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Study on Political Risks of Chinese Enterprises' Investment in the US

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Abstract

This paper analyzes the political risks of Chinese enterprises' investment in the US with uncertainty of the current world economy. The political risks are mainly reflected by adjustments in the US strategy toward China that show duality and asymmetry of the cooperative containment, which will become the source that most profoundly and frequently influences Chinese enterprises' investment in the US. However, because of the complementary factor endowments and special political status of the two countries, there is a huge space for their economic and trade cooperation. Thus, simple business practice like Chinese enterprises' investment in the US should be de-politicized as much as possible. Therefore, we need to study the US investment policy-making process and seek countermeasures according to current world's political and economic circumstance and specific situation of domestic enterprises, thereby creating favorable policies of Chinese enterprise's investment in the US and reducing the political risks.

Key words: Chinese enterprises; Investment in the US; Political risks; Cooperative containment

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INTRODUCTION

After the subprime crisis, the recovery of world's economy remains slow. New economies such as the BRICS, including China, are facing the pressure of economic downturn. The uncertainty of the world economic development is rising. Because of the weak internal force of domestic economic development, many countries, including the U.S., adjust their foreign strategies, enhance interventions on domestic market. The re-rise of trade and investment protectionism creates huge political obstacles for foreign trade and transnational investment, and brings unpredictable risks to Chinese enterprises' investment in the US. Political risks in international investments are featured by wide coverage, strong influences, changeable complexity and greatest threat, which worth high attention and careful research for us to take effective actions to prevent and control them (Wang & Liu, 2012).

1. LITERATURE REVIEW

As China's investment in the US enlarges rapidly, there are more and more studies on political risks of Chinese enterprises' investment in the US by domestic and foreign scholars from different perspectives.

Marchick, an expert in US international investment and national security points out that Chinese enterprises investing in the US are mostly government-owned or controlled, and the investment is mainly concentrated on areas where China has a comparative advantage, such as industries like manufacturing and strategic assets like energy, by which Chinas seeks to develop management skills and international brand with global competitiveness. This may easily raise questions that China's investment in the US is out of business benefits or national interests, and have the US government concerned with national security (Marchick, 2006). American scholar Deng Ping contends that Chinese enterprises' transnational merger and acquisition is a way to obtain strategic assets, which matches the logic of China's unique political system environment (Deng, 2009). American scholars Goloberman and Canadian scholar Shapiro observes that US policymakers are increasingly concerned about the impact of foreign investment from China. American companies are criticized because being Chinese mergers and acquisitions benefits less than Greenfield investment and other reasons such non-commercial mergers and acquisitions (Globerman & Shapiro, 2009). American scholar Moran uses Chinese acquisitions of US companies as examples and analyzes the criteria and political factors that influence CFIUS review on China's mergers and acquisitions involving key industries (Moran, 2009). Evans and Downs (2006), and Prabhakar (2009) do some case studies respectively on the Congress and the extent of the nationalization of acquirer-enterprises, pointing out the political tendentiousness toward China in the US national security review. Besides, according to the US consulting firm Roddy Graham's research report, the main obstacles that prevent China from investing the US infrastructure and high-technology industries are the US political factors.

By studying the US pressing the RMB appreciation, Chinese scholar Wang Shuguang points out that the US has obvious political strategies and pursuit of interests. The US short-term goal is to quell the political pressure at home and abroad and make China a "scapegoat". Its mid-term goal is to find a payer for its economic adjustment and development. And its long-term goal is to find a victim to maintain its hegemony (Wang, 2005). International trade and international investment are the two aspects of international economic and trade activities, Su Jingxiang studies China's non-market economy status, noting that this is a result of the blending US domestic politics and international politics, which protects its domestic interests in all aspects, and ensures that the country will not depart from the general direction of international affairs (Su, 2004). According to Song Guoyou, the US stresses relative benefits on the political issues of China, while stressing absolute benefits in its economic strategy toward China (Song, 2004). Huang Yiling points out that political factors such as US Congress, interest groups and ideology can cause political risks in the security review of Chinese enterprises' mergers and acquisitions in the US (Huang, 2013). Hua Qiongfei believes the competitive relations between China and the US in economy, security and politic is the root of the political risks. And the US concern that Chinese enterprises and the political system and values spread by China's state-owned enterprises may threaten its hegemony and developing mode increases the political risks (Hua, 2013). Though their empirical test, Han Jian and Xu Xiujun found that American partisan political leanings have a significant impact on regions and entry mode of Chinese enterprises' investment in the US. Also, with given market size, labor costs, taxes, trade scale and other factors, Chinese companies will give priority to states with higher support rate of Democratic Party (Han & Xu, 2014).

