

Analysis of the Characteristics of China's Direct Investment in the United States

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Abstract: *The United States has always been an important trading partner and capital exporting country of China. In recent years, China's direct investment in the United States has grown rapidly. In 2016, China's direct investment flows to the US increased by 450% year-on-year, and the stock increased by 73% year-on-year, making it the second largest foreign investment region in China. This paper selects the data from 2008 to 2016, and analyzes the scale, industry structure, main structure and investment mode of China's direct investment in the United States. On this basis, it summarizes the characteristics of China's investment in the United States. Through analysis, China's direct investment in the United States accounts for a high proportion of China's foreign direct investment, mainly in manufacturing and information. The main body of investment is private enterprises, and the investment methods are mostly acquisitions. The United States is in China's foreign direct investment. Status is constantly improving.*

Keywords: foreign investment, Sino-US trade, Sino-US relations

1. Introduction

Since the establishment of diplomatic relations in 1979, China and the United States have made historic and significant developments from the isolation and confrontation to dialogue and cooperation, from developing mutually beneficial and win-win economic and trade relations to coping with increasing global challenges. One of the most dynamic, most important and most promising bilateral relationships. In recent years, China's direct investment in the United States has expanded rapidly. In 2016, China's direct investment in the United States reached US\$10.34 billion, surpassing the US direct investment in China for the first time. China's investment in the United States is mainly concentrated in the manufacturing, financial, leasing and business services, real estate, information, computer and software industries. In terms of foreign investment entities, private enterprises account for the majority, indicating that private enterprises in China are more eager for the US market; in terms of investment methods, acquisitions account for the vast majority, accounting for 93%, and greenfield investment accounts for a relatively small proportion. Although China's investment in the United States is not high, investment growth is increasing. In 2016, China's direct investment flows to the United States increased by 450% year-on-year. This shows that the United States is one of China's hottest investment destinations.

2. Sino-US bilateral investment scale

In 2016, China's direct investment flows to the United States were US\$24.6 billion, 5.5 times that of the previous year. It created a record high for China's direct investment in the United States, accounting for 8.7% of the total flow. It is the second largest target for China's foreign investment. As of the end of 2016, the stock of investment in the United States was US\$60.58 billion, accounting for 4.5% of China's foreign direct investment stock. Although China's total

investment in the United States is small, the growth rate is very fast, and the United States is becoming an important investment target country in China.

In terms of investment stock, as of the end of 2016, China's total investment in the United States was 58.1 billion US dollars. On the whole, China's direct investment in the United States is much lower than the US direct investment in China. This is mainly due to the late start of China's foreign investment and the imperfect laws and regulations, technical equipment and so on. However, except for 2013, China's investment in the United States has maintained a relatively high growth rate, with a year-on-year increase of 73% in 2016. Looking at the status of China's investment in the United States in both countries, as of the end of 2016, China's investment in the United States accounted for 2% of foreign direct investment in the United States, ranking 11th among US investment countries. At the same time, China's investment in the United States accounts for 31.7% of China's foreign investment stock, making it the second largest investor in China except the EU. It shows that China's investment in the United States has great differences in the investment status of China and the United States. For China, China's investment in the United States accounts for a large proportion of foreign investment. The United States is an important investment target country of China, but For the United States, since the United States is the country that receives the most foreign direct investment, China's investment in the United States is less important in all investments accepted by the United States. This reflects the fact that China's foreign investment is still immature and the scale of investment is small.

In terms of investment flows, since 2008, China's investment in the United States has shown a clear upward trend. In 2016, it reached a record high of US\$24.6 billion, a year-on-year increase of 450%, while the US investment flows to China showed fluctuating changes. After the financial crisis, US investment in China fell rapidly, from US\$24.2 billion to

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US\$142 million. After a certain period of recovery, after 2014, US-to-China investment began to decline again. The rises in Chinese investment in the United States and the decline in US-to-China investment have made China's net investment in the United States in 2016 the first positive. Looking at the growth rate of investment flows between the two sides, the higher growth rate of US investment in China occurred in 2010 and 2013. After 2014, the US investment flow to China began to decline; and China's higher investment in the US appeared in 2010 and 2014, and since

2013, investment in the United States has shown an upward trend. This shows that the US investment activities in China are earlier than China's investment activities in the United States. At this stage, the US investment in China shows a downward trend, while China's investment in the United States has shown a strong upward trend. Explain that at this stage, the United States is a very important investment area for China. China's investment in the United States plays an important role in the development of China's economy.

