

Statement by U.S. Senator James M. Inhofe (Oklahoma)

July 21, 2005

Hearing on China's Growing Global Influence: Objectives and Strategies

US-China Economic and Security Review Commission testimony

Thank you for inviting me today. I have been closely following the growth of China, and have found the US-China Commission's reports and hearings very insightful. I applaud your effort to provide Congress with a clear picture of a very difficult situation; your work is illuminating and challenges us to face these very real and growing problems.

Over the past few months I have given four floor speeches on China's growing global influence and the impact this has on our national security. These issues cover a broad spectrum, from an alarming military modernization to the lack of economic accountability.

I have found the recommendations in the Commission's 2004 Report objective, necessary, and urgent, and I am introducing an amendment to the Defense Authorization Bill—which is currently in the floor—that conveys support for these recommendations.

This amendment expresses the sense of the Senate that:

- China should reevaluate its manipulated currency level and allow it to float against other currencies. In the Treasury Department's recent Report to Congress, China's monetary policies are described as "highly distortionary and pose a risk to China's economy, its trading partners, and global economic growth."
- Appropriate steps ought to be taken through the World Trade Organization to hold China accountable for its dubious trade practices. Major problem issues such as intellectual property rights have yet to be addressed.
- The U.S. should revitalize engagement in the Asian region, broadening our interaction with organizations like ASEAN. Our lack of influence has been demonstrated by the Shanghai

Cooperation Organization recently demanding that we set a troop pullout deadline in Afghanistan.

- The administration ought to hold China accountable for proliferating prohibited technologies. Chinese companies such as NORINCO or CPMIEC have been sanctioned frequently and yet the Chinese government refuses to enforce their own nonproliferation agreements.
- The UN should monitor nuclear/biological/chemical treaties and either enforce these agreements or report them to the Security Council. The US-China Commission has found that China has undercut the UN many areas, undermining what pressure we've tried to apply on problematic states such as Sudan or Zimbabwe.
- The administration ought to review the effectiveness of the "One China" policy in relation to Taiwan to reflect the dynamic nature of the situation. The Defense Department's annual report to Congress, released two days ago, states that China's military's "sustained buildup affects the status quo in the Taiwan Strait."
- Various energy agencies should encourage China to develop a strategic oil reserve in order to avoid a disastrous economic crisis if oil availability becomes unstable.
- The administration should develop and publish a national strategy to maintain US scientific and technological leadership in regards to China's rapid growth in these fields.
- The Committee on Foreign Investment in the United States (CFIUS) should include national economic security as a criterion for evaluation and the chairmanship to be transferred to a more appropriate chair, allowing for increased security precautions.
- The administration should continue in its pressure on the EU to maintain its arms embargo on China. The recent Defense Department report states that the EU would not have the capability to monitor and enforce any limits if the arms embargo is lifted.

- Penalties should be placed on foreign contractors who sell sensitive military use technology or weapons systems to China from benefiting from US defense-related research, development and production programs. The administration should also provide a report to Congress on the scope foreign military sales to China.
- And Finally, we should support the recommendations of the Commission's 2004 Report to Congress.

As a leading and appropriate step toward addressing these problems with China, I am also introducing another amendment on the Defense Authorization Bill. This amendment addresses the review process of foreign acquisitions in the US. Presently the review of controversial buys, such as the CNOOC, currently falls to the Committee on Foreign Investment in the United States (CFIUS). I will state this simply: CFIUS has not demonstrated an appropriate conception of U.S. national security. I understand that Representatives Hyde, Hunter and Manzullo expressed similar views in a January letter to Treasury Secretary John Snow, the chairman of CFIUS. Of more than 1,500 cases of foreign investments or acquisitions in the US, CFIUS has investigated only 24. And only one resulted in actually stopping the transaction. This lone disapproval, in February 1990, occurred with respect to a transaction had already taken place—it took President George H. Bush to stop the deal.

China's energy expansion has recently been brought to light through the current \$18.5 billion bid by China National Offshore Oil Company (CNOOC) to acquire Unocal Corporation, a US-owned energy company. This situation is ironically similar to when China sought to acquire Russian oil companies in 2002. However, faced with this buyout, the Russian legislature forced Sinopec, China's state-owned oil company, to withdrawal from the bidding on Slavnet, Russia's ninth largest oil company. The Russians feared that they would lose economic control of their Far East region.

I have outlined in my earlier speeches how China is a threat. I believe it is. But this is a threat that can be addressed and enable a healthy, mutual growth for both our countries. A primary step toward this end is addressing the shortcomings of the CFIUS review process. This second amendment is a step in that direction.

First, it clearly charges the commission with measuring energy and economic security as fundamental aspects of national security.

Second, it brings Congressional oversight into the foreign investment review process. After a 10-day review period, an oversight committee chairman can extend the review period to 30 days. Congress then has the option to pass a Resolution of disapproval and thus stop an acquisition harmful to our country.

Third, the amendment calls for a report on the security implications of transactions on a monthly basis. There will also be a yearly report to the proper congressional committees that will review the cumulative effect of our sales with China.

The amendment also changes the actual name of the review mechanism to reflect the national security focus that it should be emphasizing. The new name would be Committee on Foreign Acquisitions Affecting National Security, or CFAANS. For those same reasons, the Secretary of Defense would be designated as chairman of CFAANS.

The foreign investment review process is a vital part of providing for U.S. security, particularly in relation to countries such as China. I think that it is clear we can improve the process and enable it to better perform its authorized purpose.

The U.S.-China Economic and Security Review Commission was created to give us in Congress a clear picture about what is going on—and you have done your job well. Now we in Congress must do ours. Thank you.