We can see that foreign scholars mainly focus on studying Chinese political system and its purpose of investment in the US, pointing out that Chinese enterprises' investment in the US poses a threat to national security. These studies give the US foreign investment policy-making excuse, and influence CFIUS's national security review which has an obvious political tendency, therefore inevitably increasing political risks of Chinese enterprises' investment in the US. In contrast, Chinese scholars study mainly from the perspective of international political economics, pointing out that the root causing the political risks of Chinese enterprises' investment in the US is US political strategy, economic interests and its demands of absolute advantage in China-US competition in international politics, economy, security, and so on, and that the political tendency of the US national security review is just an external form. Thus, from a new perspective, this paper analyzes how the political risks of Chinese enterprises' investment in the US generate, adjustments of the US strategy toward China and the decisive factors, and puts forward specific strategies, therefore serving as a useful complement of studies in this field.

2. POLITICAL RISKS OF CHINESE ENTERPRISES' INVESTMENT IN THE US

2.1 Political Risks in International Investment

Political risks refer to the possibility of international investors' economic loss led by political events in the host country or significant changes in the political relations between the host country, investor country and the third country (Nie, 2011).

2.2 Causes of Political Risks

Causes of political risks in international investments are very complicated. Outside the host country, international economic and financial crisis, changes in the world political and economic situation, economic regional blocs, and adjustments of agreements between relevant international organizations and bilateral and multilateral agreements can lead to political risks in varying degree. Inside the host country, conflicts between goals of international corporations and the host country government, and conflicts between laws and regulations in the host country and international corporations' operation are main causes of the political risks in international investments (Nie, 2011).

2.3 Motives of Investment in the US

Since 1972 when the "Shanghai Communiqué" was signed, the world has witnessed great achievements in China-US trade. By the end of 2013, China has become the world's largest trading power, the second largest foreign investor and the third largest FDI country. Also, China has become America's largest creditor nation (2008), the second largest trading partner (2005), and the third largest exports destination and the primary source of imports. The US remains the world's largest foreign investor and FDI country and China's second largest trading partner.

Although China-US trade develops rapidly, meanwhile China-US investment appears limited. Despite the rapid increase in China-to-US investment in recent years and the fact that the China-to-US investment last year has surpassed the US-to-China investment, the total amount was merely over 20 billion dollars. Over the same period, the US-to-China investment was only over 70 billion dollars. This is disproportionate with the China-US economic position in the world and their huge trade with each other. The imbalanced investment and the small mutual stock will lead to an imbalanced trade between the two countries, and affect the China-US political development and even the world's political development.

According to data of the Central Bank, as of the end of June 2014, China's foreign exchange reserves was up to $4 trillion, accounting for one third of the world's total foreign exchange reserves. Meanwhile, according to the latest data of the State Administration of Foreign Exchange, as of the end of 2013, Chinese short-term debt amounted to 4.1252 trillion yuan, about $671.8 billion. This shows that China now has about 3 to 3.3 trillion dollars, far more than the liquidity requirements needed for utilizing foreign exchange reserves (Liu, 2014). A huge amount of excess foreign exchange reserves, besides making necessary foreign debt purchase, requires the diversification of foreign investment, and the US is one of the best target countries.

2.4 Political Risks in Investment in the US

Out of enterprises' strategic objectives, or the need for increasing the value of assets, Chinese enterprises invest in US through Greenfield investments, cross-border mergers and acquisitions and other ways, which bring new increases and opportunities for the US to absorb foreign investment.

However, due to different ideologies, values, and social systems, although gaps brought by these differences has been narrowed and situation has improved, Chinese enterprises cause some unease for certain political powers in the US. By affecting the adjustment of the US strategy toward China and legislation of China-related investment policy, these political powers keep creating various topics, and intervene and restrict Chinese enterprises' investment in every possible way. These political risks become the source of negative effects on Chinese enterprises' investment in the US.

On one hand, the national security review of the Committee of Foreign Investment in United States (CFIUS) has created some obstacles for the Chinese enterprises' investment in the US. The national security review of CFIUS covers twelve areas, which is apparently unfavorable for Chinese enterprises coming into the US, out of the consideration of political factors. First, the US utilities and infrastructure sectors, second, the US technology export control policy, and third, US energy projects are still on high alert against China. Besides restrictions on enterprises and key technologies, Chinese enterprises are required to keep anti-terrorism along with US, and the investigation on synergistic strategy is increasing. Because of a lack of transparency of CFIUS security review on foreign acquisitions and mutual restrictions between departments, they are biased against Chinese state-owned enterprises and sovereign wealth funds investing in the US. Thus, the simple-motivated business practices are politicalized, which inevitably hurt Chinese enterprises' confidence and enthusiasm, as well as US-China investment relations.

