

“Ensuring National Security While Promoting Foreign Investment in an Age of Global Terrorism”

**Statement before the Committee on Financial Services
United States House of Representatives**

**by
David Heyman¹
Senior Fellow and Director
Homeland Security Program
The Center for Strategic and International Studies (CSIS)²**

**February 7, 2007
Rayburn House Office Building**

Mr. Chairman and other distinguished Members of the committee,

Thank you for the opportunity to testify before you today. I was asked to present a context from a national security and global terrorism perspective for which members might consider reforms to the CFIUS legislation. To do that, I would like to make three main points:

1. The security landscape has changed and we must understand the nuances of those changes to fairly consider what should or should not change with regard to CFIUS.
2. In particular, we must understand Al Qa’ida’s interest in undermining the US economy and Bin Laden’s “bleed to bankruptcy” strategy.
3. And finally, Dubai Ports. This was the transaction that finally put port security on the map. From a national security perspective, it was in my mind a debacle. But the lessons should serve as a model – for good and for bad.

¹ The opinions and conclusions expressed in this testimony are the author’s alone and should not be interpreted as representing those of CSIS or any of the sponsors of its research.

² The Center for Strategic and International Studies provides strategic insights and practical policy solutions to decision makers committed to advancing global security and prosperity. Founded in 1962 by David M. Abshire and Admiral Arleigh Burke, CSIS is a non-partisan, non-profit organization headquartered in Washington, D.C with more than 220 employees. Former U.S. Senator Sam Nunn became chairman of the CSIS Board of Trustees in 1999, and John J. Hamre has led CSIS as its president and chief executive officer since April 2000. More information is available at www.csis.org.

A New Context – Changes in the Security Landscape

Let me start with the considerable changes in the Security landscape since 9-11.

In terms of who we fight, how we fight, where we fight, and who does the fighting we have come to view national security in a new light today

Let me elaborate on each of these:

First, our adversaries are no longer principally nation-states, but now include non-state actors—or terrorists—as well.

Second, the front lines of war are no longer coincide with political boundaries; they are in the streets and buildings of our cities and states, at curbside check-ins at airports, turn-styles at stadiums, and in emergency rooms in hospitals.

Third, our battles are no longer fought solely by airmen, soldiers, sailors and marines; they are also fought by epidemiologists, cryptologists, firefighters, citizens and police.

And fourth, the weapons we wield to wage war are not just tanks, missiles or rifles, but also satellites, computer algorithms, vaccines, sensors, and databases.

These changes raise fundamental questions about what constitutes national security concerns in a CFIUS national security review.

In particular, would, for example, foreign ownership of critical infrastructure or vital services that sustain our daily lives, pose a new risk to national security in light of global terrorism? Are we at risk of handing terrorists the keys to securing our house by allowing foreign direct investment in critical infrastructure or vital services? This, in the end, was the fear and the underlying question during the debate over DP World's (a.k.a., "Dubai Ports") bid to operate terminals at U.S. ports summer, which I will discuss later.

New Security Landscape and Implications to CFIUS

We need to be careful here. It's very easy, given this new security context to view every thing as critical, and every thing critical at risk. What is important is the national security review process. A risk assessment requires a number of analyses, including a threat assessment and a vulnerability assessment. It is important that these reviews clearly distinguish between threat and vulnerability risks. The 'threat' refers to the adversary, his goals, capabilities and means. The 'vulnerability' refers to the target of an attack, and whatever protective measures may or may not be in place there. In the Dubai Ports deal, the company, DP World, was not a threat, but the target of attack, the U.S. ports, were hugely vulnerable, so everyone recognized the security risk of the deal. The CFIUS process, however, won't fix the vulnerabilities, nor should it be expected to; only putting the requisite safeguards in place can do that.

A New Context – The Economy and Changes in Our Understanding of the Threat

The second point I want to make has to do with understanding that our economy is a target of the threat. Contrary to what most Americans may believe, Al Qa'ida's goal is not to destroy the United States through direct confrontation—through direct attacks—but rather to provoke America into destroying itself.

Listen to Bin Laden's own words:

“All that we have to do is to send two Mujahedin to the farthest point East to raise a piece of cloth on which is written al-Qa'ida in order to make the generals race there to cause America to suffer human economic and political losses without their achieving for it anything of note.”

In this communication Bin Laden goes on and refers to his Mujahedin experience fighting in Afghanistan against the Soviet Union in the 1980s where “they bled Russia for 10 years until it went bankrupt and was forced to withdraw in defeat.”³

This is the model al Qa'ida seeks to replicate so as to bleed America to bankruptcy.

