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2D SESSION

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To increase transparency regarding debt instruments of the United States held by foreign governments, to assess the risks to the United States of such holdings, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 21, 2010

Mr. CORNYN (for himself and Mr. KYL) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To increase transparency regarding debt instruments of the United States held by foreign governments, to assess the risks to the United States of such holdings, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Foreign-Held Debt
5 Transparency and Threat Assessment Act”.

6 **SEC. 2. FINDINGS.**

7 Congress makes the following findings:

1 (1) On March 16, 2006, the United States Sen-
2 ate debated and then narrowly passed legislation, H.
3 J. Res. 47 (109th Congress), to increase the statu-
4 tory limit on the public debt of the United States.
5 In a statement published in the Congressional
6 Record, then-Senator Barack Obama opposed the
7 legislation and stated, “The fact that we are here
8 today to debate raising America’s debt limit is a sign
9 of leadership failure. It is a sign that the U.S. Gov-
10 ernment can’t pay its own bills. It is a sign that we
11 now depend on ongoing financial assistance from
12 foreign countries to finance our Government’s reck-
13 less fiscal policies.”. Then-Senator Obama went on
14 to say that “Increasing America’s debt weakens us
15 domestically and internationally. Leadership means
16 that ‘the buck stops here’. Instead, Washington is
17 shifting the burden of bad choices today onto the
18 backs of our children and grandchildren. America
19 has a debt problem and a failure of leadership.
20 Americans deserve better.”.

21 (2) On February 25, 2010, United States Sec-
22 retary of State, Hillary Rodham Clinton, urged
23 members of Congress to address the Federal budget
24 deficit: “We have to address this deficit and the debt
25 of the United States as a matter of national security

1 not only as a matter of economics. I do not like to
2 be in a position where the United States is a debtor
3 nation to the extent that we are.”. The Secretary
4 went on to say that reliance on foreign creditors has
5 hit the United States “ability to protect our security,
6 to manage difficult problems and to show the leader-
7 ship that we deserve.”.

8 (3) The Department of the Treasury borrows
9 from the private economy by selling securities, in-
10 cluding Treasury bills, notes, and bonds, in order to
11 finance the Federal budget deficit. This additional
12 borrowing to finance the deficit adds to the Federal
13 debt.

14 (4) The Federal debt stands at more than
15 \$12,863,000,000,000.

16 (5) According to a report issued by the Depart-
17 ment of the Treasury on April 15, 2010, entitled
18 “Major Foreign Holders of Treasury Securities”,
19 foreign holdings of United States Treasury securities
20 stood at more than \$3,750,000,000,000 at the end
21 of February 2010. China was the single largest hold-
22 er with holdings of more than \$877,000,000,000.

23 (6) Despite efforts by the Department of the
24 Treasury to identify the nationality of the ultimate
25 holders of United States securities, including United

1 States Treasury securities, data pertaining to for-
2 eign holders of these securities may still fail to re-
3 flect the true nationality of the foreign entities in-
4 volved. For example, another Department of the
5 Treasury report, issued on February 26, 2010, enti-
6 tled “Preliminary Report on Foreign Holdings of
7 U.S. Securities At End-June 2009”, assigns nearly
8 \$650,000,000,000 worth of United States securities
9 to the Cayman Islands, a British overseas territory
10 with a population of only 55,000 people. The Cay-
11 man Islands is not itself a large investor in United
12 States securities; rather, it is a major international
13 financial center and is routinely used as a place to
14 invest funds from elsewhere.

15 (7) Despite efforts by the Department of the
16 Treasury to provide more timely information, the
17 data that the Department releases is typically out-
18 dated. For example, the latest figures in the Feb-
19 ruary 26, 2010, report on all United States securi-
20 ties were 8 months old.

21 (8) On February 25, 2010, Simon Johnson, an
22 economics professor at the Massachusetts Institute
23 of Technology and a former chief economist for the
24 International Monetary Fund, testified before the
25 U.S.-China Economic and Security Review Commis-

1 sion that United States Treasury data understate
2 Chinese holdings of United States Government debt
3 and “do not reveal the ultimate country of owner-
4 ship when [debt] instruments are held through an
5 intermediary in another jurisdiction.”. He stated
6 that “a great deal” of the United Kingdom’s in-
7 crease in United States Treasury securities last year
8 “may be due to China placing offshore dollars in
9 London-based banks”, which are then used to pur-
10 chase United States Treasury securities.

11 (9) On February 25, 2010, Dr. Eswar Prasad,
12 an economist at Cornell University, testified before
13 the U.S.-China Economic and Security Review Com-
14 mission that the amount of United States debt held
15 by the People’s Republic of China is much higher
16 than United States Treasury data indicate. In his
17 revised testimony, Dr. Prasad went on to explain
18 that China is probably currently holding more than
19 \$1,300,000,000,000 in United States Treasury secu-
20 rities.

