomacy and statesmanship can make the twenty-first century less bloody than the twentieth.

There are four guiding principles for a constructive rebalancing with China: First, an economic reset to reduce trade deficits and tensions; second, open lines of communication; third, effective

military deterrence; and fourth, respect for our Asian partners and robust economic engagement with the world.

It is here in the heart of Silicon Valley that we can begin to achieve such a vision. We have the technology to bring about an American production renaissance as Andy Grove, the famous Intel CEO, called for back in 2010. We have an Asian American diaspora that understands the need for open lines of communication and exchanges with Asia.

The Valley is pioneering the leading technology in AI, cyber, space, long-range missiles, and unmanned vehicles that will be essential for effective deterrence in the Taiwan Strait. And we have a business community that understands that engagement—not isolation—is how we make friends around the world, especially in the Global South, and stand up for American values.

An Economic Reset to Reduce Trade Deficits and Tensions

The first pillar of a modern China strategy is to have an economic reset with China. In the 1990s, many believed that China's economic liberalization would lead to an open society and democracy in China.

Yes, some parts of Chinese society have liberalized. Citizens can marry who they love, even from different classes, and don't

need their parents' permission to choose their profession. And yes, we have seen a significant improvement in the standard of living and purchasing power for the Chinese people — probably a 50-fold increase since the 1970s.

But the dreams of political liberalization evaporated, and repression and surveillance are widespread. In 2013, Singapore's founder, Lee Kuan Yew, expressed skepticism that China would ever become a liberal democracy, suggesting that if it did, it would collapse.

But even he couldn't have predicted the path Xi Jinping has taken. His new third term and the removal of term limits has solidified his power.

He and the CCP have turned China into an authoritarian, surveillance state which violates human rights. They aim to wipe away the cultures of Tibetans and Uygurs and suppress the promised freedom in Hong Kong.

Our economists and policymakers also underestimated the negative consequences of unfettered globalism and the impact that opening China would have on America. It ravaged our heartland as production moved to China. Last year alone, the trade deficit amounted to 382 billion dollars. In the eighties, our trade deficit with China was only six billion dollars. Since the

turn of the century, nearly 70,000 American factories have shuttered.

The loss of jobs contributed to social unrest and political polarization. We saw the rise of divorces and overdoses and fall of paychecks and life expectancies. This hollowing out of society has created resentment against China among Americans who saw their fathers' jobs shipped there.

Americans have also begun to ask why we don't make basic goods here anymore. The pandemic exposed this reality. We didn't make masks here, we didn't make Tylenol to keep up with the demand, we didn't make semiconductor chips to install in new cars that sat idle on lots. We didn't even make enough baby formula.

In hindsight, America made a colossal mistake by offshoring so many of our jobs and manufacturing capabilities. We need a production renaissance to become a manufacturing superpower once again.

A new economic patriotism must be front and center in our diplomacy with China. In our bilateral negotiations, we should set a target to reduce the trade deficit with China every year until it's de minimus.

To rebalance the trade deficit with China, we need to create a National Development Council to provide federal financing for our critical factories. I wrote a bill with Marco Rubio that would do just that. Rebalancing trade also requires properly investing the 280 billion dollars in the Chips and Science Act which I also co-authored. And it requires new chips acts for many industries. Let's have a chips act for aluminum, for steel, for paper, for microelectronics, for advanced auto parts and for climate technologies. To succeed, we'll need expedited permitting for national projects, conditional on companies paying a prevailing wage, meeting environmental standards, and not engaging in stock buy backs.

We also need a new currency accord with China to prevent Chinese manipulation like Reagan did with Germany and Japan in the 1980s.

The unlevel playing field with China has decimated industries like steel. Fifty years ago, American steel made up 20 percent of the global market. We're down now to just four percent and over half of our country's steel mills have closed. We lack enough next generation steel needed for windmills or solar panels.

It's simply too difficult to compete on large-scale projects against dumped and subsidized products from China. The over-capacity in China accounts for more than 50% of global steel production with a detrimental carbon footprint because of their weak environmental standards.

