



## Fireside Chat

### **Introduction:**

Hon. Theodore B. Olsen, Member of the Board of Trustees, Ronald Reagan Presidential Foundation and Institute

### **Moderator:**

Morgan Brennan, CNBC

### **Speaker:**

Hon. Gina M. Raimondo, U.S. Secretary of Commerce

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Hon. Ted Olsen:

Welcome to the Morning Fireside chat. We're doing this without the fire. They told us in Simi Valley that's not a good idea, so use your imagination, and welcome. The longest US aircraft carrier measures a thousand feet, longer than three football fields. A fully loaded F-15 can weigh over 30 tons, but the biggest, most sophisticated, and most menacing weapons of war rely on microchips, whose components are measured in just a few nanometers, invisible to the naked eye. Congress enacted the CHIPS and Science Act last year. It was enacted to promote economic competitiveness, a tool for strengthening American manufacturing and for preventing the chip shortages that presented problems and plagued all of us for nearly the entire pandemic. But there's also a defense bill, a national security priority of the highest order. If America's warfighters are beholden to foreign factories, subject to malign influences in turbulent regions for the critical components of their weapons, then we can be neither safe nor strong.

## REAGAN NATIONAL DEFENSE FORUM 2023 FIRESIDE CHAT

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Among its many other vital responsibilities, the US Department of Commerce is charged with administering the disbursement of CHIPS Act funds. That is just one way in which the Commerce Department is an integral player in strengthening America's military readiness. The Department is central to building our stockpiles as we support our allies around the world whose democracies are now under siege. Which brings us to our guest, US Secretary of Commerce Gina Raimondo, who is leading our government chips policies and programs and other vital national defense export programs. She's a bright, young, energetic star in our government and she is superbly qualified for her responsibilities. She has an economics degree from Harvard, a PhD in sociology from Oxford, where she was a Rhodes Scholar and a law degree from Yale. Before being appointed as Secretary of Commerce, she served as Treasurer and then Governor of the State of Rhode Island. We are thrilled to have the perspective of the US Department of Commerce featured on our stage. Please join me in welcoming the 40th US Secretary of Commerce, Gina Raimondo, along with our moderator for today's discussion, CNBC's Morgan Brennan.

Morgan Brennan:

Good morning. We have a packed house here. Pressure's on, lot to get to. Very excited to have you here on stage with me, Secretary Raimondo. So, thank you.

Sec. Raimondo:

Happy to be here. Very happy to be here.

Morgan Brennan:

I do want to start a little bit with the context. This is the first time we've seen a Commerce Secretary here at the Reagan National Defense Forum, one of the biggest defense conferences of the year, and I think the fact that you are here really speaks to the growing intersection of industrial, economic and tech policy where national security is concerned. So I want to start right there. Why should Commerce be taking on this expanded role in matters of national security?

Sec. Raimondo:

Yes. Well, good morning. Good morning. It's great to be here and thank you for having me. Look, I think everybody here knows the fact that our national defense is more than guns, missiles, tanks and drones. It's technology, it's innovation, it's working with our allies. Quite frankly, our national security rests upon our economic security. You cannot be a strong nation that defends itself unless you have the most competitive economy in the world and an innovation engine that leads the world. And by the way, it's not just at home, it's abroad. Our allies around the world want us to show up, not just to send them fighter jets, but to help create jobs. And whether that's in the Indo-Pacific or South America, our adversaries, most particularly China, they're showing up every day, showing up every day with money and infrastructure and jobs. And if we want to win, we have to show up too. In fact, I was delighted to go to Panama with General Richardson a few months ago. I'll be going to the Philippines with Commander Aquilino next year. This is game on, game on, economic prosperity and opportunity matters every bit as much as pure military might to protect our national security and sustain our place in the world.

Morgan Brennan:

Is it a reflection -- to have you on stage here and to be opening with statements like this -- Is it a reflection of how much the world has changed or is it a reflection of the fact that US policy should have been more aggressive in terms of that intersection long ago?

Sec. Raimondo:

So that's a great question. Look, I think it's always been the case that national security rests on economic security. That being said, technology is more important than ever to our national security and the Commerce Department sits in the center of the administration's technology and innovation policy. So as our military apparatus depends more and more on technology, whether that is artificial intelligence, spectrum strategy, supercomputing, cybersecurity, semiconductors, it's -- technology matters more to our national security. And the Commerce Department, we are running the administration's AI policy. We are of course involved -- we run export controls like denying China and our adversaries, our most sophisticated technology. We lead on the administration's spectrum policy. So I think as technology is more intertwined with national defense offensively investing in semiconductor capacity defensively denying China technology like -- Commerce Department's in the red hot center of that, and that's more important than it's ever been because technology is more important than it's ever been.

