



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on “U.S.-China Trade Impacts on the U.S. Defense Industrial Base”

Opening Statement of Roger W. Robinson

Commission Vice-Chairman and Hearing Co-Chair

August 11, 2005
Washington, DC

On behalf of the Commission, I would like to welcome you to today’s public hearing entitled “**China’s Strategy and Objectives in Global Capital Markets**”. Our focus today is on the cutting-edge issue of China’s presence in the global capital markets, and the implications for U.S. investors, market regulators and, more broadly, U.S. security interests.

The nexus between financing and security is a topic of growing concern for both the legislative and executive branches of the U.S. government. This was recently highlighted in the House’s overwhelming rejection of CNOOC’s bid for UNOCAL as well as President Bush’s June 29th Executive Order which freezes U.S. assets of WMD proliferators. These developments are a wake up call that increasing attention will be paid to the national security implications of Chinese and foreign companies in U.S. markets.

In setting out our mandate, the Congress took a broad view of the economic and security issues associated with the U.S.-China relationship. Our charge is to examine, “Chinese access to, and use of United States capital markets,” demonstrates Congressional recognition that U.S. institutional and individual investors funding Chinese firms through our equity and debt markets has become a substantial component of the U.S.-China economic relationship. Moreover, our mandate to evaluate whether existing disclosure and transparency requirements are adequate to identify for investors any Chinese firms conducting, or involved in, activities harmful to U.S. security interests points to Congressional concern about the identities and operations of certain Chinese firms accessing our markets.

In December 2001, the Commission introduced this topic with a hearing that set out the enormous capital requirements of China over the next decade – stemming, in part, from undercapitalized banks, its under funded pensions and other social security obligations – and the importance that fundraising via international capital markets will play in meeting these needs. This hearing also established benchmark assessments of the amounts of

money raised in the U.S. and other international capital markets by Chinese enterprises and the predominance of state-owned enterprises among those approved by the Chinese government for overseas listings.

The Commission's April 2004 hearing on this topic broadened this assessment by looking at the corporate governance and transparency of Chinese firms listing abroad. The key focus was on how Chinese governance practices compare with Western norms and whether Chinese firms adequately disclose to international investors the nature of their financial and business operations worldwide, including any ties to China's military and known weapons proliferators.

This year's hearing will focus primarily on how Chinese companies prepare for listings, the upcoming listings of Chinese banks and the implications for U.S. investors and U.S. security interests of China's overall capital raising strategy.

Chinese firms preparing for initial public offerings (IPOs) in foreign markets generally undergo an extensive process of "window dressing" to improve the appearance of their finances and operations. The extent to which these reforms are cosmetic versus genuine structural changes and the marketing strategy employed by Chinese firms in U.S. capital markets will be explored by our first panel.

Mr. Howard Chao was to begin the panel but due to a break down in his travel arrangements he will not be able to join us until 3:30 pm this afternoon. He is the partner in charge of O'Melveny & Myers' (OMM) Asia practice. During his 25 years of practice he has been responsible for establishing OMM's China offices, and was stationed in Shanghai for seven years. **Michael Geczi**, Managing Director of The Torrenzano Group, is an expert on how Chinese firms market themselves in U.S. capital markets. He has advised numerous Chinese firms on how to approach U.S. institutional and portfolio investors. **Robert G. DeLaMater**, is a partner at Sullivan & Cromwell LLP. He has worked on dozens of Chinese IPOs and from 1997 to 2003 was the managing partner of Sullivan's offices in Hong Kong and Tokyo.

Our second panel will provide an assessment of the concerns surrounding listings of Chinese state-run banks on global capital markets. Over the next year or two, several of China's preeminent state-owned banks, including the China Construction Bank and the Bank of China, are expected to list on the U.S. and other international capital markets and potentially raise as much as \$15 billion. These banks have been plagued by financial problems including an extraordinary amount of non-performing loans and a lack of transparency. We will hear from Professor **Pieter Bottelier**, Adjunct Professor at Johns Hopkins School of Advanced International Studies and Georgetown, and Professor **Marshall W. Meyer**, Professor of Management and Sociology at the University of Pennsylvania's Wharton School of Business. Professor Bottelier will review the state of China's financial institutions and their attempts to reduce nonperforming loans. Professor Meyer has just returned from Beijing where he conducted research on how China seeks to list its financial institutions.

The third and final panel, will examine China's long-term strategy in the global capital markets and the U.S. national security dimensions. Over the last year Chinese firms have turned towards Hong Kong. In 2004, companies in Hong Kong raised \$12 billion, up from \$7.5 billion the year before. By contrast, the New York Stock Exchange temporarily appears to have fallen from favor in the eyes of Chinese firms seeking to raise money in international capital markets, primarily as a result of strengthened regulatory regimes required by the Sarbanes-Oxley law. This dynamic begs the question: Are Chinese firms avoiding exchanges that require greater levels disclosure, transparency and corporate governance?

Solomon Tadesse, Assistant Professor of International Finance at the Moore School of Business at the University of South Carolina, and Donald Straszheim, President of Straszheim Global Investors, and formerly chief economist for Merrill Lynch will provide an overview of Chinese strategies and objectives in global capital markets and their implications for U.S. investors. Frank Gaffney, President of the Center for Security Policy and formerly the Acting Assistant Secretary of Defense for International Security Policy in the Reagan Administration, will address security concerns related to certain Chinese firms listing in the international capital markets.

The Commission remains to my knowledge the only U.S. Government body systematically examining this emerging area of financial and security risk associated with the trading and listed of Chinese debt and equity offerings in the U.S. and international capital markets. With that introduction, I would like to turn to our first panelist.