The Impending Tide of Chinese Investment in the United States

BY Robert A. Kapp

Thanks to the speed and magnitude of economic and social change in the People’s Republic of China (PRC) since the 1980s, U.S.-China relations are in continual flux. Recently, yet another new dimension of the economic relationship has gained prominence: a rapid increase in Chinese acquisition of U.S. assets. While global FDI to the United States has languished in the past five years, PRC investment has risen sharply, especially in 2012, and many observers predict that this trend will continue in the near term.

After the U.S.-China economic takeoff in the 1980s, and especially since the PRC joined the WTO in 2001, capital investment mostly flowed from the United States to China. U.S. companies, bent on reaching into China’s rapidly expanding domestic markets, invested tens of billions of dollars in the country, often accompanied by technology and management skills. China became an integral part of countless U.S. firms’ supply chains and global strategic plans. As the PRC embarked on its “going out” strategy over the past decade, Chinese state-owned firms spent their funds on energy and raw material resources, often in inhospitable developing countries.

“Going out” is taking on new meaning now. Chinese firms wielding very large reserves are aiming to enhance their global presence by grasping profitable or strategic investment opportunities. The rise in U.S.-bound PRC investment has become a topic of interest—and, at times, controversy. As China’s economy has continued to expand and the U.S. economy has labored in the aftermath of the 2008 financial crisis, PRC acquisitions have led some Americans to foresee an irresistible Chinese wave, as alarming as Japan’s high-profile investments appeared to some in the United States three decades ago. Meanwhile, given the complexity of security relations between the United States and China, PRC investments in high-tech U.S. firms, or in assets located in militarily sensitive places, are intensely scrutinized by the U.S. government; a few transactions have even been blocked on national security grounds.

In an environment of pervasive strategic distrust, PRC investment in the United States and U.S. responses to Chinese investment plans have become politically sensitive on both sides of the Pacific. Discriminating intelligence and calm judgment will be required to ensure that the flow of capital from China to the United States brings economic benefits to both countries and contributes to more stable U.S.-China relations overall.

ECONOMIC OPPORTUNITIES, POLITICAL WARINESS

What most Chinese investors will be looking for in the United States is hardly revolutionary: closer access to, and clearer understanding of, the immense American market; technical and business expertise that can be more efficiently purchased from abroad than laboriously developed from scratch at home; ways of avoiding protectionist barriers to Chinese imports; and, over time, increased brand recognition for Chinese products. Politically astute firms may also see value in building comfort among U.S. politicians wary of the Chinese business presence in their midst. Overall, PRC investments will aim more at improving Chinese firms’ technological and commercial sophistication than at conquering U.S. markets for Chinese products.

But that is not the end of the story. Political and institutional congruence between the United States and China is a distant and unlikely eventuality. The national security side of the bilateral relationship remains uncertain at best. Some Chinese investments heading for American shores will be coming from demonstrably private companies neither funded nor controlled by official government institutions.
But large state-owned enterprises (SOE) will figure conspicuously in the widening stream of PRC investment in the United States. Because SOEs customarily receive preferential official treatment, U.S. responses to Chinese investments will continue to reflect not only occasional concerns over national security issues but also concerns rooted in the asymmetries between the two giant economies.

Highly visible cases of U.S. intervention on national security grounds to prevent the consummation of Chinese investment deals have actually been rare—representing only a small fraction of the total number of projects successfully completed—but they have resonated very negatively in China. Recent approval of the acquisition of a bankrupt U.S. battery company by a large Chinese auto parts firm received far less attention than the blunt cancellation of a Chinese company’s purchase of several Oregon wind farms deemed too close to a top-secret U.S. Navy test range.

Chinese investment in the United States routinely encounters contrasting U.S. responses—from the energetic courtship by mayors and governors focused on job creation and the hopes of shareholders of companies with inadequate domestic financing, to the fevered concerns of U.S. media critics, politicians, and government agencies fearful of real or imagined threats. Recurrent reports of financial misrepresentation by Chinese companies and of alleged cyberattacks, as well as periodic threats to public health from Chinese products, all contribute to latent tendencies to view the arrival of Chinese investors with uneasiness. Although Chinese investment constitutes barely 1% of total FDI in the United States today, it generates a unique combination of anticipation and alarm.

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**POLICY IMPLICATIONS**

The commercial relationship between the United States and China is vast but uneven. The two countries conduct a half trillion dollars in merchandise trade and are profoundly significant to each other, if for different reasons. But this economic relationship rests on a bed of policies formed within political systems by political actors. As Chinese investment in the United States grows, with some projects thriving and others languishing, Chinese investors and host-country partners alike must travel a steep learning curve. The United States should hold firmly to its tradition of openness to external investment, while ensuring that clearly delineated national interests are preserved in rigorously defined cases of potential threats to national security. The emphasis, as Chinese FDI looms, must be on “Yes, unless.”

For Chinese riding the FDI wave, the challenges will be heavy. After twenty or more years, U.S. companies have learned a lot about functioning in China, but they are still laboring in the shifting Chinese business environment. Although the United States may be a relatively open and transparent society, it is still a big and complicated place; investors who do not spend the time and effort to understand the system will run very significant risks. It will not be all sweetness and light, but the Chinese FDI trend has the potential to bring to U.S.-China relations some of the depth that bilateral ties still lack and offers the real hope of building stronger and more mutually reassuring U.S.-China relations.

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