

112TH CONGRESS  
1ST SESSION

# S. 1028

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.

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IN THE SENATE OF THE UNITED STATES

MAY 19, 2011

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

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## 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. DEFINITIONS.**

7 In this Act:

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

4                   (A) The Committee on Armed Services, the  
5                   Committee on Foreign Relations, the Com-  
6                   mittee on Finance, and the Committee on the  
7                   Budget of the Senate.

8                   (B) The Committee on Armed Services,  
9                   the Committee on Foreign Affairs, the Com-  
10                  mittee on Ways and Means, and the Committee  
11                  on the Budget of the House of Representatives.

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

18 **SEC. 3. FINDINGS.**

19           Congress makes the following findings:

20                   (1) On March 16, 2006, the United States Sen-  
21                   ate debated and then narrowly passed legislation,  
22                   H.J. Res. 47, to increase the statutory limit on the  
23                   public debt of the United States. In a statement  
24                   published in the Congressional Record, then-Senator  
25                   Barack Obama opposed the legislation and stated,

1 “The fact that we are here today to debate raising  
2 America’s debt limit is a sign of leadership failure.  
3 It is a sign that the U.S. Government can’t pay its  
4 own bills. It is a sign that we now depend on ongoing  
5 financial assistance from foreign countries to finance  
6 our Government’s reckless fiscal policies.”.  
7 Then-Senator Obama went on to say that “Increasing  
8 America’s debt weakens us domestically and  
9 internationally. Leadership means that ‘the buck  
10 stops here’. Instead, Washington is shifting the burden  
11 of bad choices today onto the backs of our children  
12 and grandchildren. America has a debt problem  
13 and a failure of leadership. Americans deserve better.”.

15 (2) On February 25, 2010, United States Secretary  
16 of State, Hillary Rodham Clinton, urged members of  
17 Congress to address the Federal budget deficit: “We have  
18 to address this deficit and the debt of the United States  
19 as a matter of national security, not only as a matter of  
20 economics. I do not like to be in a position where the  
21 United States is a debtor nation to the extent that we  
22 are.”. The Secretary went on to say that reliance on  
23 foreign creditors has hit the United States “ability to  
24 protect our

1 security, to manage difficult problems and to show  
2 the leadership that we deserve.”.

3 (3) On February 16, 2011, Admiral Mike  
4 Mullen, Chairman of the Joint Chiefs of Staff, testi-  
5 fied before the Committee on Armed Services of the  
6 Senate: “Indeed, I believe that our debt is the great-  
7 est threat to our national security. If we as a coun-  
8 try do not address our fiscal imbalances in the near-  
9 term, our national power will erode, and the costs to  
10 our ability to maintain and sustain influence could  
11 be great.”.

12 (4) The Department of the Treasury borrows  
13 from the private economy by selling securities, in-  
14 cluding Treasury bills, notes, and bonds, in order to  
15 finance the Federal budget deficit. This additional  
16 borrowing to finance the deficit adds to the Federal  
17 debt.

18 (5) The Federal debt stands at more than  
19 \$14,345,000,000,000.

20 (6) According to a report issued by the Depart-  
21 ment of the Treasury on May 16, 2011, entitled  
22 “Major Foreign Holders of Treasury Securities”,  
23 foreign holdings of United States Treasury securities  
24 stood at more than \$3,175,000,000,000 at the end  
25 of March 2011. The People’s Republic of China was

1 the single largest holder with holdings of more than  
2 \$1,144,000,000,000.

3 (7) Despite efforts by the Department of the  
4 Treasury to identify the nationality of the ultimate  
5 holders of United States securities, including United  
6 States Treasury securities, data pertaining to for-  
7 eign holders of these securities may still fail to re-  
8 flect the true nationality of the foreign entities in-  
9 volved. For example, another Department of the  
10 Treasury report, issued on February 28, 2011, enti-  
11 tled “Preliminary Report on Foreign Holdings of  
12 U.S. Securities At End-June 2010”, assigns  
13 \$732,000,000,000 worth of United States securities  
14 to the Cayman Islands, a British overseas territory  
15 with a population of only 55,000 people. The Cay-  
16 man Islands is not itself a large investor in United  
17 States securities; rather, it is a major international  
18 financial center and is routinely used as a place to  
19 invest funds from elsewhere.

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

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

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

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

1 est global investor and the largest foreign investor in  
2 the United States.