On the other hand, US often carry out national security review with "political label" by using the reason that China's investment in US may pose a threat to US national security. The US government usually considers that China's investors are mainly state-owned or state-holding enterprises that can get subsidized loans from state-owned banks and other financial institutions and support from government's policy, and that they hold political purposes rather than commercial ones. And in this way, this investment in the US is possible to form a non-market advantage, resulting in abnormal, unfair competition, and even threatening the US national security and free competition order.

However, that is not the case. China's direct investors have various forms of ownership. According to statistics of the Chinese Ministry of Commerce, from 2003 to 2010, among 230 Chinese investments in the US, there are 170 accounting for about 74 percent are from the private sector. The "opaque" investment barriers set by the US will become a strong countercurrent for Chinese enterprises to invest in the US. In addition, some US restrictive policies towards foreign investment, such as antitrust laws and protectionist provisions such as the federal government's "Buy American Products", as well as some political activities such as campaign and conflicts between congress and government, often hype China's trade, investment, exchange rates, government procurement, network security, intellectual property and other issues (Zhang, 2012).

3. ADJUSTMENTS OF THE US STRATEGY TOWARD CHINA

Political risks of Chinese enterprises' investment in the US are mainly reflected in the adjustment of the US strategy toward China. Chinese enterprises' investment in the US was greatly influenced by adjustments of the US strategy toward China. The US strategy toward China has begun to be featured by cooperative containment (Wang, 2010).

3.1 Cooperative Containment of the US Strategy Toward China

Since the PRC was established, the US strategy toward China has experienced stages of containment, cooperation and containment, and now shows a feature of cooperative containment.

3.1.1 Two Sides of the US Strategy Toward China

Two sides refer to the combination of continuation and adjustment of competition and cooperation. First, after the collapse of the Soviet Union and the civil turmoil, the US contained China by using Tibet, Taiwan, human rights and other issues to provoke China's internal nationalism and social issues, and by using support from China's neighboring countries to create conflicts and interfere China's peaceful rise. All these are continuation of the US strategy toward the Soviet Union.

In addition, to maintain its global hegemony, the US maintains a different level of cooperation with China. Its motives is not to help China's development, but to gain benefits by getting involved in China's development, and to place China into its development system in order to achieve its leading edge.

3.1.2 Asymmetry of the US Strategy Toward China

The US development in modern times determines its hegemony in international politics, which is the realistic foundation of the asymmetry of the US strategy toward China. In terms of China-US trade, China depends more on the US than the US does on China. And in the competition with China, the US always has a sense of superiority.

In the realistic China-US interaction, the US often asks China to change in order to adapt to the US changes. Meanwhile, the US always creates disturbances and benefits from China's passive response or defense process. In contrast, China always pursues a diplomatic principle of "non-intervention in internal affairs" and the diplomatic thought of Taoguangyanghui (keeping a low profile) and it has no intention to provoke the US and benefits from the conflict, so China's measures to put pressure on the US are far less.

Because of the foundation of two sides and asymmetry of the US strategy toward China, US frequently benefits from its pressuring cooperation strategy toward China, and seeks to guide China into its plan.

3.2 Pressuring Cooperation Strategy Toward China

In recent years, through China-US political, economic, military and cultural dialogue, while promoting limited China-US cooperation, the US put pressure on China on rules and methods of the cooperation field. For instance, when China was trying to join the WTO, the US made China makes more concessions and commitments though several rounds of negotiation. Second, when enhancing China-US trade, the US often accuses the trade deficit, while the fact is that the US gains over 20 billion dollars every year through the trade deficit. Third, the US set restrictions on areas such as national security review and key technologies, despite the fact that the US needs China to enlarge its investment in the US.

The US pressuring cooperation strategy use cooperation as a condition to force China to make concessions, which is a pressuring strategy in the framework of cooperation which will not undermine the overall theme of cooperation. It not only affects China though pressure of external circumstance, but also influences even changes China in a close distance, as well as wields influences of the US soft power. It can be foreseen that in the future China-US interaction, US will benefit and ensure its international hegemony by intentionally creating tensions and conflicts with China, and keeping close interaction with and put pressure on China (Wang, 2010).

