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Economic patriotism: Dealing with Chinese direct investment in the United States

by

Sophie Meunier et al.*

China is investing throughout the world, in industries from automobiles to zinc. In the US, Chinese foreign direct investment (FDI) accounted for only 0.25% of total FDI stock in 2010,¹ but it is likely to increase as China diversifies its holdings and seeks to obtain technology, managerial know-how and easier access to US consumers. As these investments multiply, we expect a few cases to attract negative attention in the media and political arena. Chinese companies are predominately state-controlled, raising the specter that they act to fulfill strategic, rather than profit maximizing, goals. China is also an ideological rival, causing irrational concern that Chinese investment in the US may act as a Trojan Horse of Chinese values and politics -- fueled by rational concerns about subsidies, piracy, and economic espionage.

Even though hosting Chinese FDI in the US is not free from risk, we argue that the benefits outweigh the costs. First, FDI provides an influx of capital into the struggling economy, increasing employment at no cost to the taxpayer. Second, jobs in foreign affiliates are typically better remunerated than similar jobs in domestically owned companies. Third, keeping the US open to foreign investment demonstrates a global example for international openness. Finally, Chinese money refused by the US could alternatively be directed to competitors or even the US's enemies.

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http://www.princeton.edu/~smeunier/Princeton_Task_Force_Report_Final_2011. The authors wish to thank David Fagan, Thilo Hanemann and Nicolas Veron for their helpful comments on an earlier text. **The views expressed by the authors of this *Perspective* do not necessarily reflect the opinions of Columbia University or its partners and supporters. *Columbia FDI Perspectives* (ISSN 2158-3579) is a peer-reviewed series.**

¹ Thilo Hanemann, "It's official: Chinese FDI in the US is soaring," August 25, 2011, available at: <http://www.rhgroup.net/notes/its-official-chinese-fdi-in-the-u-s-is-soaring>.

We offer five policy recommendations designed to welcome Chinese FDI in the US while dealing with its potential dangers and limiting the inevitable associated political backlash.

1. Without naïveté, the US must avoid incorporating reciprocity into considerations of its openness to FDI. A decision by China to close itself to US investment, in addition to its existing market access restrictions, would damage American economic interests. However, the US should avoid compounding these losses with protectionist policies of its own whenever possible. To be sure, the threat of tit-for-tat provides bargaining leverage and may act as deterrence. Yet inward FDI, exempt a legitimate security issue, should be encouraged no matter its country of origin.

2. The US could attract more Chinese investment if Chinese firms did not fear an inhospitable environment. The Department of Commerce (DOC), primarily through its new SelectUSA campaign, and the Organization for International Investment (OFII) should encourage Chinese firms to showcase their investments' contributions to US society. Such measures undertaken and paid for by Chinese firms could include: engaging in philanthropic activities in the state and local community, placing billboards near Chinese greenfield investments, and running ad campaigns outlining how Chinese investments are saving or creating jobs.

3. Potential inward FDI from China might be discouraged by the perception that the process for reviewing investment through the Committee on Foreign Investment in the United States (CFIUS) is arduous, unpredictable and biased against Chinese companies, especially following failed investments such as China National Offshore Oil Corporation's (CNOOC's) attempted purchase of Unocal in 2005 and the automatic investigation of state-owned companies required by the 2007 Foreign Investment and National Security Act -- even if some of these failed transactions never went through a CFIUS review. The Treasury should find ways to better get the message across that the CFIUS process is apolitical, predictable and only restrictive on the grounds of national security -- starting with highlighting CFIUS's factual record and overwhelming openness to investment, with only one transaction ever formally blocked in 1990 (even though other transactions were voluntarily withdrawn before being blocked). Such a statement would also help mitigate the tendency for competing firms and members of Congress to oppose deals for reasons unrelated to national security.

4. Currently, US states compete with each other by offering lucrative incentives to attract investments. Through SelectUSA, the DOC should coordinate local investment attraction efforts, offering a single point of entry and unified front for foreign nationals considering investing in the US. It could work in closer coordination with the State Department to simplify bureaucratic hurdles, such as getting visas and providing assistance to foreign firms. SelectUSA should enlist Chinese-American organizations (such as the Committee of 100) to help these firms adapt to the local environment. SelectUSA, in conjunction with China's Ministry of Commerce, could also establish a US-China bilateral investment fair.

5. If crafted properly, a bilateral investment treaty (BIT) would give both US and Chinese investors more certainty in the marketplace. As a major capital exporter, but also as a country in need of foreign investment, the US must stay relevant in the current race to sign BITs, especially as the European Union and China negotiate their own treaty. Serious negotiations with China would demonstrate US commitment to maintaining an open investment environment.

If the US does not act quickly to implement the above recommendations, it might continue to lose Chinese investment -- expected to top US\$ 1 trillion by the end of the decade -- to Europe and other competitors. The US should corral as much of this investment as possible to revitalize the domestic economy and strengthen its image as an active supporter of an international investment openness.

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