Karl P. Sauvant (ed): Investing in the United States: Is the US Ready for FDI from China?


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External—or outbound—foreign direct investment is a touchstone of a nation’s economic development and ascendancy. It signifies that the country’s businesses are of sufficient size and sophistication to undertake the often highly risky proposition of setting up shop in a foreign land or significantly investing in, merging with, or purchasing a foreign business. The US has long been the global leader in external FDI and no one expects it to relinquish that position any time soon.

But China is a nation fast on the rise in the FDI arena. Over the past decade it has emerged as one of the leading external investors among all emerging markets. As might be expected, Chinese firms predominantly invest in Asia—nearly two/thirds of all Chinese external FDI takes place there. Trailing significantly behind is Latin America (26%). Europe and mineral-rich Africa are a distant third at 3% each. (Chinese investments in the latter only seem larger because they have received disproportionate media coverage and generated some controversy.)

At present, Chinese external FDI in the US is small—less than 2% of all Chinese offshore outlays. But, as the editor of this volume, Karl P. Sauvant, points out, such investment is “bound to rise,” owing to the size of the US market and its symbolic importance.

The thrust of this book is thus largely anticipatory. As such, it offers a comprehensive overview of the many factors that may prove supportive or inhibitory of Chinese investment in the US. The audience is stated to be two-fold: academics and Chinese firms seeking or contemplating investing in the US. I would add that graduate students in economics and politics would learn a lot as well.

Sauvant attributes US concerns about heightened Sino participation in the US economy to the fact that “the great majority of the largest Chinese multinational enterprises consists of state-owned enterprises administered by the central government.” This has led to fears in the US that such firms may enjoy financing

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advantages, thus putting potential US competitors at a disadvantage. Perhaps the major concern, though, is security-related: the fear that political or strategic factors may underlie ostensibly commercial decisions.

This theme is elaborated in the following chapter by Stephen Globerman and Daniel Shapiro. They examine a number of questions, including whether US authorities should be more concerned by so-called “greenfield” investments—the establishment of new production facilities—as opposed to the more customary merger and acquisition. The principal reason for this concern is that while under current law acquisitions of domestic US companies by Chinese multinational enterprises can be reviewed by the US government, there is no procedure for reviewing greenfield investments.

Donald Fagan provides a scrupulous review of the regulatory framework for FDI in the US; this chapter will be particularly useful to prospective Chinese investors, as the author tailors a list of recommendations for addressing potential regulatory and political obstacles. The bottom line, Fagan asserts, is that Chinese companies that have a strong record of honesty, comply with practices of transparency, and formally or informally work with well known or reputable US partners stand the greatest chances of regulatory approval, and one might add, economic success.

The politics of Chinese investment in the US is considered by Timothy Frye and Pablo Pinto. They provide a solid contextual understanding to the challenges—and opportunities—would-be Chinese investors face. Especially astute is their understanding and explication of how interest groups identify potentially provocative issues as starting points to rally opposition to Chinese investments in the US.

Lorraine Eden and Stewart Miller nicely tackle another topic applicable to potential Chinese investors: “liability of foreignness.” This infelicitous term (not their own), refers to foreign companies’ generally lower survival rate than domestic companies. Reasons include the costs of compliance-training to understand professional standards and regulations, US and state tax and employment laws, and national business-centered legislation such as the Foreign Corrupt Practices Act and Sarbanes-Oxley (not to mention compliance with the laws themselves). Differences in political institutions and culture have financial and social implications as well. The authors offer practical suggestions for amelioration, including viewing compliance-training as investments rather than costs, clustering in Chinese communities (which reduces cultural isolation and opens up the possibility of learning from already established Chinese businesses), and contributing to the local community by making charitable donations.

The book’s second-to-last chapter by Mark Kantor examines legal protection for Chinese investment in the US. Typically, political and media attention emphasizes the need to protect US investors in Chinese firms, so this chapter covers new ground. Kantor notes that while China and the US have no international investment agreement such as NAFTA, Chinese companies would be covered by working with companies from countries that are party to such agreements.

Lastly, Curtis Milhaupt offers historical context by recalling the explosive growth of Japanese FDI in the US and resultant political fallout in the 1980s as a possible template for China. He expects that US reaction to the expected expansion of Chinese FDI will be even more negative than in the case of Japan since “China is a
potential adversary to the US on many levels” and because of Chinese product safety problems, a difficulty that Japan did not face.

This is a well written and wide ranging examination of Chinese foreign direct investment in the US. I only wish that care had been taken to reduce the use of acronyms—one chapter alone has close to a dozen.

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