Policy Brief

RISK ANALYSIS OF CHINESE INVESTMENTS IN THE UNITED STATES

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INTRODUCTION

Political tensions between the U.S. and China continue to rise. Until recently, the contest between the two biggest global economies remained within the perimeters of political stakeholders and policy experts. It is now shaping into a broader national policy concern that requires greater public attention. China's global economic footprint has grown since its admission to the World Trade Organization almost two decades ago. For the U.S., it is proving as a double-edged sword. For instance, the Chinese desire to invest in the U.S. markets is an economic opportunity laden with several concerns. Examples of these concerns are:

Lack of Transparency. Chinese authorities are known to resist audits of some of its companies with business activities in the U.S.[1]
Unfair Business Practices. Several Chinese products violated U.S. intellectual properties, such as patent infringement due to technology theft.
Threat to Domestic Market. Many Chinese companies that compete in the U.S. are state-owned entities (SOE), and their participation can threaten the domestic market's ability to compete.

Methodology

- Researched and reviewed U.S. federal laws and key stakeholders that address Chinese investments or business activities in the U.S.
- Analyzed growth trends of Chinese investments in the U.S. using Foreign Direct Investments (FDI) data from the U.S. Bureau of Economic Analysis database from 2010 to 2020.
- Researched and opined on three critical risks currently associated with the Chinese investments in the U.S.

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[1] These audits are conducted based on the guidelines of the SEC and Public Company Accounting Oversight Board (PCAOB).

U.S. LAWS AND REGULATORS ON THE ISSUE

The first section of the brief summarizes the selected federal laws and key regulatory agencies that highlight recent U.S. efforts to address concerns surrounding Chinese investments in the U.S.

Table 1: *Summary of Selected Federal Laws with Key Stakeholders*

Bill	Title	Key Regulators	Year Passed	Regulatory Purpose
H.R.5841	Foreign Investment Risk Review Modernization Act	U.S. Department of Treasury	2018	This bill revised the Committee on Foreign Investment in the United States (CFIUS's) authority to review the national security implications of foreign investments, such as certain real estate transactions and transactions involving countries of concerns.
H.R.4998	Secure and Trusted Communications Networks Act	Federal Communication Commission (FCC)	2020	It establishes procedures to prevent communication equipment services in the U.S. that are considered a national security risk.
S.945	Holding Foreign Companies Accountable Act	U.S. Securities and Exchange Commission	2020	It increases scrutiny for foreign issuers of securities traded in the U.S. if it fails to comply with the U.S. auditing criteria.
H.R.3919	Secure Equipment Act	Federal Communication Commission (FCC)	2021	It is an extension of the Secure and Trusted Communications Networks Act and requires Federal Communications Commission (FCC) not to review or approve an application for equipment that poses an unacceptable risk to national security.
S.2184*	Accelerating Foreign Companies Accountable Act	U.S. Securities and Exchange Commission	2021	It is an extension of the Holding Foreign Companies Accountable Act and increases scrutiny for certain foreign issuers of securities traded in the U.S.

** Bill is not a law - it passed Senate and is currently in the House.*
Sources: Library of Congress; Literature research of relevant federal regulatory agencies and commissions.

GROWTH TRENDS OF CHINESE INVESTMENTS IN THE U.S.

This section of the study discusses Chinese investments in the U.S across multiple industry sectors and as Foreign Direct Investments (FDI).

INDUSTRY SECTORS

During the past decade, Chinese investments in the United States grew substantially across multiple industry sectors. The annual investment increased from 1.7 billion in 2005 and peaked at 53.5 billion in 2016. It experienced a sharp decline of 56% in 2017 after dropping to 23.7 billion across industry sectors. The trend continued through 2021 when investments remained the lowest at 1.0 billion. Overall, Chinese investments in the U.S. during the past 16 years is estimated at 193.2 billion. The Chinese investments in the country remained diverse across different industry sectors. Significant investments occurred in real estate, finance, technology, transport, tourism, and energy sectors. These sectors represented almost 73.2% of the investments by China in the U.S. from 2005 to 2021.

Table 2: *Highlights of Chinese Investments in the U.S., 2005-2021*

Indicators	**Highlight**
Highest Annual Investment	53.5 billion in 2016
Most Invested Industry Sector	Real Estate
Lowest Annual Investment	1.0 billion in 2021
Least Invested Industry Sector	Logistics
Highest Annual Investment	53.5 billion in 2016
Note: Analysis is based on data available as of January 2022 *Source: American Enterprise Institute*	

FOREIGN DIRECT INVESTMENT (FDI)

United States has been the world's largest economic market for quite some time and attracts the most annual foreign direct investment ("FDI") from overseas investors and companies. Due to its robust economy, the U.S. remains open to businesses and investors from countries it enjoys cordial relationships with and those it considers economic rivals, such as China. During the past ten years, total FDI in the U.S. grew at a 7.3% CAGR.[2] It grew from 2.2 trillion in 2010 to 4.6 trillion in 2020. Some of the largest FDI came from the industrialized countries with historically stable trading ties with the U.S.[3]