3 (11) According to a September 2008 Council on  
4 Foreign Relations report entitled “Sovereign Wealth  
5 and Sovereign Power,” “. . . political might is often  
6 linked to financial might, and a debtor’s capacity to  
7 project military power hinges on the support of its  
8 creditors . . . The United States’ main sources of fi-  
9 nancing are not allies.”. The report goes on to argue  
10 that, “the United States’ current reliance on other  
11 governments for financing represents an underappre-  
12 ciated strategic vulnerability.”.

13 (12) In recent years, Chinese military officials  
14 have publicized the potential use of United States  
15 Treasury securities as a means of influencing United  
16 States policy and deterring specific United States  
17 actions. On February 8, 2010, retired People’s Lib-  
18 eration Army (PLA) Major General Luo Yuan, from  
19 the PLA Academy of Military Science, stated in an  
20 interview with state-controlled media that China  
21 could attack the United States “by oblique means  
22 and stealthy feints”, in retaliation for United States  
23 arms sales to Taiwan. He went on to say, “Our re-  
24 taliation should not be restricted to merely military  
25 matters, and we should adopt a strategic package of

1 counterpunches covering politics, military affairs, di-  
2 plomacy and economics to treat both the symptoms  
3 and root cause of this disease. For example, we  
4 could sanction them using economic means, such as  
5 dumping some U.S. government bonds.”.

6 (13) The PLA has also referenced the concept  
7 of nonmilitary aspects of deterrence in written state-  
8 ments. A PLA textbook, “The Science of Military  
9 Strategy”, observes that there are various forms of  
10 deterrence, including economic and technological, all  
11 of which need to be developed and consciously  
12 strengthened in order to maximize effect. These  
13 forms will only work “with the determination and  
14 volition of employment of the force, and by dangling  
15 the word of deterrence over the rival’s head in case  
16 of necessity.”.

17 (14) According to a May 16, 2011, report by  
18 ABC News, a congressional delegation of 10 United  
19 States Senators visited China in April 2011, and  
20 met with Chinese government officials. The news re-  
21 port indicates that, during one meeting, the Sen-  
22 ators were reprimanded by a Chinese official regard-  
23 ing the mounting United States Federal debt.

24 (15) A February 7, 2010, report by Defense  
25 News suggests that China’s extensive holdings of



1 United States Government securities have already  
2 directly influenced United States national security  
3 policy. According to an unnamed Pentagon official,  
4 Obama Administration officials softened a draft of a  
5 key national security document in order to avoid  
6 “harsh words” that “might upset Chinese officials at  
7 a time when the United States and China are eco-  
8 nomically intertwined.”. The news report indicates  
9 that these officials “deleted several passages and  
10 softened others about China’s military buildup”.  
11 This critical document, the 2010 Quadrennial De-  
12 fense Review, provides an assessment of long-term  
13 threats and challenges for the Nation and is in-  
14 tended to guide military programs, plans, and budg-  
15 ets in the coming decades.

16 (16) The United States Government pays China  
17 a substantial amount of interest on China’s  
18 \$1,144,000,000,000 in holdings of United States  
19 Government debt, and this enhances China’s ability  
20 to fund its own military programs.

21 (17) According to a March 4, 2011, report by  
22 Xinhua, the official press agency of the government  
23 of the People’s Republic of China, China plans to in-  
24 crease its 2011 military budget by 12.7 percent to  
25 601,000,000,000 yuan (the equivalent of

1       \$91,500,000,000). This increase is in addition to  
2       China's 2010 increase in its military budget of 7.5  
3       percent.

4               (18) According to the Department of Defense's  
5       (DoD) 2010 report entitled "Military and Security  
6       Developments Involving the People's Republic of  
7       China," the DoD estimates China's actual total mili-  
8       tary-related spending for 2009 to be over  
9       \$150,000,000,000.

