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SOVEREIGN WEALTH FUNDS: SELLING OUR NATIONAL SECURITY
Testimony before the United States-China Economic and Security Review Commission

It is my privilege to testify today before the United States-China Economic and Security Review Commission. Please let me thank the hearing co-chairs, Chairman Larry Wortzel and Commissioner Patrick Molloy, along with the rest of the Commission, for this opportunity to address the increasingly-important topic of sovereign wealth funds and their impact on America's national interest.

Please let me begin with a real story from a senior citizen from our Ohio district who this past week told me about her family's plight. She and her elderly husband live frugally on Social Security. Sadly, their married son's wife died recently. Moreover, he has lost his job with two children to support. So the grandparents are doing their best to help their son get through difficult times. In wondering where good jobs were to come from, she lamented how America had transformed into a totally different place from when she and her husband were working. She said, "Marcy, our country doesn't belong to us anymore."

It is refreshing that there is a body here on Capitol Hill investigating the explosion of foreign government investment into our economy. This is an issue not only central to U.S.-China relations, but also to our relationships with a number of other countries. China is not the only country to invest its surplus savings into our cash-short banks and financial institutions. As America becomes more debt-laden and faces recession, oil-producing countries and other Asian countries with which we already have staggering trade deficits like Japan, Russia, Singapore, Kuwait, and the United Arab Emirates, among others, contribute more and more to this trend.

These funds are the latest symptom of a decades-long problem. When I first arrived in Congress, I pointed out (and fought against, to no avail) the growing trend of foreign purchases of U.S. treasury securities. In 1983, the percentage of foreign-held debt was less than 17%. But by 2006, that figure rose to 54%.

To date, your Commission has focused on issues relating directly to Chinese-American policy, and China's financial maneuvers certainly present a large threat to American economic security. However, I believe this issue is so important it must be viewed through a larger lens. As my old professor at Harvard Business School used to admonish, "If you want to know the way the world operates, follow the cash."

These funds have existed for decades. Yet the term "sovereign wealth fund" has only recently entered the public's vocabulary as our sovereignty and economic ownership slip out of our grasp. These funds, enriched beyond imagination by U.S. dollars from foreign imports such as petroleum, have swooped in only too happily to "rescue" Wall Street, investment houses, and banks that are faltering as a result of the sub-prime mortgage crisis and the very flawed trade models, like China PNTR, that are trademarks of American economic policy. The power of petroleum is obvious on the chart I included, which shows that among ten of the largest sovereign wealth funds, 69% of these assets exist in funds financed by oil revenue.

To prop up Wall Street, Chinese funds recently invested $5 billion in Morgan Stanley and $3 million in Barclays. Citigroup just accepted $22 billion in buyouts, including a significant amount of money from Singaporean, Kuwaiti, and Abu Dhabi funds. Merrill Lynch sold stake to these funds when the governments of Korea, Kuwait, and Singapore contributed to a buyout.

Mr. Lou Jiwei, the head of China Investment Corporation, China's $200 billion sovereign wealth fund, claimed last week in the *New York Times* that the Chinese government, through his fund, is focused more on investments in portfolios than in individual companies. He did not rule out making direct investments, as in the case of Morgan Stanley I mentioned earlier.

He said, "If there is a big fat rabbit, we will also shoot it. Some people will say we were shot by Morgan Stanley. But who knows?"

Think about that statement. "If there is a big fat rabbit, we will also shoot it."

Mr. Lou Jiwei fancies himself to be a big game hunter, to be sure. He's not content with small game. Oh, no. He loves to shoot big, fat targets. Targets such as Morgan Stanley and Blackstone.

He certainly has plenty of ammunition: $1.4 trillion in foreign reserves.

The policy question for us is whether the United States will require him to buy a hunting license. Will we regulate Mr. Jiwei's hunting by declaring a season and a bag limit? Will we require background checks before he buys a gun to hunt his prey?

And what if Mr. Jiwei's acquisitions threaten U.S. security interests in products, processes, or intellectual property?

Will we sit back and let the Lou Jiweis of the world fire at will, claiming our assets and extirpating our businesses?

Instead of rescuing our economy, these investments only deepen America's insecurity, forcing the U.S. further into debt to foreign interests. More often than not, these deals are presented as purely financial when they are, in fact, political and strategic.

The funds suffer from a severe lack of transparency, especially with regard to governance. So many are run by undemocratic governments with powerful strategic objectives. I included with this testimony a graph plotting the funds according to their level of transparency and style of investment approach. There is the possibility that ulterior motives exist for these countries, and that these financial investments are aimed at strategic results. For those who think there should be little government involvement in the workings of our markets, it should be obvious that foreign government meddling and takeovers of private enterprise are even more dangerous—some would say socialistic. America needs to reclaim our economic independence and security while retaining the integrity of our markets to remain prosperous.

What should we do about these threats? First, secure transparency. Then, analyze. And if there is the potential for destructive practices, regulate.

We must require disclosure and increased transparency of all sovereign wealth fund bids. Stake-holders, stock-holders, and the government need to ask: Who operates these funds? How big are they? Are they audited? If so, by whom? What are their investment policies? What are their true motives?

Some funds are willingly transparent, like Norway's, so there does exist a standard for how much information can and should be disclosed. Others, like the Chinese funds that bring us here today, obscure their investment strategies, and have unconventional investment patterns.

That bring to light my second concern—political motives. It is not just the rogue academics raising the alarm. In a cover story last month, the *Economist* reported that "China and South Korea want returns—and possibly access to markets, ideas and technology."

In addition to requiring transparency, in order to see how immense this problem has grown, Congress needs also to examine regulation. This would normally fall to the Committee on Foreign Investment in the United States, also known as CFIUS, but there are questions as to how reliable this body is. Beyond methodological objections regarding how well these funds can be tested by existing models, many of us have expressed concern that the Committee is governed by the skewed interests of those involved in approving these transactions.

President Bush recently signed an executive order transferring his own power to the Treasury department to authorize or reject foreign takeovers of American companies. But officials from the Defense Department, the Department of Justice, and the Department of Homeland Security objected to the order over the past few months saying it served business interests over security interests. It allows Wall Street to continue to profit at the expense of national security. Furthermore, President Bush stripped from this order the provision that required the Committee to "monitor the effects of foreign investment in the United States."

Congress needs to reassert our power and pass legislation that maintains as presidential the authority to approve or reject these deals. I have drafted legislation to do exactly that. Congress must require the Administration to report back in order to prevent the president from delegating this important national security authority to any cabinet officer or executive agency. The U.S. government always needs to act in the name of national security before private interests. After all, our Congressional oath requires us to "support and defend the Constitution of the United States against all enemies, foreign or domestic."

Some might object to increased government involvement in the economy if we require transparency. But American government involvement is preferable to foreign government involvement. We need to prioritize the security of our citizens, businesses, and economy as a whole. Our national security is far more important than Wall Street's interests and more important than doling out U.S. liberty in order to rescue reckless megabanks from their own bad investment decisions. Furthermore, our nation should regulate a savings policy direction and reject the debt path Wall Street is imposing on Main Street.

Our economy is suffering enough as it is. Our federal government should be working to rebuild our economy, create new jobs, and lessen our dependence on foreign oil. Instead, it is allowing foreign governments to control greater and greater shares of our economy. Let's require transparency, balance the approval process for foreign investments, and reclaim our national security from sovereign wealth funds. The U.S. government must stand up for the American people in the face of this opaque and increasingly-powerful threat to our sovereignty.