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Mr. Chairman, Ranking Member Ruppertsberger and Honorable Committee Members,

My name is Zhu Jinyun, ZTE's Senior Vice President for North America and Europe. I have a supporting written statement that I urge be included in the record along with my full statement.

I am pleased to appear today to represent ZTE, one of the world's remarkable companies, operating in 140 countries before one of the most important committees in the United States Congress. When I started my career as a young engineer in a corner of China called Shenzhen, I never dreamed I would have an honor like this one.

I had the pleasure of hosting a meeting for your staff in Shenzhen on April 12 and to meet with several of you for a briefing in Hong Kong on May 23. I hope someday you will have the opportunity to visit Shenzhen, and see what a miracle it has become.

To understand ZTE, it is useful to understand Shenzhen. Thirty years ago Shenzhen was a fishing village of about 300,000 people. Today Shenzhen is China's high tech center, much like Silicon Valley, with 14 million residents, most under 30 years old. When you visit Shenzhen, you will feel optimism and hope, freedom and creativity. It is in the air.

The spirit of Shenzhen was born when China's government chose Shenzhen to be the first of four Special Economic Zones (SEZ's) in 1979. The Shenzhen SEZ was created to be an experimental center for free market companies. Today, Shenzhen is home to many of China's most successful high tech companies, including ours; and the Shenzhen Stock Exchange has over 17 million registered investors. When one recalls that, in 1979, everyone worked for the state or an SOE and there were no private companies, Shenzhen's success is impressive.

The concept of the Shenzhen SEZ seems obvious today, but it was revolutionary in 1979. Allow risk takers to develop companies on the free market model. Find out if they could stand on their own and serve people better. Learn whether Chinese companies, for the first time, could change the way China does business.

ZTE's founder and Chairman, Mr. Hou Weigui, was a young engineer at the time, working in China's aerospace sector on general purpose integrated circuit work. He

and six fellow engineers saw the Shenzhen SEZ's unprecedented potential and they leapt at the chance to join in this bold experiment. They left their secure positions and embarked on this new enterprise. They were pioneers. They had no stable income, but they had a vision.

That vision was that they wanted to provide universal telecommunications service to China's undeveloped and rural areas.

This was Mr. Hou's commercial vision, not something imposed or mandated by China's government. And, from the start, he and his team saw it as a private commercial enterprise. In 1985, they launched their company with an investment of 2 million RMB (about \$300,000) from three investors, notably a foreign investor from Hong Kong, and set about designing their switch. They supported their research with revenue from contract work for a trading company in Hong Kong.

For the next ten years, we had success in China's rural market. In 1987, we launched our first switch, the ZX60, developed many more over the years and won national respect for our product quality. Mr. Hou's vision was broader and in 1996, he and his team decided to pursue diversified products, serve urban and international markets. This growth plan required capital, and, in 1997 ZTE became the first Chinese telecom company to list on the Shenzhen Stock Exchange.

I grew up in rural China, and like many of my colleagues, attended college, and I joined ZTE in 1998. We wanted to be part of something new and innovative. My first assignment with ZTE was to help develop our next technology – CDMA wireless systems. It was a great time for a young engineer to join ZTE. I knew ZTE's business model was focused on engineering, R&D, innovation. The company was making unprecedented moves, including becoming the first Chinese company to enter into a licensing partnership with Qualcomm – and ZTE remains one of Qualcomm's leading partners to this day. And ZTE was expanding into diversified advanced technologies including development of a mobile communications system for China and around the world.

My first project team was six people. By 2000, we had 900 people working on CDMA wireless systems. We wanted to compete in the China market which remained dominated by giant Western vendors. Even 15 years after our founding, it was still necessary for ZTE to show China's network carriers that our solutions could be trusted. We were able to serve only about 7% of China Unicom's wireless customers, with the balance distributed among Western vendors. But, as a consequence, we became the first Chinese company manufacturing CDMA wireless systems.