Today, the U.S. economy is not poised for imminent collapse. And it is far healthier than the Soviet economy was prior to its collapse. But we are wise to heed the lessons of other great powers through out history—namely, that great powers often become complicit in their own downfall by emphasizing military over economic expansion in periods of decline.⁴

Yes, we must continue to protect against future attacks, no question... but we must also be wary of the threat, keep an eye on the economy, and avoid self-inflicted wounds.

Risk of Loss of Foreign Investment in the United States

Changes in the security landscape and the new understanding of the threat to our economy provide the backdrop for which you must consider CFIUS reforms today.

The hearing is focused on economic security. Keeping in mind al Qa'ida's strategy, there are two paths to economic self-destruction we must be wary of: on the *demand-side*, we risk spending ourselves to death due to fiscal irresponsibility or irrational expenditures; and on the *supply-side*, we risk discouraging or outright

³ The translated full transcript, provided by the U.S. government, of Osama bin Laden's videotaped message aired on the al-Jazeera satellite television network, was posted on CNN's website November 1, 2004.

⁴ For a detailed discussion on this topic see Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987) and Charles Doran, *Systems in Crisis: New Imperatives of High Politics at Century's End*, (Cambridge: Cambridge University Press, 1991).

denying foreign investment in the United States because of poorly thought through policies we put in place.

While, I maintain that we have yet to apply effective risk-based formulas for our investments in homeland security, while we have extraordinary outlays in defense spending that must be very carefully thought through, and while current deficits will in effect raise taxes on future generations, it is the supply-side path to self-destruction—discouraging or denying foreign investment—that we must be concerned with in regards to CFIUS.

Dubai Ports

Which brings us to Dubai Ports.

The Dubai Ports (DP) was a self-inflicted wound. In effect, we denied direct foreign investment to the U.S. by a U.A.E. firm, because of an unfounded fear of an unsubstantiated terrorist threat. Worse, we had a unique opportunity to improve national security and we lost it.

By squashing the deal, what we got—and what we have today—is worse port security than it would have been, had the deal gone through. Dubai Ports had agreed to a number of enhanced security standards at U.S. operations, including, for example, background checks on dock-workers. More, though, they had voluntarily agreed to subject some of their overseas ports to those same standards. When we lost the deal, however, we lost not only the promise of enhanced security at some U.S. ports, but also the security benefits they would have implemented in foreign ports, in jurisdictions where we otherwise have little leverage. As a result, security today is actually less with the new operators than it might have been had the deal gone forward with DP World.

CFIUS and Ownership

Four lessons of Dubai Ports and how the CFIUS process worked:

- 1. Foreign ownership does not and should not be assumed to automatically confer additional vulnerability on a business.** Our airlines were not foreign-owned on 9-11, nor were the London subways, nor the Madrid trains. Similarly, it's not as if today our chemical facilities are more secure because they are owned and operated by American firms? Security does not necessarily depend on ownership.
- 2. A firm from a country where there have been known sources of terrorism should not automatically be disqualified from investing in the U.S.** Under this guilt-by-association formulation, the previous terminal operators, P&O, which is a British company, would probably have been forced to divest, given that the U.K. was the source of Richard Reid (the infamous 'shoe-bomber'), the most recent mass-transit attacks, and last summer's failed multiple airplane plot.

3. **The threshold test for CFIUS national security reviews should be based on two assurances: one, that security of business transactions meet U.S. standards; and two, that U.S. government has the ability and authority to audit and verify that security.**
4. **The CFIUS process must remain confidential, but it must also become more transparent to key members of Congress who are responsible for oversight.** The CFIUS process was intentionally designed to be confidential to take the critical business decisions outside the white-hot world of politics and competitiveness. Those reasons are still valid today.

Broader Implications and Conclusion

In the end, we are really asking a more philosophical question—do foreigners make us stronger? Does engaging the rest of the world bolster our security, or diminish it?

We rely on foreign investment—to the tune now of over \$1 trillion a year—to sustain our economy. We rely on millions of foreign workers to run our businesses. We rely on dozens of foreign countries to enhance and support our military and intelligence operations fighting terrorism around the globe.

Foreign engagement is also about public diplomacy and U.S. influence in the world. A recent Discover America Partnership survey showed that those who have visited the U.S. are 74 percent more likely to have a favorable opinion of the country; and 61 percent believed that a visit to the U.S. would make them more likely to support the country and its policies.

America is deeply interconnected with the nations and peoples of the world. And both her security and economic vitality depend on securing those connections. The question is do we have the safeguards in place to keep our doors open to trade and foreign investment, to keep our borders open to foreign visitors, and our ports to global commerce. That is the goal. That is the heart of what makes America, America.

And that is how we will continue to build America's wealth and prosperity in the future.

Thank you and I look forward to responding to your questions.