To bring industries like steel back, we need to impose countervailing duties, targeted tariffs, and 'Buy American' provisions to provide a robust customer base or else the jobs won't return.

We also need to push China to buy more American pork, soybeans, and corn to create a more reciprocal trade relationship.

At the same time, we need to demand that the CCP play by the same rules as we do. When the PRC joined the WTO, it voluntarily agreed to market-oriented principles and upholding basic human rights. Instead, the CCP distorts the markets with blanket subsidies, illegal dumping, intellectual property theft, and currency manipulation.

The US needs to work with our allies to pursue a broad WTO dispute case against the PRC. One hurdle is that the current Dispute Settlement process cannot litigate in key China-related

areas that are not adequately covered by WTO rules. New rules must be negotiated.

For starters, the WTO must reconsider its “specificity” policy.

Under the current rules, the WTO allows countries like China, to support state-owned enterprises and provide wide-spread subsidies to its economy. The WTO should stop letting its members do this.

We must also be open to suspending China’s permanent normal trade relations (NTR) with the US which was previously called the most favored nation status.

Prior to joining the WTO, US law required China’s NTR status to be renewed annually. This status is a privilege, and the US should decide this status annually—as we once did. If China does not support a constructive rebalancing of our economic relationship, we should eliminate or suspend this status.

The truth is that resetting our economic relationship will also benefit China. Xi Jinping and the CCP may be hesitant by this rebalancing at first. But they cannot be dependent on only export oriented production to emerge as a preeminent economy. They need domestic production to meet the needs of their growing middle class.

Xi Jinping and the CCP know that they also need service jobs in tech and finance to produce modern wealth —think about the wealth here in Silicon Valley and New York — and a service industry to improve the quality of life for their residents. Diversification is in China's long-term economic interest as it aspires to become a highly developed economy.

This vision of rebalancing trade with China is not a call for decoupling or autarky. It recognizes the complexity of global supply chains and the value of China's export market. But it calls for an end to our unhealthy dependence on cheap labor from China and for both countries to develop a fuller, more robust development strategy while continuing to engage with each other.

This approach of recalibrating the trade imbalance can reduce tensions. Even China's foreign minister, Qin Gang, acknowledged this. He explained to me that the trade deficit between China and Britain created the conditions for the Opium Wars. In the 19th Century, Britain ran a major trade deficit with China. The British bought their silk, tea, and porcelain but lacked export products the Chinese wanted in return.

To reduce the imbalance, Britain turned to selling Opium in China by way of their newly acquired territory in Bengal. Not wanting to return to a trade deficit with China after the emperor banned the import of opium, Britain started the Opium Wars.

No one can defend the morally wrong actions of colonial Britain. My family will be the first to tell you of the ills of British colonialism considering my grandfather spent time in jail as part of Gandhi's independence movement. But I share this bit of history to highlight that trade imbalances can aggravate the environment for war.

When we reduce trade deficits, when we bring jobs home, we reduce the anger and vitriol dominating the China conversation. That can help pave the way for less inflamed rhetoric.

Open Lines of Communication

Economic rebalancing is not enough. This was made clear to me last week when the China Select Committee, on which I serve, participated in a Taiwan War Game. The exercise demonstrated that a military conflict with China would be catastrophic for America —both in terms of loss of life and economic devastation — and for all of humanity. We are called to do everything in our power to prevent this war.

During the War Game, we were told that all communication between the US and PRC governments and militaries ceased.

We must work hard, now, to establish strong norms around government-to-government, and military-to-military communication. This type of communication was common even during the Cold War's hottest moments.

It was troubling when earlier this year, China did not pick up the phone during the spy balloon incident when our military called. We must, in all our engagements with the PRC, emphasize the importance of open lines of communication, even during our most trying moments. If a conflict were to break out, we would need to stay in constant communication with the PRC to deescalate the situation and especially to prevent nuclear catastrophe.