Once again, ZTE won a reputation for the quality of its products in the China market. Starting with a simple circuit switch, we had built a core network and applied it to CDMA. That was state of the art product development. We engineers were quite happy that our internal designs actually worked. Our commitment to innovation and product development had paid off. When the world telecom equipment market suffered

a downturn in the early 2000's, ZTE's CDMA wireless systems were in demand and helped carry us through.

Of course, Mr. Hou's vision was global. In 2004, ZTE became the first Chinese company listed both on the Shenzhen and Hong Kong Stock Exchanges.

I was assigned to help develop international markets for our CDMA RAN products. We already had learned to compete in China's developing market. Partnering with Qualcomm, we logically identified India, Africa, and other developing markets for our equipment. Over time, ZTE's wireless equipment platforms have integrated every technology from GSM, to CDMA, to WiMAX, to 3G, LTE and beyond. Our 3G capability carried us through the 2009 economic crisis. Innovation and quality have served ZTE well.

ZTE is a free market success story built on innovation: to supply unserved markets and to help pioneer next generation technologies. And, relevant to your inquiry, ZTE's path has never been government-directed. ZTE started as, and remains today, a company of telecom equipment engineers who pursue commercial opportunity and social responsibility in product innovation. In fact, importantly, *Fortune* magazine ranks ZTE number two among China companies for global corporate social responsibility in 2012.

ZTE started out as a private company with some SOE investment. Today ZTE is owned by over 140,000 public shareholders, including many of the world's leading institutional investors. ZTE is regulated on two stock exchanges, and SOE investment has been reduced to 15.68%. ZTE's Board and management are fully devoted to serving the interests of our 140,000 public shareholders. And, because most of ZTE's business is mostly international, ZTE must comply with laws in countries throughout the world.

While ZTE appreciates its position in China's expanding telecom market, ZTE is focused on its success as a multinational company. ZTE is not an SOE or government controlled. Indeed, ZTE is China's most independent, transparent, globally focused, publicly traded telecom company.

Being a global publicly traded company naturally imposes a set of broadly recognized responsibilities and business norms. ZTE's cooperation with this Committee's investigation is one example. In our view, ZTE has set a new precedent for cooperation by any Chinese company with a US congressional investigation.

Another important example is the need for multinational telecom equipment suppliers to satisfy recognized equipment standards everywhere they do business. ZTE was the first Chinese company ever to be fully certified under the most important international and US equipment standards, including ISO 27001 and NIST FIPS 140-2. Not only is ZTE and its equipment fully certified by the leading standards-setting organizations, ZTE actively participates in these organizations, helping to lead the way

in advancing standards-setting throughout the world, including cyber protection standards.

I am aware of testimony, presented to Congress earlier this year, in which the leading cyber protection experts in the US Defense Department and Department of Homeland Security have advised Congress that the most effective cyber protection is universal application of these equipment standards and Trusted Delivery Models. Not only is ZTE's equipment certified according to the most advanced standards, ZTE has offered a state of the art Trusted Delivery Model to US telecom equipment purchasers since 2010. Today, ZTE has in place a Trusted Delivery Agreement with a highly regarded independent US security assessment laboratory, Electronic Warfare Associates (EWA), which provides assurance to any US carrier purchasing ZTE telecom infrastructure equipment that the equipment will be tested continuously throughout its life cycle.

The reason experts rely upon Trusted Delivery Systems for cyber protection is that, with a reliable Trusted Delivery System, the equipment can be trusted no matter who the supplier is. Trusted Delivery Systems are vendor-neutral. Also, Trusted Delivery Systems have the same effect as highway speed cameras: they deter illegal activity. ZTE is in the vanguard of supply chain risk management and Trusted Delivery.

Given all that ZTE is doing to promote cyber security, the Committee's inquiry whether ZTE may pose a threat to critical US telecom infrastructure is very disturbing for us, as you must expect. The Committee's central question has been: would ZTE grant China's government access to ZTE telecom infrastructure equipment for a cyber attack?

Mr. Chairman, let me answer emphatically: no! China's government has never made such a request. We expect the Chinese government never to make such a request of ZTE. If such a request were made, ZTE would be bound by US law.

ZTE is committed to helping this Committee and its partners in Government and industry to promote cyber security through our cooperation here and in the future. Let me raise a concern about some legislative proposals that have been proposed recently.