Morgan Brennan:

We're going to dig into every one of those topics here. First, one more question before we do, and that is how are you institutionalizing this national security role? How do you ensure that these are policies that have a lasting impact or at least set the stage or set the precedent for this type of discussion, type of debate, type of approach in the future through different administrations regardless of political parties?

Sec. Raimondo:

So I would say this is definitely not a flash in the pan. I may be the first Commerce Secretary here, I will certainly not be the last. Export controls, we have taken a very aggressive new innovative approach to how we're doing export controls. In October of last year, BIS run by Under Secretary Estevez, who's here with me, did a historic rule: First time ever that we denied an entire country, China, access to a suite of semiconductors and equipment. We're going to continue to go in that direction. So we are building a team. I have a hundred people working for me now that didn't work in the Commerce Department just focused on semiconductors. We're adding to our technical capacity at BIS for artificial intelligence. So I think we're building a more muscular Commerce Department to take on these challenges and I think that you will see that's here to stay.

I will say, for members of Congress who are here, I'll just say this: BIS has the same budget today as it did a decade ago. We have twice as many licensing requests. I get called from members of Congress, Democrat and Republican, constantly. Why aren't you doing more? Why aren't you controlling more with artificial intelligence? Why aren't you controlling more with semiconductors? I agree with you. I have a \$200 million budget. That's like the cost of a few fighter jets. Come on. If we're serious, let's go. Fund this operation like it needs to be funded so we can do what we need to do to protect America.

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Morgan Brennan:

You mentioned export controls. You rolled out new update 10-7 rules, export controls on chips just recently. Why was that necessary?

Sec. Raimondo:

We can't let China get these chips. Period. Listen, here's the amazing thing. I know there's a lot of members of the private sector here, a lot of entrepreneurs here. America leads the world in artificial intelligence. America leads the world in advanced semiconductor design, period. That's because of our private sector. That's because we have great innovators, because of our public sector too, investing in that. We're a couple years ahead of China. No way are we going to let them catch up. We cannot let them catch up. So we're going to deny them our most cutting edge technology. And I know there are CEOs of chip companies -- Oh, thank you -- I know there are CEOs of chip companies in this audience who were a little cranky with me when I did that because you're losing revenue. Such is life. Protecting our national security matters more than short-term revenue. And so that's what we're going to do.

I'll tell you this stuff -- when I say this stuff, I mean supercomputing, AI technology, AI chips -- in the wrong hands is as deadly as any weapon that we could provide. And so we have to be serious if we're going to meet that threat and serious about enforcement. The other thing we need resources for at the Commerce Department is enforcement. Every day China wakes up trying to figure out how to do an end run around our export controls every minute of every day, which means every minute of every day we have to wake up tightening those controls and being more serious about enforcement with our allies, with the Dutch, with the Japanese, with the Europeans. That's another thing we're doing. We have to have a multilateral approach similar to CoCom in the depths of the Cold War. We need a multilateral approach to export controls to really meet the threat that China poses.

Morgan Brennan:

You touched on a little bit, but there has been criticism that export controls have gone too far. There's also been the criticism that they haven't gone far enough. So I guess what goes into the decision-making process around that, and is it still up for review? Are you still looking at changing it or adjusting it as we go here in real time?

Sec. Raimondo:

It's really hard. Alan and I talk about this all the time. It's a constant balance. If you go too far in export controls, you deny US companies revenue, which they need to continue to innovate. And if we do it without our allies, that's doubly problematic. What good is it to deny US companies revenue if China gets the technology anyway from the Germans, the Dutch, the Japanese, or the Koreans? Having said that, if you don't go far enough, China gets our technology, and they could do nuclear simulation or whatever they want. A modern fighting force is more technologically enabled than ever. That's why Commerce matters so much. So these discussions of where to draw the line, I'm not going to lie, I don't know if we're perfect. I don't know if you can be perfect. So what I tell my team is we need to have a constant dialogue with industry so we know as much as they know about the technology. A constant dialogue with our friends in the Pentagon, and I have a huge shout out, Secretary Austin, he's been an amazing partner to me. And we

just have to have a fidelity and discipline to our process so that we're constantly challenging ourselves. Are we doing enough? Are we not doing too much? And also one of the things I'm doing at commerce is really building up our technical capacity. So like I said, we know as much as anyone else about the technology.