In addition to government and military lines of communication remaining open, we must make use of the relationships our business leaders have. Exporting low-tech goods like Mickey Mouse helps establish a floor for having some relationship with the Chinese people. If communication between our governments were to stall, business leaders like Bob Iger could play a role in being intermediaries. Iger has been to China over 40 times since his time as CEO. That's more visits than most

sitting members of Congress combined. Indeed, there hasn't been a Congressional Delegation to the PRC in over three years.

I've committed to lead one later this term, in coordination with our State Department. And while we will have many difficult conversations, we must engage and continue to talk to each other. I'm not naive about their intentions, but to avoid the risk of war and reduce the tensions, it is in both of our nation's interests to talk to each other.

And we must talk to each other on international climate cooperation. Our governments, industries, and subnational governments must coordinate. Without meaningful action from China, we will not solve the climate crises.

Effective Military Deterrence

Talking with China does not mean we turn a blind eye to their escalating threats in the Taiwan Strait. We must have effective deterrence to ensure that China's leadership recognizes that any war would be a disaster. We must make the potential cost so high and obvious that war remains a game reserved only for think tanks in Washington and Beijing to play.

We can deter Xi Jinping from militarily invading or blockading Taiwan, but the situation is becoming more urgent by the day. Today, we can thwart an unprovoked invasion or a blockade. I heard this directly from our INDO PACOM Commander, Admiral Aquilino at an Armed Services hearing last week. We have naval superiority and the capability to shoot down Chinese ships crossing the line of control.

Xi Jinping knows this won't be an easy operation. The waters of the Taiwan Strait are treacherous, and the beaches for an amphibious landing are limited. He also knows there can be severe consequences if the CCP chooses conflict. As an example, we can restrict their oil by shutting down the Strait of Hormuz with our Fifth Fleet. We can kick them off the SWIFT banking system and sanction all CCP entities.

Despite this assessment, it would be naive to be complacent.

We must continue to rapidly build our capacity as the PLA builds their navy, and we need to provide Taiwan with defensive capability. We must do both with the utmost urgency —not waiting until the end of the decade — so we leave Xi Jinping with no room to mistakenly believe he can exploit any vulnerability stemming from our presidential election cycles.

For starters, we need more munitions in the Pacific. We need submarines and ships with plenty of munitions to destroy PLA ships without having to travel back to Guam and Hawaii to resupply. We also need artificial intelligence capability for surveillance and reconnaissance, naval sea mines to make it harder for PLA ships to invade, cybersecurity to prevent the PLA from jamming our communication systems, and enough long-range missiles to hit fleets of moving PLA ships across the Taiwan Strait.

Then there is the matter of Taiwan's defense capability. I led a Congressional Delegation to Taiwan earlier this year, where we met with the Taiwanese Defense Minister. After witnessing the resilience of the Ukrainians against Putin's barbaric war, he is now more open to acquiring asymmetric capabilities and employing the so-called porcupine strategy. This means acquiring smaller and more mobile weapons, such as drone swarms, sea mines, Stingers, Javelins, and High Mobility Artillery Rocket Systems (HIMARS) to confront a Chinese attack against Taiwan.

Because of Putin's war in Ukraine, there is a worrisome backlog for these weapons. Because Taiwan lacks the munitions they need, the US should invoke the Defense Production Act to build more and move Taiwan up the priority list. There's no time to waste.

We must quickly move past the concentrated big five prime defense contractors and build a more resilient and competitive defense industrial base. How will we help defend Taiwan if we can barely keep up with the needs of Ukraine? And unlike Ukraine, it's much harder to provide weapons to Taiwan once a conflict begins.

Our anemic domestic manufacturing is a national security threat. We won World War II by having twice the output of Germany and Japan. During the Cold War, we had contingency plans to mobilize manufacturing hubs like Detroit, but now our industrial base went offshore.

Our defense industrial base weakness stems not from a lack of spending. Our Pentagon budget is on the path to a trillion dollars a year. I've voted down many defense budgets during my time in Congress and I'm sometimes the lone no vote in the House Armed Services Committee. I've supported higher troop pay and more tech education for veterans, but our endless wars and bloated Pentagon budgets make us weaker.