21 (10) According to a February 3, 2009, report
22 by the Heritage Foundation, entitled “Chinese For-
23 eign Investment: Insist on Transparency”, the State
24 Administration of Foreign Exchange (SAFE) of the
25 People’s Republic of China, the government body

1 that purchases foreign securities, is the single larg-
2 est global investor and the largest foreign investor in
3 the United States.

4 (11) According to the February 3, 2009, report,
5 although the People’s Republic of China has em-
6 braced the Generally Accepted Principles and Prac-
7 tices for Sovereign Wealth guided by the Inter-
8 national Monetary Fund, China’s actual outward-in-
9 vestment practices are far from transparent.

10 (12) On March 13, 2009, Chinese Premier Wen
11 Jiabao demanded that the Obama Administration
12 “guarantee the safety” of American bonds, stating,
13 “We have lent a huge amount of money to the
14 U.S.”.

15 (13) According to the Department of Defense’s
16 2009 report to Congress entitled, “Military Power of
17 the People’s Republic of China”, the leaders and
18 strategists of the People’s Liberation Army (PLA)
19 often consider China’s strategy in terms of building
20 “comprehensive national power”. The report con-
21 tends that China’s growing regional and global eco-
22 nomic stature will result in “a more active external
23 posture in which it [China] demonstrates a willing-
24 ness to assert its interests . . .”.

1 (14) Additionally, the Department of Defense
2 report states that, “China’s sustained economic
3 growth . . . has enabled China to focus greater re-
4 sources on building, equipping, and training the
5 PLA without overwhelming the economy.”. Though
6 the PLA’s official budget has more than doubled
7 from \$27,900,000,000 in 2000 to \$60,100,000,000
8 in 2008, the report states that the official budget
9 “does not capture the totality of military expendi-
10 ture.”. The report maintains that, “Continued eco-
11 nomic development, central to China’s emergence as
12 a regional and global power, remains the foundation
13 of the [Chinese Communist] Party’s popular legit-
14 imacy and underwrites its military power.”.

15 (15) On January 29, 2010, the Department of
16 Defense notified Congress of its intent to sell various
17 defensive arms, valued at \$6,400,000,000, under the
18 Foreign Military Sales program to Taiwan in ac-
19 cordance with the Taiwan Relations Act (22 U.S.C.
20 3301 et seq.).

21 (16) On February 2, 2010, at a semiweekly
22 media briefing, Ma Zhaoxu, spokesman of China’s
23 foreign ministry, criticized these pending arms sales
24 to Taiwan, threatening sanctions against United
25 States companies involved in the sales.

1 (17) PLA officials have publicized the potential
2 use of United States Treasury securities as a means
3 of influencing United States policy and deterring
4 specific United States actions. On February 8, 2010,
5 retired PLA Major General Luo Yuan, from the
6 PLA Academy of Military Science, stated in an
7 interview with state-controlled media that China
8 could attack the United States “by oblique means
9 and stealthy feints”, in retaliation for United States
10 arms sales to Taiwan. He went on to say, “Our re-
11 taliation should not be restricted to merely military
12 matters, and we should adopt a strategic package of
13 counterpunches covering politics, military affairs, di-
14 plomacy and economics to treat both the symptoms
15 and root cause of this disease. For example, we
16 could sanction them using economic means, such as
17 dumping some U.S. government bonds.”.

18 (18) The PLA has also referenced the concept
19 of nonmilitary aspects of deterrence in written state-
20 ments. As a PLA textbook, “The Science of Military
21 Strategy”, observes, there are various forms of de-
22 terrence, including economic and technological, all of
23 which need to be developed and consciously strength-
24 ened in order to maximize effect. These forms will
25 only work “with the determination and volition of

1 employment of the force, and by dangling the word
2 of deterrence over the rival's head in case of neces-
3 sity.”.

4 **SEC. 3. DEFINITIONS.**

5 In this Act:

6 (1) APPROPRIATE CONGRESSIONAL COMMIT-
7 TEES.—The term “appropriate congressional com-
8 mittees” means the following:

9 (A) The Committee on Armed Services, the
10 Committee on Foreign Relations, the Com-
11 mittee on Finance, and the Committee on the
12 Budget of the Senate.

13 (B) The Committee on Armed Services,
14 the Committee on Foreign Affairs, the Com-
15 mittee on Ways and Means, and the Committee
16 on the Budget of the House of Representatives.

17 (2) DEBT INSTRUMENTS OF THE UNITED
18 STATES.—The term “debt instruments of the United
19 States” means all bills, notes, and bonds issued or
20 guaranteed by the United States or by an entity of
21 the United States Government, including any Gov-
22 ernment-sponsored enterprise.