Morgan Brennan:

I mean China's chip makers have been stockpiling equipment in preparation of this. Look no further than Huawei's new smartphone that was released a couple of months ago to know that --

Sec. Raimondo:

When I was in China.

Morgan Brennan:

Yes. Oh, look at that.

Sec. Raimondo:

Thank you very much.

Morgan Brennan:

To know that they're moving quickly on this, how quickly can you counter them when you are having to take a thoughtful approach? You are speaking to industry. You do have a team that is on a \$200 million budget and yes, growing, but there's only so fast you can go.

Sec. Raimondo:

Yeah. So I would say this, the nature of the threat is changing and we need to therefore change our strategy. Historically, BIS uses what everyone here knows, the entity list. Huawei, for example, is a Chinese national champion. They're on the entity list. SMIC. We know for a fact these Chinese companies aid the Chinese military. So they're on the list, we can't sell things to them. But that's gets us into a Whack-a-Mole, right? So Huawei spins out another company, it's really a constant Whack-a-Mole. So what we're trying to move towards, which is what we did with October 7th, is countrywide controls. We have to get smarter about what are the technologies, which are just where we are ahead of China, they're capable of doing very bad things, and we're going to deny the entire country this class of equipment. So that's one example of how we're innovating on our approach to meet the threat.

Because as you say, if you're just doing this Whack-a-Mole approach, we find out of one company that's a problem and we put them on the list, literally a week from now there'll be another company. China will create another subsidiary. So I think we're getting more serious about countrywide controls, and I can't say it enough. We have to get even more serious about working with our allies. It's not okay if we deny China something and the Japanese and the Germans are selling them component parts to make EUV tools. Not okay. So we've got to get more serious about it so that it's harder -- there's nothing

perfect, right? The Chinese are going to do everything they can to find loopholes, but we have to get faster, more agile and think differently about our strategies.

Morgan Brennan:

One more question on this before we start to move on here, and that is: is US industry or semi-industry on board? And I ask that, I'm not trying to call out this company specifically, it's just that they were in the news this week. They are the poster child of AI, but Nvidia for example, developing a new export compliant chip for China, the H20, it's expected to roll out early next year. It meets the export control requirements. But when you see the adaptability of that dynamic in a global marketplace for American companies, does it mean that the conversation with industry has to change or evolve more than where it currently is now?

Sec. Raimondo:

Yes, and that's a great point. And I want to say this to everybody in industry who is here, is industry on board? I mean yes, but they're in the business of making money. Every time I take an action, it denies them revenue. My own view is that industry, newsflash, democracy is good for your businesses. Rule of law here and around the world is good for your businesses. So it might make for a tough quarterly shareholder call, but in the long run, it's worth you working with us to defend our country's national security. If you're not selling into China a decade from now, it's not because of our export controls. It's because China's designing you out because they want to decouple, not because of what I do. So we have to be eyes wide open about the threat from China and work together, so your businesses are strong and lead the world, but also so our national security is protected.

I would say industry's been cooperative, helpful. We have a good relationship, very much so. But of course, there's a bit of a natural tension in the work that we do in the moment. On export controls, I do want to say this. To answer your question, I think it's a really smart question, we need to move beyond the traditional way we're engaging with industry in the following respect: Historically, the Commerce Department draws a cut line, like we did with Nvidia, we drew a particular cut line. Not surprisingly, within a few months, Nvidia released a new chip just below that cut line. Fine. That's what industry does. That's what we've taught them to do. That's the way export controls work. That's not productive. So we need to, and Alan and I are developing this, a new way to have a continuous dialogue with industry where our engineers can go toe to toe with their engineers and we go to them and say, our intent is to deny China technologies that can do X, Y, Z.

So I'm telling you, if you redesign a chip around a particular cut line that enables them to do AI, I'm going to control it the very next day. So we have to get to a place with industry where we say, our national security goal is to have no AI special sauce in your chip, for example, and just don't do it. But it's a more nuanced discussion because otherwise we just say, draw the line, they engineer around the line, we draw the line, they engineer around the line. We have to have a more continuous back and forth with industry where we make our intentions clear. By the way, the burden's on us. This is our intention. This

is the effect we need to have. Almost like the commander's intent and then industry needs to comply.