4. THE DECISIVE FACTORS OF THE US STRATEGY TOWARD CHINA

With the development of economic globalization, the US is transforming from an inward-oriented economy into an outward-oriented economy. The US economy's dependence on the global economy has increased greatly. Meanwhile, the US economic pattern changes dramatically, paying more attention on overseas economic interests. These changes include the service economization, knowledge economization, increasing dependence on foreign capital and overseas marketing, and other aspects. With major changes in economic pattern, the US foreign economic policies pay more attention to opening overseas markets, protecting intellectual property, and opening overseas financial markets (Wang, 2008).

However, these changes inevitably led to the game between domestic interests and foreign interests. Changes in a country's investment policy are determined by its decision-making mechanisms of investment policy, and decision-making mechanism is deeply influenced and intervened by its domestic political factors. In the political system of the US, independent and different agencies share the power of deciding public policy, and different political forces wield their influences.

US domestic policy-making process has two stages: First, describing the nature of the policy-making process, which can be divided into three stages: agenda-setting, adoption and implementation. The three indispensible stages influence each other, and ultimately form congressional legislation. Second, analyzing factors that determine the results of policy, namely consciousness, interests and institutions. Interaction of these factors will play a role in any political aspect. Powers that influence the decisions include Congress, administration, interest groups and think tanks.

4.1 Congress

Congress is the legislative branch. In particular operational level, a special committee of the Senate and the House of Representatives has a say in making and deciding the investment regulatory policies, and covers the bill drafting, committee hearings, parliamentarians' debate, supervision on the laws, and other political activities of legislative department. Congress often tends to support or protect domestic industries, and be relatively "aggressive" in dealing with Chinese investment in the US on regulatory issues. In Congress, the Republican Party tends to support free trade, and has a close relation with large enterprises and international corporations, so its political opinions often favor the protection of investment interests, and pay less attention to other social issues such as environmental protection, labor welfare and so on. In contrast, the Democratic Party supports investment protection. It is close to labor interests and community of left-ideology (Zhang, 2009). Radical actions of Congress are out of the consideration of votes. Whether senators are elected or re-elected, votes from their constituency are necessary. Thus, senators should be consistent with their voters' interests when it comes to trade policies that involve voters' sensitive interests. Besides, US senators' tendency to politicize trade issues is deeply influenced by ideological factors (Guo, 2014).

4.2 Administration

The president is the representative of administration. The final adjudication of regulatory review on investment is extended from the president's administrative power, so it is to some extent restricted by Congress. In ruling China's investment in the US, the president should consider more on maintaining national interests and security, and face the pressure from voters of certain consistency at the same time. In terms of reviewing investment, the US government department which is best qualified in Chinese affairs should be the CFIUS led by the department of Treasury. In terms of policies on China's investment in the US, the president usually listens to opinions of the CFIUS. The US Treasury's power enlarges greatly and it has more influence than other departments (Song, 2007).

4.3 Interest Groups

Interest groups are actors of the US investment policy-making process which cannot be ignored. They mainly include different industry groups, labor unions and NGO. US political system allows the existence of interest groups. In the game between legislative and executive branch, the interest groups' influence gradually appears. Interest groups exert its influence on investment policies mainly through direct lobbying, lobbyists and other ways, among which lobbying is the major method. Besides lobbying, interest groups also influence elections at all levels through financial donation in order to realize their political goals.

4.4 Think Tank

Researchers of think tank normally have rich administrative experience and solid research strength, as well as strong social resources. They play a crucial role in the decisions of the US legislation, administration and interest group.

From the analysis above, we can see that because of the special political system and decision-making mechanisms, the decisions of the US strategy toward China are actually results of the process in which different stakeholders restrict and compromise with each other and finally reach a balance (Guo, 2014). This brings more uncertainty to the political risks of Chinese enterprises' investment in US.

5. RESPONSE TO THE POLITICAL RISKS OF CHINESE ENTERPRISES' INVESTMENT IN THE US

As the largest developed country and the largest developing country, the US and China has different yet complementary natural resources and industrial levels in the long run, which can create a broad space for their investment (Zeng, 2012).

