U.S.- CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on "China's Capital Markets Strategies"

Opening Statement of
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Commission Chairman

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I would like to thank Vice Chairman Robinson for continuing to focus the Commission's attention on the important topic before us, and today's panelists for offering their informed perspectives on this issue. The economic and security challenges for the United States stemming from the increasing incursion of Chinese firms to the global capital markets is certainly one of the most unique issues in our mandate from Congress.

The vast majority of Chinese enterprises listed on international capital markets are owned and operated by the Chinese state. Questionable corporate governance, accounting practices, and minority shareholder rights make this a subject of particular concern to the Congress. These issues have significant implications for U.S. institutional and portfolio investors looking to purchase stock in Chinese firms, as well as financial analysts tasked with unraveling Chinese companies' complex web of relationships and finances.

As Chinese financial institutions prepare for an estimated combined $15 billion in listings, questions need to be raised regarding the loan portfolios of these institutions. I am concerned that U.S. investors may not have sufficient information to make informed decisions about the risk of these investments. Furthermore, the possible links between listed state-run firms and banks and China's military industrial complex has here-to-for lacked comprehensive examination.

China's state-run enterprises and financial institutions are not transparent or accountable making it nearly impossible to know the full extent of their assets and subsidiaries. And now that Congress has enacted an enhanced disclosure framework in the Sarbanes-Oxley Law Chinese firms have been bypassing the New York exchange and listing in Hong Kong, London or Frankfurt. Given the rush of Chinese IPOs to the Hong Kong Stock Exchange (HKSE), the HKSE's financial authorities would be wise to recognize the potential consequences of allowing Beijing–managed firms to acquire so much capital under their auspices. Because in the final estimation, the HKSE's reputation as one of the world's top exchanges hinges on its ability to ensure conflicts of interest do not occur. All international capital markets need to, at a minimum, shine a spotlight on how to perform proper due diligence on Chinese SOE's, and fast.

Taken together, all this suggests that China's need to finance its economic expansion and support its state-owned enterprises with U.S. investors money demands the full attention of the U.S. Government.