U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Hearing on "China's Capital Markets Strategies"

Opening Statement of

Michael R. Wessel

Commissioner and Hearing Cochair

August 11, 2005
Washington, DC

Good morning and welcome to today's hearing on China and the capital markets. Since the Commission's last report in 2004 we've held ten hearings covering a range of topics on U.S.-China trade and security issues. Today's topic helps complete this picture of U.S.-China economic relations with a discussion of a topic that gets relatively little attention -- the growing trend of Chinese firms raising capital in U.S. and global markets.

While it is certainly an appropriate step in China's economic development that its firms are now increasingly looking to global capital markets to raise funds, it is also appropriate for the U.S. government and U.S. investors to want to better understand the nature of these listings. This Commission has made clear in the past its concerns about the lack of transparency of certain Chinese firms listing in the global capital markets. We have asked whether U.S. investors are sufficiently aware of the financial wherewithal of such firms and whether the U.S. government is sufficiently aware of any military and weapons proliferation ties these firms may have.

With regard to transparency, current U.S. securities laws, such as Sarbanes-Oxley, appear to have decreased the number of Chinese offerings in the U.S. capital markets due to concerns by the firms about the enhanced disclosure requirements for foreign registrants. Today we will discuss how this legislation has caused Chinese companies to list in Hong Kong or Tokyo rather than the United States.

Transparency concerns may be heightened with regard to the anticipated listings of major Chinese state-owned banks in the U.S. capital markets. I believe we need to draw attention to the level of due diligence performed by these banks and gain a handle on the true holdings in their loan portfolios. Are they major sources of capital for Chinese military and defense firms? Moreover, China's state-owned banks have been the traditional sources of below market rate capital for China's state-owned industries, serving in my opinion as a massive form of state subsidy unavailable to U.S. competitors. Take for example the CNOOC bid for Unocal. To exceed Chevron's offer for Unocal, CNOOC received $6 billion in state-owned bank funding in addition to the $7 billion in loans at below market or no interest rates from its state owned parent company. Deals such as this highlight how the nature of state-owned bank lending practices may be based more on governmental interests than true market forces. As these banks list publicly, this behavior needs to be monitored, and at the very least, investors deserve complete disclosure of the non-market forces at work. The forces that drove Congress to enact Sarbanes-Oxley are no less important here as we look at how to protect the investing public.

Our intention is not to propose unreasonable restrictions on the access of Chinese firms to U.S. capital markets. Our goal instead is to ensure that the U.S. government and U.S. investors have the most complete information possible on the financial standing and activities of Chinese firms listing in our capital markets. The proper functioning of our capital markets requires broad transparency of the listed entities. We should hold all listings to this important standard.

I look forward to today's panels.