Over the years there is a serious imbalance existing in Foreign Balance Sheet of China and the US. The US foreign investments mainly concentrate on the high-yield risk assets, and its ROI on China maintains about 20% for a long time. In contrast, China's reserve assets are mainly for purchase of US Treasury bonds, and the average ROI is less than 5%, which is to exchange high-yield equity assets for low-yield assets. Interests' allocation is severely asymmetry. To settle the imbalance of interests' allocation, the best way is to change China's asset and liability structure, turning debt investments into equity investments. Meanwhile, after the financial crisis, Obama wanted the US economy to transform from debt-dependence into "Industrial recycling". Technical innovation, developing new resource and nurturing new industries all require large-scale investments, including China's. The transformation will not only solve US structural problem of "jobless growth", but also boost the US economic restructuring. The US certainly hopes that large-scale investment from China and other emerging economies will have larger spillover effects on the US economy (Zhang, 2012).

For Chinese enterprises, foreign investment and multinational business is still in its infancy, and investors are also not mature enough. There is a huge gap between Chinese multinational enterprises' financial strength, technology, management skills and those of developed countries. We must make suitable policies according to the world's political and economic situation, specific domestic conditions and multinational enterprises' actual situation, thereby avoiding possible political risks and increasing the revenue of China's foreign investment (Nie, 2011).

(1) Strengthen the introduction of the bilateral investment agreements. In the sixth round of China-US strategic and economic dialogue, the two sides agreed to seek to reach agreement in 2014 on the core issues and the main provisions of the bilateral investment treaties, and promised an early start in 2015 negotiations on the negative list. And the US promised that it will maintain an open environment to all kinds of Chinese investment.

(2) China and the US need to strengthen bilateral exchanges and cooperation not only between the central governments, but also between local governments and between cities in particular. Especially for Chinese investment, the US state government and municipal government have greater impact. In the US federal government, every state has different investment policies. Meanwhile, China and the US need to strengthen mutual understanding and cooperation of each other's regulatory oversight, such as cooperation in accounting standards, and to enhance cooperation on some new issues (Lu, 2014).

(3) Strengthen exchanges with US Congress, political parties, administration and other relevant departments, and enhance cooperation with interest groups. Also, strengthen mutual understanding and agreement to enhance and deepen the China-US strategic partnership.

(4) Adopt a flexible international investment strategy, and build a solid foundation for risk control. In the process of direct investment in US, companies can effectively avoid the US political risks by adopting flexible strategies on production, sales, technology and financing. First, production strategy. Chinese enterprises can put raw materials and spare parts in subsidiaries in different countries, which will not only help to ensure sources and quality of inputs, but also avoid the US government's control, thereby effectively reducing political risks. Second, marketing strategy. On the basis of maintaining the US target market needs, targeting the market to the whole country. Third, technology strategy. Avoid the US key technology review and export controls by technical process. Fourth, financing strategy. Chinese investors can increase the proportion of financing in the US, or make diversified financing (Nie, 2011).

(5) Strengthen communication and public relations with the US departments which can influence Chinese enterprises' investment in the US by inviting them to make them understand the operation system of Chinese enterprises. Meanwhile, Chinese enterprises should keep in touch with local expertise of politics, business, investment, law, union and community. Also, Chinese enterprises should choose partner with good social activity, or hire professional PR team to assist public relations, an in particular enhance communication with the US Congress in order to boost deeper strategic cooperation between the US and China.

(6) Under the premise of ensuring state-owned enterprises owned absolutely by the government, the mixed-economic reform of enterprises with other background should be accelerated. In terms of mergers and acquisitions, Chinese state-owned enterprises should clearly highlight its subjectivity and enhance the commercial attributes of trade, and avoid normal business activities to be demonized as a political or military activity under Chinese government control (Liu, 2012). At the same time, Chinese enterprises can make Greenfield investments in the US in advance, do mergers and acquisitions in accordance with CFIUS national security review, and make risk prevention on activities which may be regarded as coordinated strategy.

(7) Mergers and acquisitions mainly take place in the form of holding shares and avoid whole-acquisitions. Meanwhile, acquisitions can be done in areas such as consumption and selling, and avoid those related with national security.

(8) Improve China's image, and take global responsibility as much as possible. And while using properly China's massive foreign reserves, China should accelerate diversified investment and seize the historical opportunity of the US industrial reconstruction and economic revitalization.

CONCLUSION

With the accelerating economic globalization and strengthening China-US interaction, there is a huge space for their economic and trade cooperation, and Chinese enterprises have strong potential to invest in the US. This is not only an economic issue, but a political issue worth serious consideration which requires stakeholders to face China-US political, economic and cultural environment, to avoid politicizing simple business practices, and meanwhile to improve the main structure and legal and accounting system, thereby making favorable policies for Chinese enterprises to invest in the US and reducing the political risks.

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