Hearing on “U.S. Investment in China’s Capital Markets and Military-Industrial Complex”

Opening Statement of Commissioner Bob Borochoff

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Washington, DC

Good morning, and welcome to the third hearing of the U.S.-China Economic and Security Review Commission’s 2021 Annual Report cycle. This hearing comes not just as China welcomes unprecedented levels of U.S. investment into its capital markets, but also as the United States implements restrictions on portfolio investment in Chinese defense conglomerates and other firms tied to China’s military. More broadly, it comes as U.S. policymakers consider how to safeguard U.S. national security in commercial relations with China, given the increasingly blurred distinction between civilian and defense companies under China’s military-civil fusion strategy.

In the Phase One trade deal signed January 15, 2020 China’s government promised to open its financial markets to foreign participation, but the terminology of openness does not guarantee that U.S. investors rights are guaranteed. As China’s corporate governance structures evolve and strengthen, they preserve a special, extra-legal channel for Chinese Communist Party oversight and intervention. The result is a system in which influence trumps ownership, and the Chinese Communist Party always has the upper hand. Our panelists today will consider this nebulous corporate landscape, examining the avenues through which Communist Chinese Party influence is exercised and state ownership and investment is expanding in order to assess the impact on U.S.-China competition in key technology areas.

As channels for U.S. investment into China’s markets proliferate, U.S. firms and individuals face unavoidable realities without greater transparency into the nature of the assets they hold. Pervasive fraud and systemic financial risk make the safety of any investment somewhat insecure, particularly in assets or companies without deeper strategic importance or political backing from China’s government. In addition, the risk that U.S. investment might unwittingly flow into strengthening China’s defense capabilities is magnified by the breadth and murkiness of China’s military industrial complex.

Everyone, U.S. government, financial firms, and investors are all stakeholders in continued U.S. security and prosperity. Our hearing today contemplates, among other solutions, how refined policy tools might provide U.S. firms with greater awareness as they navigate China’s markets. I look forward to hearing today’s expert witnesses and thank them for joining us to share their expertise. In addition, I would like to thank the Senate Committee on Commerce, Science and Transportation for securing this room for our use today. I will now turn the floor over to my colleague and co-chair for this hearing, Commissioner Jeffrey Fiedler.