23 **SEC. 4. SENSE OF CONGRESS.**

24 It is the sense of Congress that—

1 (1) the growing Federal debt of the United
2 States has the potential to jeopardize the national
3 security and economic stability of the United States;

4 (2) the increasing dependence of the United
5 States on foreign creditors has the potential to make
6 the United States vulnerable to undue influence by
7 certain foreign creditors in national security and
8 economic policymaking;

9 (3) the People's Republic of China is the largest
10 foreign creditor of the United States, in terms of its
11 overall holdings of debt instruments of the United
12 States;

13 (4) the current level of transparency in the
14 scope and extent of foreign holdings of debt instru-
15 ments of the United States is inadequate and needs
16 to be improved, particularly regarding the holdings
17 of the People's Republic of China;

18 (5) through the People's Republic of China's
19 large holdings of debt instruments of the United
20 States, China has become a super creditor of the
21 United States;

22 (6) under certain circumstances, the holdings of
23 the People's Republic of China could give China a
24 tool with which China can try to manipulate the do-
25 mestic and foreign policymaking of the United

1 States, including the United States relationship with
2 Taiwan;

3 (7) under certain circumstances, if the People's
4 Republic of China were to be displeased with a given
5 United States policy or action, China could attempt
6 to destabilize the United States economy by rapidly
7 divesting large portions of China's holdings of debt
8 instruments of the United States; and

9 (8) the People's Republic of China's expansive
10 holdings of such debt instruments of the United
11 States could potentially pose a direct threat to the
12 United States economy and to United States na-
13 tional security. This potential threat is a significant
14 issue that warrants further analysis and evaluation.

15 **SEC. 5. QUARTERLY REPORT ON RISKS POSED BY FOREIGN**
16 **HOLDINGS OF DEBT INSTRUMENTS OF THE**
17 **UNITED STATES.**

18 (a) QUARTERLY REPORT.—Not later than March 31,
19 June 30, September 30, and December 31 of each year,
20 the President shall submit to the appropriate congres-
21 sional committees a report on the risks posed by foreign
22 holdings of debt instruments of the United States, in both
23 classified and unclassified form.

24 (b) MATTERS TO BE INCLUDED.—Each report sub-
25 mitted under this section shall include the following:

1 (1) The most recent data available on foreign
2 holdings of debt instruments of the United States,
3 which data shall not be older than the date that is
4 7 months preceding the date of the report.

5 (2) The country of domicile of all foreign credi-
6 tors who hold debt instruments of the United States.

7 (3) The total amount of debt instruments of the
8 United States that are held by the foreign creditors,
9 broken out by the creditors' country of domicile and
10 by public, quasi-public, and private creditors.

11 (4) For each foreign country listed in para-
12 graph (3)—

13 (A) an analysis of the country's purpose in
14 holding debt instruments of the United States
15 and long-term intentions with regard to such
16 debt instruments;

17 (B) an analysis of the current and foresee-
18 able risks to the long-term national security and
19 economic stability of the United States posed by
20 each country's holdings of debt instruments of
21 the United States; and

22 (C) a specific determination of whether the
23 level of risk identified under subparagraph (B)
24 is acceptable or unacceptable.

1 (c) PUBLIC AVAILABILITY.—The President shall
2 make each report required by subsection (a) available, in
3 its unclassified form, to the public by posting it on the
4 Internet in a conspicuous manner and location.

5 **SEC. 6. ANNUAL REPORT ON RISKS POSED BY THE FED-**
6 **ERAL DEBT OF THE UNITED STATES.**

7 (a) IN GENERAL.—Not later than December 31 of
8 each year, the Comptroller General of the United States
9 shall submit to the appropriate congressional committees
10 a report on the risks to the United States posed by the
11 Federal debt of the United States.

12 (b) CONTENT OF REPORT.—Each report submitted
13 under this section shall include the following:

14 (1) An analysis of the current and foreseeable
15 risks to the long-term national security and eco-
16 nomic stability of the United States posed by the
17 Federal debt of the United States.

18 (2) A specific determination of whether the lev-
19 els of risk identified under paragraph (1) are sus-
20 tainable.

21 (3) If the determination under paragraph (2) is
22 that the levels of risk are unsustainable, specific rec-
23 ommendations for reducing the levels of risk to sus-
24 tainable levels, in a manner that results in a reduc-
25 tion in Federal spending.

1 **SEC. 7. CORRECTIVE ACTION TO ADDRESS UNACCEPTABLE**
2 **AND UNSUSTAINABLE RISKS TO UNITED**
3 **STATES NATIONAL SECURITY AND ECONOMIC**
4 **STABILITY.**

5 In any case in which the President determines under
6 section 5(b)(4)(C) that a foreign country's holdings of
7 debt instruments of the United States pose an unaccept-
8 able risk to the long-term national security or economic
9 stability of the United States, or the Comptroller General
10 of the United States makes a determination under section
11 6(b)(3), the President shall, within 30 days of the deter-
12 mination—

13 (1) formulate a plan of action to reduce the risk
14 level to an acceptable and sustainable level, in a
15 manner that results in a reduction in Federal spend-
16 ing;

17 (2) submit to the appropriate congressional
18 committees a report on the plan of action that in-
19 cludes a time line for the implementation of the plan
20 and recommendations for any legislative action that
21 would be required to fully implement the plan; and

22 (3) move expeditiously to implement the plan in
23 order to protect the long-term national security and
24 economic stability of the United States.

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