10 **SEC. 4. SENSE OF CONGRESS.**

11       It is the sense of Congress that—

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

15               (2) the increasing dependence of the United  
16       States on foreign creditors has the potential to make  
17       the United States vulnerable to undue influence by  
18       certain foreign creditors in national security and  
19       economic policymaking;

20               (3) the People's Republic of China is the largest  
21       foreign creditor of the United States, in terms of its  
22       overall holdings of debt instruments of the United  
23       States;

24               (4) the current level of transparency in the  
25       scope and extent of foreign holdings of debt instru-

1       ments of the United States is inadequate and needs  
2       to be improved, particularly regarding the holdings  
3       of the People's Republic of China;

4               (5) through the People's Republic of China's  
5       large holdings of debt instruments of the United  
6       States, China has become a super creditor of the  
7       United States;

8               (6) under certain circumstances, the holdings of  
9       the People's Republic of China could give China a  
10      tool with which China can try to manipulate the do-  
11     mestic and foreign policymaking of the United  
12     States, including the United States relationship with  
13     Taiwan;

14              (7) under certain circumstances, if the People's  
15     Republic of China were to be displeased with a given  
16     United States policy or action, China could attempt  
17     to destabilize the United States economy by rapidly  
18     divesting large portions of China's holdings of debt  
19     instruments of the United States; and

20              (8) the People's Republic of China's expansive  
21     holdings of such debt instruments of the United  
22     States could potentially pose a direct threat to the  
23     United States economy and to United States na-  
24     tional security. This potential threat is a significant  
25     issue that warrants further analysis and evaluation.

1 **SEC. 5. QUARTERLY REPORT ON RISKS POSED BY FOREIGN**  
2 **HOLDINGS OF DEBT INSTRUMENTS OF THE**  
3 **UNITED STATES.**

4 (a) **QUARTERLY REPORT.**—Not later than March 31,  
5 June 30, September 30, and December 31 of each year,  
6 the President shall submit to the appropriate congress-  
7 sional committees a report on the risks posed by foreign  
8 holdings of debt instruments of the United States, in both  
9 classified and unclassified form.

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

12 (1) The most recent data available on foreign  
13 holdings of debt instruments of the United States,  
14 which data shall not be older than the date that is  
15 7 months preceding the date of the report.

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

18 (3) The total amount of debt instruments of the  
19 United States that are held by the foreign creditors,  
20 broken out by the creditors' country of domicile and  
21 by public, quasi-public, and private creditors.

22 (4) For each foreign country listed in para-  
23 graph (2)—

24 (A) an analysis of the country's purpose in  
25 holding debt instruments of the United States

1 and long-term intentions with regard to such  
2 debt instruments;

3 (B) an analysis of the current and foresee-  
4 able risks to the long-term national security and  
5 economic stability of the United States posed by  
6 each country's holdings of debt instruments of  
7 the United States; and

8 (C) a specific determination of whether the  
9 level of risk identified under subparagraph (B)  
10 is acceptable or unacceptable.

11 (e) PUBLIC AVAILABILITY.—The President shall  
12 make each report required by subsection (a) available, in  
13 its unclassified form, to the public by posting it on the  
14 Internet in a conspicuous manner and location.

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

17 (a) IN GENERAL.—Not later than December 31 of  
18 each year, the Comptroller General of the United States  
19 shall submit to the appropriate congressional committees  
20 a report on the risks to the United States posed by the  
21 Federal debt of the United States.

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

24 (1) An analysis of the current and foreseeable  
25 risks to the long-term national security and eco-

1        nomic stability of the United States posed by the  
2        Federal debt of the United States.

3            (2) A specific determination of whether the lev-  
4        els of risk identified under paragraph (1) are sus-  
5        tainable.

6            (3) If the determination under paragraph (2) is  
7        that the levels of risk are unsustainable, specific rec-  
8        ommendations for reducing the levels of risk to sus-  
9        tainable levels, in a manner that results in a reduc-  
10       tion in Federal spending.

11 **SEC. 7. CORRECTIVE ACTION TO ADDRESS UNACCEPTABLE**  
12                            **AND UNSUSTAINABLE RISKS TO UNITED**  
13                            **STATES NATIONAL SECURITY AND ECONOMIC**  
14                            **STABILITY.**

15        In any case in which the President determines under  
16        section 5(b)(4)(C) that a foreign country's holdings of  
17        debt instruments of the United States pose an unaccept-  
18        able risk to the long-term national security or economic  
19        stability of the United States, the President shall, within  
20        30 days of the determination—

21            (1) formulate a plan of action to reduce the risk  
22        level to an acceptable and sustainable level, in a  
23        manner that results in a reduction in Federal spend-  
24        ing;

1           (2) submit to the appropriate congressional  
2 committees a report on the plan of action that in-  
3 cludes a timeline for the implementation of the plan  
4 and recommendations for any legislative action that  
5 would be required to fully implement the plan; and

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

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