What we need is reallocation. We can cut defense spending for the weapons we no longer need. Now that we have the new B-21 bomber, let's retire the B-1B and save almost eight billion dollars. Let's reduce the number of new F-35 acquisitions with

upgraded versions of our current aircraft and save almost eighty billion dollars over ten years. The F-35 has been plagued with cost overruns, underperformance, and technical problems.

Let's use modern conventional cruise missiles instead of the long-range standoff missile and save 12.5 billion dollars. Let's avoid developing low yield nuclear warheads for submarines and save 6.5 billion dollars over the decade. And finally, let's extend our Minuteman III ICBMs instead of developing the new GBSD missiles and save another forty billion dollars over the next decade.

These changes add up to saving taxpayers over one hundred billion dollars without hurting our national security.

We must instead invest in emerging technologies and a robust defense industrial base to have effective deterrence against China launching an invasion of Taiwan.

This is a narrow, targeted mission that leaders across the political spectrum —progressives, moderates, and conservatives — should support.

I'm the lead Democrat on the House Armed Services Subcommittee that oversees emerging technology at the Pentagon. Along with the Chairman, Mike Gallagher, we're working to improve the DoD acquisition process to adopt

emerging technology more easily at scale from Silicon Valley. Again, time is of the essence. I'm also encouraged by Stanford's Gordian Knot Center which is also working towards this goal.

Respect for Our Asian Partners and Robust Economic Engagement With the World

Assisting Taiwan with a strong defense needs to be coupled with listening to leaders talk about their goals. As Ambassador McFaul knows well given his leadership on this issue, there is a principle that states, "nothing about Ukraine without Ukraine." We should extend that principle to Taiwan. Nothing about Taiwan without Taiwan.

When developing Taiwan policy, we must take into account the preferences of the Taiwanese people. The Taiwanese people want to keep the political freedoms they enjoy, they want to have good wages and keep 40 percent of their exports flowing to China, they want to keep the universal healthcare and good schools they enjoy, and most importantly, they want to keep the peace.

During my trip to Taiwan, we also met with President Tsai of the Democratic Progressive Party, the leadership of the KMT, and members of the Taiwan People's Party.

All three major parties are converging to court the median voter for next year's election. They support the move from four to twelve-month conscription and a stronger national defense. They want, as I said earlier, the US to provide arms and to train their soldiers. But they also take pride that their government knows how to deal with the ups and downs of the CCP. They prefer to keep the messy status quo and continue punting the unification issue into the future.

So, the United States should listen to Taiwan. We should help them with their defense and strengthen deterrence, but at the same time engage China and avoid provocative actions. During my visit, I reaffirmed our One China Policy.

Instead of calling for Taiwanese independence, as has become popular for politicians to say in hopes of sounding tough, we should emphasize strategic ambiguity and do the hard work of statecraft with China that so many American diplomats have undertaken since we normalized relations with the PRC.

What would be the aim of engaging China other than reducing the risk of war? Let's have an AI agreement on common sense regulations to keep humanity safe. Let's have a cyber arms agreement to keep our data and critical infrastructures safe.

Even at the height of the Cold War, American and Soviet leaders like Nixon and Brezhnev, not to mention Reagan and Gorbachev, met and negotiated Arms Control agreements.

We may need to get the rest of the world on board with these agreements first to help bring China to the table.

And while the weapons of tomorrow deserve our attention, the nuclear missiles of today also require our attention and updated treaties.

For the sake of both of our peoples, we need to work with China on pandemic prevention and preparedness, demanding far more transparency from the CCP. We'll also need to draft treaties together that address the existential threats from the global climate crises.

As important, we need to build our alliances with India and other Asian partners, recognizing that they will not be satellite states and will march to their own drummer more so than our NATO partners. Given the history of colonialism, and the cultural pride of many Asian nations, we cannot expect to have as smooth, lockstep, and cohesive an alignment as an Asian NATO. What we need is multipolarity in Asia and the denial of China as a hegemon.

