



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on the Implications of Sovereign Wealth Fund Investments for National Security

**Opening Statement of Commissioner Patrick Mulloy
February 7, 2008
Washington, DC**

I am very pleased to have the opportunity to co-chair today's important hearing with Larry Wortzel, the Chairman of our Commission. I want to first thank the members of Congress who will testify at today's hearing: Senators Bayh, Brown and Webb, and Congresswoman Kaptur. I also thank the Congress for the support and interest so many members have shown in the work of the Commission since it was chartered by them in the year 2000.

The subject matter of this hearing is extremely important and has attracted much attention in the press and in the policy community in recent months. We will, in this hearing, try to get a better understanding of how nations acquire the dollars to build their sovereign wealth funds and what large investments by these foreign government-controlled vehicles in the United States portend for our nation.

My own view is the Chinese policy of keeping its currency undervalued by buying dollars has contributed to our nation's vast and growing trade deficit with that country. Last year, our trade deficit with China was \$270 billion. This year it will probably reach \$300 billion. Since 1995, our cumulative trade deficits with China are well over \$1 trillion. These large and still growing trade deficits have helped China accumulate foreign currency reserves of about \$1.5 trillion, which are growing at a billion dollars a day. China has recently taken \$200 billion from these foreign currency reserves to set up its sovereign wealth fund. Obviously, it can add billions of dollars to its fund at any time it wishes in order to make additional purchases in our nation.

On October 26, 2003 Fortune Magazine carried an article by Warren Buffett entitled "Why I Am Not Buying the Dollar: America's Growing Trade Deficit is Selling the Nation Out From Under US". In that article Mr. Buffet warned us that America's continuing and massive trade deficits were causing a massive outflow of our national wealth. He likened our nation to a rich family that is selling off portions of its farm each year to support a life style it was no longer earning. On October 24, 2007, the Washington Post published an editorial entitled "Countries Buying Companies" which was on the subject of sovereign wealth funds. That editorial stated:

“Sovereign wealth funds, however, offer governments a way to take over businesses for political as well as economic purposes...the accumulation of so many dollars in foreign hands is the result of years in which the United States has imported more than it has exported

One observer has noted that our nation is collectively behaving like the Indians who sold Manhattan Island for some gaudy trinkets that at the time appeared attractive to them. We are allowing this to happen because we as a nation have failed to develop policies to deal with the mercantilist practices being used by other nations, such as China, in their trade with us.

Until the United States makes it a national priority to reduce our trade deficits, we are going to have to live with increasing foreign ownership of our economy. So we must then try to ensure that we have laws and regulations in effect that at least limit foreign purchases of U.S. assets whose foreign ownership could threaten the national security. Congress is aware of this problem and last year updated the law governing the Committee on Foreign Investment in the United States (CFIUS) whose job it is to review foreign purchases of U.S. assets.

Today we will hear witnesses who will speak on all aspects of the sovereign wealth fund issue. The Commission will take all such views into account when it later formulates its own recommendations to the Congress. We thus appreciate the work our many distinguished witnesses have put into preparing their statements and for being here to testify.

Let me now introduce the members of Congress who have come to testify.