Morgan Brennan:

Commerce is playing -- this brings us squarely into the conversation of artificial intelligence overall. Commerce is playing a key role in the president's first of its kind executive order on AI. You and I spoke the day it was unveiled. How quickly does that roll out? How meaningful is it to providing guardrails for AI capability despite the conversation we're having between pacing threats and great power competitions where we know this technology is going to matter not only today, but in the future more meaningfully.

Sec. Raimondo:

So the Commerce Department is, as you say, in the center of the president's strategy for AI. We have two roles. One is what we've been talking about, BIS denying China our AI. But I think the more important role we have actually is proactive, investing with industry through the CHIPS Act, working with industry to help them run faster so we can out-innovate China. About a month ago, I stood up in the Commerce Department an AI Safety Institute, and that's intended to work with industry and with Congress and with policymakers to figure out what are the guardrails.

I will say there's a view in Silicon Valley, this "move fast and break things". Effective acceleration. We can't embrace that with AI. It's too dangerous. You can't break things when you're talking about AI. So we have to find a balance. We have to find a balance of, as you say, guardrails. Making sure these models don't get into the hands of non-state actors and bad guys, making sure the models do what we think they're going to do. That's a huge thing. Not even the developers know what the model will do, so it has to be safe, but we have to be very careful because we can't overreach. Otherwise, we'll stifle innovation, and America's in the lead because we've out-innovated the world. Europe is way behind us. China is still behind us. So anyway, once again, it's delicate and it is complicated. I will say this, when I look in the mirror, I am constantly asking myself, how can I run a more innovative Commerce Department in the age of AI? I think everyone in government needs to do that. Government across the board is way too slow to know how to procure software, how to procure AI, how to use AI for good in what we do. And still a little bit, I think we have a zero-sum game of what are we going to do, enable innovation in industry or protect our national security? And that's an old-fashioned way of thinking. And we can't have that zero-sum game. We've got to do both. We've got to enable industry so we out-innovate and protect our national security.

Morgan Brennan:

So what does that actually look like? Because China might be behind us. They're not subjecting themselves to the same ethics, same guardrails, or even same approach to data.

Sec. Raimondo:

We don't want to be lowest common denominator. Look, we're a country that values privacy, that values rights, that values human rights. None of that's changing. So we can

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do both. That's what makes America great. We can do both and we will do both. We need to make investments in research and development. We need to make investments in job training and technical capacity. We need to work with industry to enable them to innovate, and also have guardrails so that we don't, like I said, either do bad things ourselves -- we have to protect our technology. I mean, the state sponsored espionage to get access to our technology is so real, but we can do it. I have no doubt that we can do it, but it has to be a new model of -- to meet the threat that China poses, we have to have a new model of collaboration between Commerce and the Pentagon, between the government and industry, between universities and the defense industrial base. I mean, it has to be a more modern model if we're going to meet the challenges as required,

Morgan Brennan:

Which brings us to CHIPS act, big sweeping package. I think we have quite a number of folks, if I had to guess in this room, who are very curious to know when funding starts to go out.

Sec. Raimondo:

Any day now. I have a whole team back home working as we speak. I checked in with them all early this morning. Look, I'll say this in all seriousness, really soon. I'd love to make an announcement before the end of the year and then continued stream of announcements in the first quarter, first half of next year. Not to be defensive, but Commerce at the time the bill was passed wasn't built to do this job. We've hired 110 people, some of the best investors in America, the best credit market analysts in America, the best industry analysts, the best engineers. So we've built it from whole cloth. I am very proud of the work we're doing in terms of how high quality it is, protecting taxpayers money. And so I think you'll start, like I already said, the timeline. I want to say this especially to members of the audience who may be applying for CHIPS money. I'm going to be in the business of dishing out disappointment because there's just not enough money. We only have \$39 billion for these company incentives. And I have a national security mission that I must meet. Yes, we want to create jobs in America. Yes, we need manufacturing in America. Fundamentally, this is a national security initiative. The United States of America really makes no leading-edge chips on our shores today. You mentioned Nvidia. All of their chips are made in Taiwan. Every one of them.

I don't need to tell anyone in this audience the risks related to Taiwan or China. So at the end of the day, I'm going to do my very best to stretch this capital, be creative and get everyone a good number. But at the end of the day, for me to sleep, put my pillow, my head on the pillow at night, I've got to meet the national security mission. And that means making sure we make enough leading edge chips, have enough advanced packaging, enough current mature chips for the defense industrial base in the United States of America. It's a national security mission that we need to achieve with this money.

