INVESTING IN THE UNITED STATES: IS THE US READY FOR FDI FROM CHINA?


Reviewer: Christopher Whyte
(George Mason University)

The rise of China, both economically and militarily, receives an immense amount of focus in the international political arena. Investing in the United States: Is the US Ready for FDI from China?, edited by Karl Sauvant and written by a diverse group of scholars in the fields of political science, law and economics, attempts to comprehensively analyse China's business penetration of American economic sectors by assessing methods of market expansion. The book identifies restrictions and biases that stand to block industrial integration while examining historical precedents for successfully entering US markets. In doing this, the authors provide an instructional and analytical framework for determining the answer to their titular question, conveying a sense of optimism about the economic future of the markets in question and arming their audience with the means to understand the opportunities and obstacles that may appear in the future.

Interactions between the People's Republic of China (PRC) and the United States of America (USA) may form the most important bilateral relationship in the world. China continues to emerge from several decades of domestic economic development and is increasingly present in the affairs of global stock and currency markets. In the first section of Investing in the United States, the authors seek to highlight the courses that Chinese corporations take as they try to establish themselves abroad through foreign direct investment (FDI). The first three chapters of this book draw attention to the different methods of market entry typically exercised by multinational corporations (MNCs), giving context to the biases and cultural obstacles frequently encountered in such investments and describing the regulatory framework to which all successful implementations
of FDI must adhere. From the outset, the authors claim that the experiences of outside investment from Japan and the Asian Tigers in the 1970s and ’80s have well prepared America for an influx of Chinese investment, but that a variety of factors must be kept in mind in the future if that process is to be both successful and profitable.

In the opening section, Sauvant describes the two most common methods of entry for foreign firms into a new marketplace—mergers and acquisitions, meaning the outright purchase of domestically based companies (M&A), and greenfield investments, which refers to the establishment of fresh facilities to take advantage of new markets and factors of production. Though greenfield investments are far safer, due to the lack of risks that come from cultural and financial integration in mergers, the majority of FDI inroads by Chinese firms are made with M&A. This is because they tend to take advantage of established consumer markets and thus benefit from existing revenue streams, a factor that quickly offsets the costs of corporate restructuring and cultural adaptation. While greenfield investments in new facilities can create jobs in the host country, the authors demonstrate that Americans favor M&A as the preferred market entry method, probably because of spillover benefit effects that see corporate improvements in mergers leading to overall improvements in economic efficiency, an increase in market competitiveness and the domestic imitation of successful imported business practices.

However, incoming foreign corporations must deal with the stringent regulatory framework that is in place in the United States. This framework is designed to protect the US economy from the effects of monopolizing acquisitions, as well as pay heed to national security concerns and any potential disruption of national welfare by the economic incursions of what are essentially often state-owned enterprises. While regulatory boards adjudicate on the creation of potential sector-controlling trusts from both international and domestic M&A in a similar manner, there are four primary trade law areas of concern that must be examined by the US Commerce Department’s Export Administration Regulations (EAR) section in detail in any foreign penetration of American markets. The first of these supervises the manufacturing and trade of “dual-use items” that have both consumer and military applicability, namely advanced technological components and intellectual property. The degree to which
such items are controlled depends on the military capabilities of such
technologies and the clearing of Chinese access to such industrial se-
crets often depends solely on the expected client-base of the newly
merged company. Secondly, the EAR team must determine whether
or not any technologies or products under sole contractual use with
the US military would be in danger of unauthorised export in any
M&A. Thirdly, the US Treasury must ensure that the functions of
any newly acquired companies would not lead to trade with "targeted
countries," namely states like Iran and Cuba that are sanctioned un-
der US law. Finally, any significant FDI executed through M&A must
comply with statutes of the Foreign Corrupt Practices Act of 1977
(FCPA) that regulates the association of US companies with known
corrupt or criminal elements in foreign businesses. These four areas
of trade law are of particular impediment to acquisitions by Chinese
companies in American markets because of the association between
corruption and big business in emerging markets, especially as vari-
ous Chinese companies reportedly bend rules when it comes to fol-
lowing the laws of the host nation. Furthermore, as a rising great
power competitor, China stands to gain from the import of advanced
technologies, again meaning higher levels of scrutiny by US govern-
mental regulators.

In the final chapters, the authors discuss the socio-political con-
text of Chinese entry into US markets, before finally commenting
on the lessons of Japan's similar rise in past decades.

The rise of the PRC in power relative to the US, whether real
or perceived, is a topic of political and social sensitivity. M&A by
Chinese firms have experienced popular resistance in the past, with
distrust and unease about Chinese FDI being voiced even in Con-
geressional circles. This is an area where incoming companies must
work hard to operate profitable and effective businesses and thus
earn American domestic support. China's investors would do well
to learn from the Japanese 1980s model of economic growth, where
investment was split between greenfield and M&A. This helped to
merge business cultures, creating domestic jobs for both countries
and forming multi-national frameworks that benefited both coun-
tries. Though there were similar concerns about Japan's rise in the
1980s, the mutually profitable effects of rising interdependence led
to a comfortable economic environment between the two nations
with limited barriers to trade.
The lessons of this book are a phenomenal resource for policymakers, economic planners and scholars alike. Though China finds itself in somewhat different circumstances than the Japan of the 1980s, Japan’s lessons show that financial confidence, good business planning and transparency can lead to profitable economic ventures in the American market. Further research could focus on other examples of emerging economies’ inroads into American markets, as well as perhaps gaining insight from an examination on recent Chinese domestic investment strategies. However, this blueprint for success effectively provides a wealth of answers for those wishing to facilitate Sino-American FDI in the future as the authors, through summary and analysis of the processes before Chinese investors, show that such activity could do a lot to improve the United States’ and China’s politically significant relationship.