COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

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Opening Statement

March 5, 2008

Mr. Chairman, thank you for holding this hearing today. It has been nearly a year since this Congress examined the impact of foreign investment in the United States, and that inquiry resulted in the enactment of the *Foreign Investment and National Security Act of 2007* (P.L. 110-49). That legislation positively reformed the oversight process of the Committee on Foreign Investment in the United States (CFIUS). I was pleased to be a part of that process that included my recommendation to have heightened scrutiny of sensitive transactions involving foreign state-owned enterprises. I look forward to the opportunity to again examine the significance of foreign investment in the U.S. economy, this time through the vehicles of sovereign wealth funds.

Before attempting to assess the pros and cons of sovereign wealth funds, it is important to examine the important role that foreign direct investment, including that provided by sovereign wealth funds, plays in the

U.S. economy. U.S. subsidiaries of foreign companies employ 5.1 million Americans, of which 31 percent are in the manufacturing sector; have a payroll of $325 billion; and account for 19 percent of all U.S. exported goods. Foreign direct investment, including sovereign wealth funds, provide capital to purchase companies in the U.S. where there may be no domestic financing available, thereby saving thousands of U.S. jobs. Foreign owned companies play a large role in retaining firms and jobs in the district that I represent, including Ingersoll Machine Milling (Italy) and Ingersoll Cutting Tools (Israel) in Rockford; Atlas Cold Storage in Belvidere (Canada); Nissan Forklift (Japan) in Marengo; Eisenmann Corporation (Germany) in Crystal Lake; and Cadbury-Schweppes (United Kingdom), which owns the Adams confectionary plant in Loves Park. In fact, Illinois is fifth in the United States in terms of the number of employees supported by U.S. subsidiaries of foreign companies per state.

On a macroeconomic level, the benefits of foreign direct investment translate into lower interest rates, increased employment, productivity, and overall increased financial stability. This has been evidenced recently by the large cash infusions by sovereign wealth funds into financial firm such as Citigroup and Merrill Lynch, both of whom are struggling because of the current market turmoil. While some may question the political motivations of these sovereign wealth funds, the benefits of the liquidity they provide in a cash-strapped market is obvious.

Indeed, most sovereign wealth funds have proven they are beneficial vehicles for foreign investment. Norway, for example, is a close ally with transparent governance for its sovereign wealth fund, the second largest in the world. However, we must acknowledge that all sovereign wealth funds are not created equal. Sovereign wealth funds from China, the United Arab Emiratis, and Qatar are troublingly secretive.

Particular concerns have been raised by the recent actions of the Hong Kong-based subsidiary of China's sovereign wealth fund. In January, the Hong Kong-registered SAFE Investment Company surreptitiously purchased shares of three of Australia's largest banks. China repeatedly denied knowledge of the transactions or even of the existence of the Hong Kong subsidiary before finally revealing that the Hong Kong investment company is a wholly-owned subsidiary, established in 1997. This quest for secrecy raises troubling realities about the opaque Chinese Investment Corporation. As a state-run enterprise, China's funds have access to cost free loans to finance purchases, giving them an advantage over private sector competitors. Second, China attempted this purchase—takeover, would be more accurate—on the sly, informing neither the Australian government nor the Australian banks of the intended nature of extent of their purchases. This raises concerns about the true character of these investment activities and the impact that this type of investment could have on market volatility.

These activities speak to the real need for increased transparency for sovereign wealth funds in the United States. International investment activities of governments should be based on stated policy objectives. Risk management structures should be in place and sound management of assets should be guaranteed. We must ensure that fair investment strategies are the standard, and that a foreign government is not using its deep pockets to subsidize a company it owns, putting other potential private sector bidders at a distinct competitive disadvantage. While we must be careful to avoid the debilitating effects of protectionism, we must not allow a lack of transparency to undermine the efficiency of our market system.

Thank you, Mr. Chairman, for the opportunity to offer a statement. I look forward to hearing from the witnesses and continuing with the proceedings today.