



Hearing on “China’s Quest for Capital: Motivations, Methods, and Implications”

Thursday, January 23, 2020
Dirksen Senate Office Building, Room 419
Washington, DC 20510

Opening Statement of Commissioner Michael Wessel

Thank you, Chairman Cleveland, and good morning everyone. I want to thank our witnesses for joining us today, and for the thought and consideration that they have given their testimonies.

From a traditional point of view, Beijing is taking a range of steps to tap into new sources of capital to manage an economic slowdown, weather trade frictions with the United States, and bolster its balance of payments. But we also need to understand that China is seeking capital to support Made in China 2025, military-civil fusion and a wide range of other policies designed to enhance China’s national and economic security interests. We cannot view China’s capital needs and acquisition strategies through a myopic lens but must assess them, and their impact on U.S. interests, as part of a more comprehensive outlook.

In 2001, China became a member of the World Trade Organization after a lengthy negotiation. Today, most analysts recognize the flaws in the original accession agreement and the limited enforcement of its terms. Yet, despite the immensely consequential nature of China’s expanded role in international financial markets, we are not treating that entry with anywhere near the same scrutiny. In my view, this is a very serious mistake. Indeed, we are allowing Chinese companies to skirt many basic international financial norms in order to placate Beijing so that our financial services firms can earn fee income and investors can achieve higher, but riskier returns.

The global economy’s exposure to the unique risks in China’s financial system is rising. Today’s hearing is part of the Commission’s ongoing effort to bring that exposure and risks into sharper relief. In 2017, the Commission assessed how Chinese audit regulators’ refusal to cooperate with their U.S. counterparts exposes U.S. investors to fraudulent activities of U.S.-listed Chinese firms. And in 2019, the Commission analyzed how this reluctance, together with other regulatory and oversight gaps, can erode the integrity of U.S. financial markets.

The Chinese government’s strategic opening of its financial system in recent years has enhanced foreign investors’ ability to buy Chinese stocks and bonds. Major global securities index providers are taking bold steps towards including Chinese stocks and bonds in their indexes. These steps are projected to lead to some \$405 billion in new capital flows to China over the next two to three years, including retirement assets of federal government employees and members of the U.S. military.

In short, China’s integration into global financial markets is accelerating, and U.S. investors’ linkages with China are deepening. To what extent does China’s financial opening and push to elevate its profile in global financial markets reflect an effort to recruit foreigners in paying off domestic debt? Are U.S. stock and bond investments funding Chinese entities or activities that run counter to U.S. economic and national security interests? Can we limit this while still preserving opportunities for U.S. investors?

And, just as China's entry into the WTO was promoted by multinational firms seeking to access China's market and also use it as an export platform to serve our market here, we are seeing U.S. financial firms promoting access to China for their products and services. The parallels are significant. This potentially will create a new point of leverage for China to influence U.S. policy through those seeking to curry favor with the CCP leadership.

For the average citizen, we need to have an answer for Samuel L. Jackson two to three years from now when he asks: "What's in your wallet?" They deserve to know.

To our distinguished witnesses, thank you for joining us to discuss these important questions. I look forward to hearing from each of you.

Before we begin, I would like to remind you that the testimonies and transcript from today's hearing will be posted on our website, www.uscc.gov. Also, please mark your calendars for the Commission's upcoming hearing on "Chinese Military Power Projection and Influence," which will take place on February 20.