Morgan Brennan:

Have you gamed out those risks where Taiwan's concerned because to your point, Nvidia or Apple or any other countless number of companies, and thus economies would be impacted if you did see China make some sort of move on Taiwan, particularly in the



near term. And if we thought we saw supply chain spurred inflation coming out of the pandemic, we ain't seen nothing yet in terms of the economic turmoil a situation like that would entail. So how quickly can you stand up that domestic manufacturing, especially when fabs are complicated and they can take years to put together?

Sec. Raimondo:

Once again, you hit the nail on the head. We can't move fast enough. Look it, I don't know if and when China will make a move on Taiwan, and in many ways I can't control that. Our Defense Department's doing an amazing job with deterrence. What I can control is how fast we run in America. So I have to assume the worst and go as fast as we can. And that's why we're going to start getting this money out the door early next year. And we're working -- I will say, I want to thank all the chips companies who are here who've applied. They've all been unbelievable partners. It's not like they apply and we give them an answer. It's a constant back and forth, back and forth. What are their plans? They're amending their plans to meet our national security needs. That's why I mentioned advanced packaging, for example. So I feel great about it, and that's the attitude we have to say, which is like, we need this for America's national security. What's the fastest, most capital efficient way to accomplish this? And let's get it done.

Morgan Brennan:

I've got two more questions for you here. So we're going to try and bang through this, because I know the clock's ticking down. The first is we're talking a lot about chips. Are there other US origin products or types of technologies that you are looking at in a similar fashion right now?

Sec. Raimondo:

Absolutely. In biotechnology. AI. AI models, AI products, cloud computing, supercomputing. So, short answer is yes, once again, as everything gets so much more technologically enabled and everything that flows from artificial intelligence. That's why I said I may be the first here, I'm not the last. Because technology and our ability to control our technology, I think BIS, if it's not already should be soon, the most exciting place to work in the federal government. This, it's this. How do we advance AI and control AI and everything that flows from it effectively to win? And that's the work that we're doing.

Morgan Brennan:

You met with your Chinese counterparts in China a couple of months ago. You were in the room for presidents Biden and Xi meeting at APEC. You met with your own counterparts, Chinese counterparts at APEC. How would you, even as we have this conversation on stage, how would you characterize the relationship currently between the two countries as we've seen communication, relations, thaw and increase?

Sec. Raimondo:

I would say communication is a good thing because -- here's what I know: If you don't have communication, you'll move more rapidly to escalation and tension and miscalculation. But don't confuse communication with weakness or softness. There's a lot of commerce to be done with China. It won't affect our national security. It will create

jobs in America, and we should do that. And by the way, it should be reciprocal. If they want access to our markets, they have to give us access to their markets. UnionPay, Alipay, their payments happen in America? Let's go, MasterCard, Visa, etc, ought to be allowed in China. So on a fair -- and that's just one example, because I only have a second -- but on a level playing field, we will compete and we will trade, and that is good. But on matters of national security, we've got to be eyes wide open about the threat. This is the biggest threat we've ever had, and we need to meet the moment. And so, I think that we just -- you could communicate, you should communicate. You have to work together on things like fentanyl and climate, wherever we can. We have no interest in tension, no interest in escalation. The world needs us to manage our relationship with China responsibly to avoid escalation. We got to do all that. But make no mistake about it, China's not our friend and we need to be eyes wide open about the extent of that threat.

Morgan Brennan:

Is there anything else you want to add before we finish this conversation?

Sec. Raimondo:

The only thing I would say, apart from the fact that I'm really pleased to be here, is a challenge to all of us to think differently. Technology is changing at a rate that we've never seen. And that means we need to change. We need to change the way we think about spectrum strategy. It can't be a zero-sum game. We need to make spectrum available so we can out innovate the world and make sure the DOD has what it needs. We already talked about AI. We need to change the way we procure technology. We need to change when we are doing our hiring internally, how do we get the engineers and technical geniuses that we need to do the job? How do we attract and recruit young people to the government to do this work that we need? And so, for all of us, I mean, that's the challenge. It's the excitement. I am ready to win and I'm ready to do that with all of you. But it's time to open our aperture and challenge the way we've done business in every way. If we're going to meet the threat China poses, and if we're going to do what needs to be done with this technology,

Morgan Brennan:

The Honorable Gina Raimondo, thank you. Secretary of the US Commerce Department. Thank you. Thank you.

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