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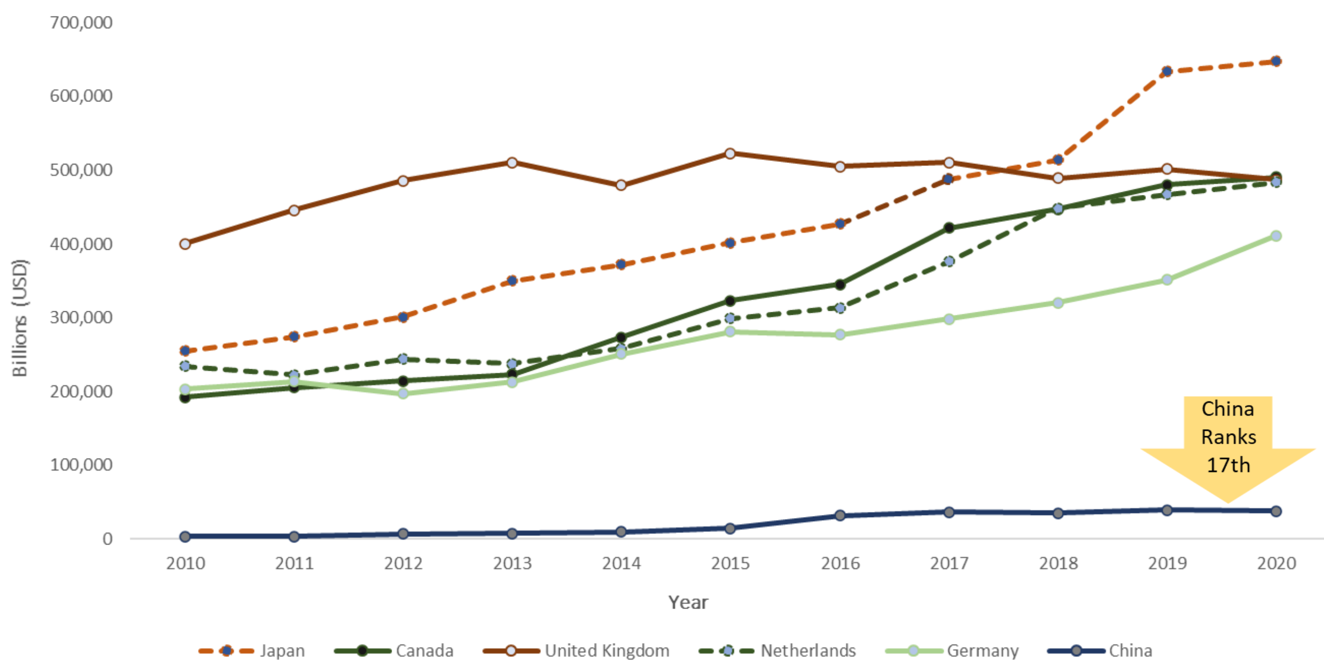
[2] CAGR is Compound Annual Growth Rate.

[3] The analysis is based on U.S. Bureau of Economic Analysis data.

The Foreign Direct Investment from China into the U.S. It increased from 3.3 billion in 2010 to 37.9 billion in 2020. Based on the 2020 figures, China ranked 17th in the overall list of countries in its annual FDI size. The top five countries in 2020 were Japan, Canada, the United Kingdom, the Netherlands, and Germany. The FDI from these five countries ranged from 400 billion to 650 billion.

Share of Chinese Foreign Direct Investment in the U.S. In 2020, the share of Chinese FDI in the U.S. as of total investment was 0.8%. In comparison, the combined FDI share of the top 5 countries was almost 55%. In particular, the Japanese share of investment at 14% was the largest in 2020. Canada, the United Kingdom, and the Netherlands were around 11%, and Germany share remained at 8.9%.

Figure 1: *Foreign Direct Investment (FDI) from China and Top 5 Countries in the U.S., 2010-2020*



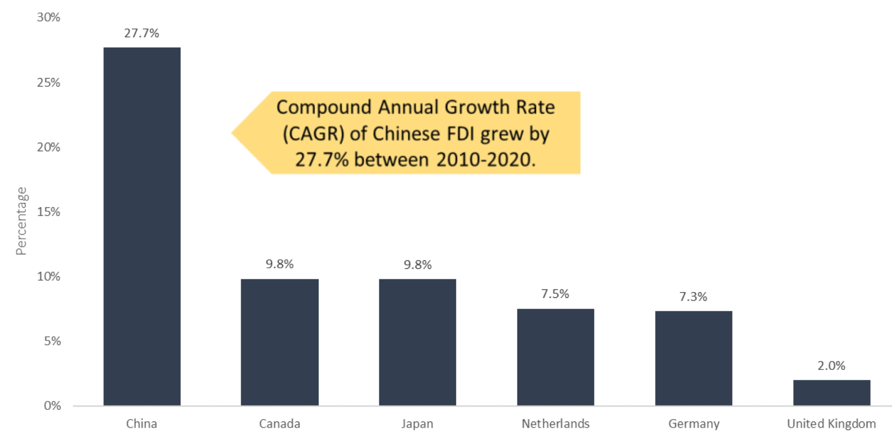
Source: *U.S. Bureau of Economic Analysis*

Key Finding

Is Chinese Foreign Direct Investment (FDI) significant enough to influence U.S. policy strategy?