India will be a key partner in that effort. As the new co-chair of the Congressional India Caucus, I've called for strengthening our economic and defense ties between the oldest and largest democracies. The new US-India initiative on Critical and Emerging Technology, will deepen our technology partnership.

India's participation in the Quad, along with Japan and Australia, is critical for ensuring our partners work together to keep China from becoming a hegemon in Asia.

In the 1950s, China and India shared a common aspiration to see Asia emerge after Western colonialism. But Nehru's vision of collaboration with China has soured.

China creeps towards hegemony in Asia, threatens India's borders, and treats other countries as junior partners. The people of India now see China as their greatest military threat, not Pakistan.

Other countries in Southeast Asia, especially the Philippines and Vietnam, two countries who have mixed histories with America, are ready to work with us to prevent Chinese hegemony in Asia.

We've also seen Japan, a nation hesitant to build up its defense after World War II, take historic steps to build out its national security apparatus.

As we work with our allies and partners in the Indo Pacific region, we must treat them as partners and a people with their own identity, their own visions for their place in the world. They won't be our junior partners and we won't repeat some of the mistakes of the Cold War where we too often used states as means to our larger goal without enough concern for their own aspirations.

In continents like South America and Africa we need to engage in more trade, not just aid. Larry Summers shared that someone from a developing country recently told him, "What we get from China is an airport. What we get from the United States is a lecture." Let's not adopt the predatory nature of the CCP's development strategy as a model. But China is building roads, airports, and telecommunications, usually with Chinese labor.

America needs to have an alternative to offer. An alternative that offers better financial terms, better labor conditions, and help with training the local workforce.

A Model to the World

The genuine peace in all time that President Kennedy spoke of, was “Not a Pax Americana enforced on the world by American weapons of war. Not the peace of the grave or the security of slave.” We cannot refashion societies abroad with our weapons of war nor our economic treatises. But we can inspire nations. Let’s be confident in our values but honest about our limitations.

Our generation has the chance to make America the first, cohesive multiracial democracy in the world. The Canadians don’t like when I say that. But they are still over 80 percent White and have nowhere close to the diversity in our cities and even small towns in every corner of our nation.

This vision of a multiracial America will include people from all parts of the world, including China. We will make sure Chinese Americans are free from any CCP police stations, surveillance, and anti-Asian hate.

Let us remember, it was a Chinese American who kept humanity connected during the pandemic. Decades ago, Eric Yuan, moved from China to Silicon Valley and ultimately founded the technology company, Zoom.

Today, some are calling for a blanket expulsion of Chinese nationals from our companies, classrooms, and neighborhoods.

That is a profound mistake. We will win by putting our system and our promise of freedom on display for the world to see.

Frederick Douglass addressed this very issue in 1869 when he defended Chinese immigration and articulated his vision for a multiracial democracy in a speech called “Our Composite Nationality.” Douglass said he wanted America to be a home “not only for the negro, the mulatto and the Latin races; but I want the Asiatic to find a home here in the United States, and feel at home here, both for his sake and for ours.”

This composite nationality is what makes America, America. It makes us different from China, Germany, and India. Douglass argued that no race is perfect but that the “whole of humanity” is “greater than the part”. Douglass calls for respecting China’s five-thousand-year-old culture and praises their contributions to civilization. Not much different than Kennedy’s praise of the Soviet people during the Cold War in his speech at American University.

I believe a constructive rebalancing with China can maintain the peace. This rebalancing will help our own nation flourish and remain the beacon to the world. It will not happen overnight. It will not happen with one president or one congressman. But it will happen if all of us - military and business leaders,

educators, unions, activists, foreign policy experts and students, like the ones seated here today, work toward this goal.

Together we can achieve an economic reset to reduce trade deficits and tensions with China. Together, with our nation's finest diplomats and our titans of industry, we can keep open lines of communication. Together with our entrepreneurs and brave men and women in uniform, we can maintain an effective military deterrent that helps avoid war. Together with our global businesses and development institutions, we can engage with nations around the world fairly and with respect. This is how we rebuild an America that secures peace and prosperity for the American people and offers hope to other peoples around the world.

Thank you.

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