May 4, 2011

Contact: Brendan Daly, Ogilvy Pr
Brendan.Daly@ogilvypr.com
(202)729-4099 or (646)520-7203

Laura Mills, Ogilvy PR
Laura.Mills@ogilvypr.com
(212)880-5305 or (336)480-5145

Chinese Direct Investment Abroad Could Total $1-$2 trillion by 2020

'Great Potential' to Benefit U.S.

New study shows rapid rise of Chinese investment in U.S; warns of political barriers and recommends ways to overcome them

Washington, D.C.—The most comprehensive study to date of Chinese Foreign Direct Investment (FDI) in the United States shows its enormous potential to create economic growth and finds sufficient safeguards on national security. But it warns that the U.S. may squander immense opportunities for employment and investment gains through political fear-mongering.

"This report highlights the urgency of Americans to better understand what is at stake in the rapidly changing balance between the U.S. and China," says Orville Schell, Director of the Center on U.S.-China Relations at the Asia Society, which initiated the study.

The coming decade will bring an unprecedented boom in Chinese capital seeking investments abroad. In the United States alone, says the study, Chinese FDI is now more than doubling in size every year—though from a very small base. In order for the U.S. to capture a significant share of the torrent of investment dollars expected to flow from China, Washington needs to send "a clear and bipartisan message that Chinese investment is welcome."

"We estimate that Chinese firms will place some $1 trillion to $2 trillion in direct investments around the world over the coming decade," said the authors of the study, economists Daniel Rosen and Thilo Hanemann. "But this surprising new volume of direct investment, which could help create thousands of American jobs, is giving rise to as much consternation as clapping in the United States."

The authors endorse continued careful screening for real security threats but say the procedures are in place to filter them out. As a result, "We believe the great bulk of potential Chinese investment should not just be *permitted* but *encouraged*."

The study, "An American Open Door? Maximizing the Benefits of Chinese Foreign Direct Investment," is a collaboration of the Asia Society Center on U.S.-China Relations and the Kissinger Institute on China and the United States at the Woodrow Wilson International Center for Scholars. It was researched and written by economists Rosen and Hanemann of the Rhodium Group.

According to the study, which uses new methodology to collect real-time data on Chinese FDI in the U.S., Chinese businesses have already established operations and created jobs in at least 35 of the 50 states. Texas has attracted the greatest share of Chinese investment, followed by New York, Virginia, Illinois, California, Michigan, Oregon, Delaware, New Jersey and Mississippi.

Contrary to popular fears about China's growing economic influence, the study shows that the total value of Chinese foreign direct investments worldwide was about $230 billion in 2009, roughly equivalent to Denmark's. By contrast, the total value of U.S. foreign direct investment is approximately $4 trillion.

While today's report says China's share of total direct investment in the United States is now miniscule—just 0.1 percent—it is accelerating. New data calculated for the study show that in 2010 alone, Chinese investments in the U.S. totaled $5 billion. The report estimates that Chinese firms in the U.S. have already created more than 10,000 American jobs.

Today's report also provides surprising new details about the kinds of investments the Chinese are making in the U.S. "We have data that captures what the Chinese are doing on the ground right now," say the authors. For example: how often the investors are government entities versus private firms; what types of industries are most often targeted; and how much money is being used to build new businesses rather than acquire existing companies.

Surging Chinese investment has triggered populist anxieties in the United States, just as Americans once feared economic domination by Japan. "Japanese investment in the United States during the 1980's was as controversial as China's," the authors say, "but in the following years, U.S. affiliates of Japanese companies invested hundreds of billions of dollars in the United States, and today employ nearly 700,000 Americans."

The report says U.S. review mechanisms are doing an effective job of protecting vital security interests. But it warns that continued politicization of the review process will choke off future investment and cost Americans valuable opportunities for job gains and new streams of tax revenues.

In a series of policy recommendations, the authors outline U.S. actions to maximize benefits and call on leaders in Beijing to do their part to insure success: "If China wants a more straightforward hearing for its firms in Washington, it must improve corporate governance at home."

Among the study's policy recommendations for the U.S.:

- Promotion of FDI from China needs to be taken seriously at the federal level to encourage and attract the right kinds of investment;
- The CFIUS process of screening investments for U.S. national security concerns should be better protected from political interference;
- The U.S. should refrain from playing the reciprocity game and making access to the U.S. contingent on Chinese market openness.

The study outlines recommendations for China as well:

- The introduction of a consumer-oriented welfare test would help ensure that market performance, not political objectives, drive corporate behavior;
- Enhanced corporate transparency, particularly with respect to ownership and control structures, would streamline investment reviews;
- Clearer separation between Chinese regulators and the firms they oversee would mollify worries that Chinese investments are simply political entities.

"These investments are going to happen somewhere," says the Asia Society's Orville Schell. "The question is: will our doors be open to them? Will they happen here?"

#####