Your Committee has suggested there are risks in US network carriers' purchases of telecom operating equipment from foreign vendors, particularly vendors in China. As the Committee undoubtedly understands, virtually all of the telecom equipment now sold in the United States and throughout the world contains components made, in whole or in part, in China. That includes the equipment manufactured and sold by every Western vendor, much of which is made by Chinese joint venture partners and suppliers.

We respectfully suggest that the Committee's focus on ZTE, to the exclusion of the Western telecom vendors, addresses the overall issue of risk so narrowly that it omits from the Committee's inquiry the suppliers of the vast majority of equipment used in the US market. ZTE is a relatively small US telecom equipment supplier in

comparison with most of the Western vendors. Sales of ZTE's telecom infrastructure equipment in the United States comprised less than \$30 million in revenue last year. Two Western vendors, alone, last year provided the US market with \$14 billion dollars' worth of equipment.

ZTE should not be a focus of this investigation to the exclusion of the much larger Western vendors.

We urge the Committee to consider a serious concern with several pending legislative proposals designed to exclude Chinese equipment suppliers, directly or indirectly, from the US market. One proposal would exclude the companies named in this inquiry explicitly. Others would exclude any Chinese suppliers with "ties" to China's government

Respectfully, neither proposal would protect US national security as comprehensively as implementation of the Trusted Delivery System ZTE offers US carriers. Proposals that specific Chinese companies be excluded from the US market, either directly or indirectly, would constitute obvious unfair trade practices and are so narrow that they would provide no meaningful solution in support of US cyber security.

Proposals based on China government "ties" suffer from the opposite problem. While the word "ties" is undefined, it presumably is meant to be applied broadly. If so, it is readily foreseeable that every supplier of US telecom infrastructure equipment – including the Western vendors and their Chinese manufacturing partners – would be found to have "ties" to China's government. If every vendor with "ties" to China's market is excluded from the US market, where will US carriers purchase telecom infrastructure equipment?

US chip set suppliers have advocated that Congress not adopt these exclusionary measures because they would disrupt supply relationships with Chinese equipment purchasers that are vital to the US economy. ZTE alone has purchased over \$14 billion in US equipment in recent years, indirectly creating over 20,000 US jobs. We expect to make even larger purchases going forward. Market exclusion proposals are counter-productive, particularly when reliable, more effective solutions are readily available.

Responsible federal agencies and US telecom carriers have increasingly come to recognize that Trusted Delivery Systems render telecom equipment trustworthy regardless of who the supplier is. Respected international commentators have come to the same conclusion.

For example, on August 4, *The Economist* published an editorial making the following points.

- Just about everybody now makes telecom equipment in China;
- Banning Chinese telecom suppliers is no guarantee of national security;

- The answer is to require greater scrutiny of everyone, not just the Chinese firms;
- Governments should ensure telecom equipment is secure no matter who makes it; and
- This will protect networks; banning companies will not.

The Economist supports the Trusted Delivery Model, and rejects market exclusion, to protect national security.

ZTE's commitment is clear. ZTE is China's most independent, transparent, regulated, globally focused, publicly traded telecom company. We are accountable under legal and social norms everywhere we do business. ZTE's ultimate success depends on our ability to serve as a trusted partner for US telecom carriers. No company has a greater stake in promoting effective US cyber security than ZTE.

And we are readily equipped to help you achieve real results quickly. Our equipment is certified and we are helping design advanced global cyber security standards. Our end-to-end Trusted Delivery System allows US carriers to use our equipment fully confident it is, and remains, safe.

Mr. Chairman, ZTE respects the Committee's responsibility to protect US national security. We came here this morning because we want to help, with the expectation that the Congress and the United States government will provide ZTE with an open and equal opportunity to compete in the United States. We believe that ZTE is the most transparent publicly owned telecom company in China, and that ZTE is the best choice to work in concert with the Congress and the United States government and to be a trusted partner with US vendors in the formation of a truly global and free market telecom community. I thank you for the opportunity to appear today, and I will be happy to answer any of your questions.