The current trends show a persistent decline in the Chinese investment in the U.S., which diminishes its influence on the U.S. policy strategy. The finding is based on the analysis of the overall Chinese investments in the U.S. during the previous decade. It is also based on the Chinese share of its FDI in the U.S., with remains at less than 1%.

Compound Annual Growth Rate of Chinese FDI in the U.S. From 2010-to 2020, the size of the Chinese FDI grew at a 27.7% CAGR. This is the most considerable growth in the foreign direct investments by a major country in the U.S. other than the United Arab Emirates. In comparison, the top 5 countries also grew during this time. Canada and Japan grew at a 9.8% CAGR between 2010 and 2020. The Netherlands and Germany grew between 7.3% and 7.5%, and the U.K. grew at only 2% CAGR this time.[4]



Source: *U.S. Bureau of Economic Analysis*

RISK ANALYSIS OF CHINESE INVESTMENTS IN THE U.S.

This study section analyzes key critical risks associated with Chinese investments in the U.S on economic security.

Risk to Competition

The first risk associated with Chinese investments in the U.S. is the disadvantage it poses to the domestic U.S. and other international competitors across different industry sectors. Several investments coming into the U.S. from China remain controlled by either state-owned enterprises ("SOE") or supported through subsidies by the Chinese government.[5] Such investments typically enjoy bandwidth to engage in predatory pricing of their products and services in the U.S. marketplace. The strategy assists in the rapid market share gain without fearing financial repercussions that a typical U.S. private firm or a publicly traded company faces in the market economy. For instance, Chinese SOEs in the global market is estimated to be around 150,000, and in the recent Fortune 500 database, 77.8% of the listed Chinese companies were considered state-owned enterprises.[6]

Risk to Intellectual Property

The second risk associated with Chinese investments in the U.S. is the repeated violations of U.S. intellectual property laws, including misuse of trade secrets and patent infringement. Recent technology and pharmaceutical products offered by Chinese companies in the U.S. market have been found guilty of infringing various forms of intellectual properties of its U.S. rivals.[7] For instance, one of the renowned Chinese two-way radio communication company recently found guilty of stealing its U.S. counterpart's trade secrets and innovative technology to generate

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[5] Based on U.S.-China Economic and Security Review Commission's recent report.

[6] China Global Television Network, "Explainer: Why does China have so many state-owned enterprises," accessed at news.cgtn.com/news/2021-06-14/Explainer-Why-China-has-so-many-state-owned-enterprises-115vt8ntcZ2/index.html, February 4, 2022.

[7] Congressional Research Service, "Intellectual Property Violation and China: Legal Remedies," published on September 17, 2020, accessed on February 27, 2022.

revenue in the U.S. market. It is now liable to pay over $500 million in damages to its competitor. Chinese attitude or lack thereof towards enforcing fair IP standards in its global operations remains non-committed. It disrupts the competitive landscape that is backed by high cooperative standards of the domestic and global organizations such as the World Trade Organization ("WTO") and World Intellectual Property Organization ("WIPO").[8]

Risk to National Security

The third risk associated with the Chinese investments in the U.S. is its uncertainty to the U.S. national security over user privacy violations and breaches of classified data. For instance, recent bi-partisan studies by the commission on U.S.-China policy and the committee on foreign investment in the U.S. highlighted increased attempts by the People's Republic of China to use foreign investments as an effective strategy to gain ground on the critical U.S. technologies across industry sectors.

Risk to Local and Regional Development

Due to the rapid growth of the Chinese economy and its growing capacity to invest in the overseas market. Chinese Foreign Direct Investment remains a popular strategy for several U.S. cities to attract foreign companies interested in launching in the U.S. market. These investments, primarily guided through public-private partnerships, are managed by local or regional Economic Development Organizations (EDOs). These EDOs may fail to conduct adequate due diligence on Chinese investments to avoid future risks to competition, intellectual property, and national security. The failure could be due to a lack of awareness, limited resources, and the risk of repulsing attractive investments.

Key Finding

Are Chinese investments in the U.S. considered an economic risk?

The economic risk attached with the Chinese investments in the country is gaining significance. In particular, the growing investment of the Chinese state-owned companies over the traditional private sector in the U.S. promotes an unfair competitive landscape domestically. Moreover, concerns remain over Chinese technology companies' adherence to intellectual property standards, and these concerns pose significant risks to the U.S. economy.

About the Author

Mr. Manawar is an analyst with Anderson Economic Group in the market and industry analysis practice area. His background is in industry research and data analysis, startups and venture capital, and urban redevelopment policy analysis.

[8] IWCE's Urgent Communications Magazine, "Judge sets royalty fees Hytera must pay Motorola Solutions on certain DMR sales," accessed on urgentcomm.com/2021/12/17/judge-sets-royalty-fees-hytera-must-pay-motorola-solutions-on-certain-dmr-sales/, February 3, 2022.