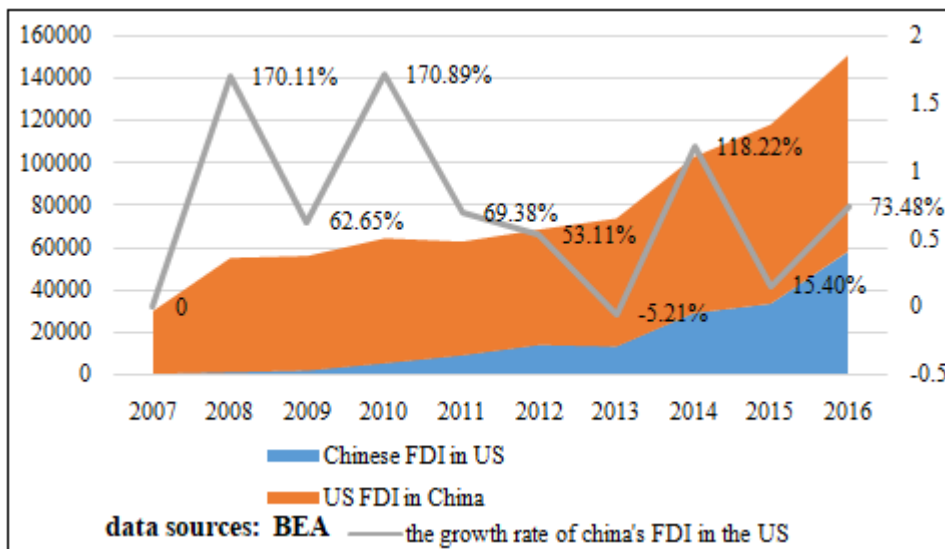


Figure 1: Comparison of stocks of direct investment between China and the United States

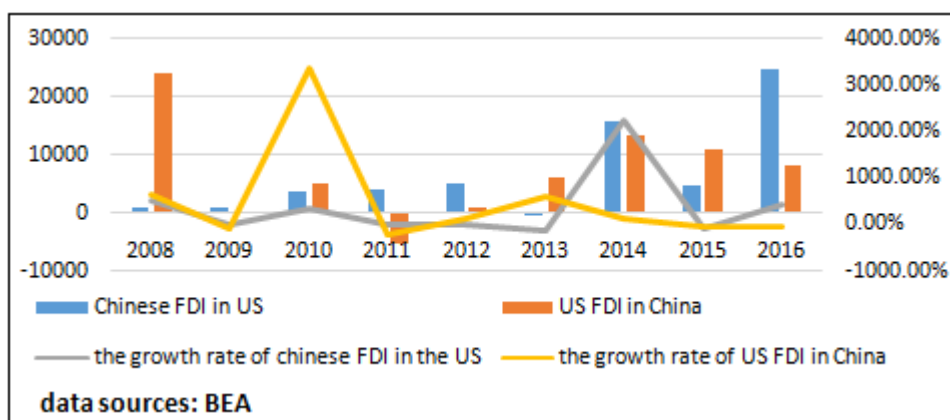


Figure 2: Comparison of direct investment flows between China and the United States

3. China's Investment in the US Industry Structure

From the perspective of the industry distribution of investment flows, in 2016, China's investment in the US was diversified, with 6 of them having a flow of more than US\$1 billion, an increase of 3 over the previous year. Investment in the US manufacturing industry ranked first with US\$5.995 billion, up 49.6% year-on-year, accounting for 35.3% of US investment flows; followed by information, computers and software industry of US\$4.932 billion, compared with 15.9 times of the previous year, accounting for 29%; The real estate industry ranked third with US\$2.326 billion, which was 12.7 times that of the previous year, accounting for

13.7%. Regardless of the proportion of investment or the growth rate of investment, the information, computer and software industries have become more and more important, indicating that the structure of China's investment in the United States has improved. However, it must be noted that the problem of irrational investment in China's foreign investment also exists in investment in the United States, manifested by the rapid growth of the real estate industry. At the end of 2016, the Chinese government adopted a series of measures to curb the spread of irrational investment activities. It is foreseeable that China's investment in these industries in the United States will decline to some extent in 2017.

Table 1: Distribution of China's investment in the US in 2016 (Unit: millions of dollars)

Industry	flow	proportion	stock	proportion
Manufacturing	5994.98	35.00%	15182.12	25.10%
Financial	-3547.64	-20.90%	10491.64	17.30%
Leasing and business services	1, 630	9.60%	6951.16	11.50%
Real estate	2, 326	13.70%	5718.73	9.40%
Information, Computer and Software	4, 932	29.00%	5445.76	9.00%
Wholesale and retail industry	958	5.60%	4017.76	6.60%
Mining	506	3.00%	3081.9	5.10%
Scientific research, technical service	1, 222	7.20%	3025.11	5.00%
Culture, sports and entertainment	1, 866	11.00%	2353.86	3.90%
Construction	468	2.80%	1266.31	2.10%
Resident Services and Other Services	217	1.30%	986.57	1.60%
Transportation, warehousing and postal services	14	0.10%	561.72	0.90%
Accommodation and Catering	229	1.40%	528.94	0.90%
Electricity, gas and water production and supply	51.3	0.30%	500.33	0.80%
Agriculture, forestry, animal husbandry, fishery	44.45	0.20%	259.4	0.40%
Education	41.98	0.20%	104.43	0.20%
Health, social security and social welfare	17.17	0.10%	53.72	0.10%
Water Conservancy, Environment and Public Facilities Management	12.37	0.10%	50.51	0.10%

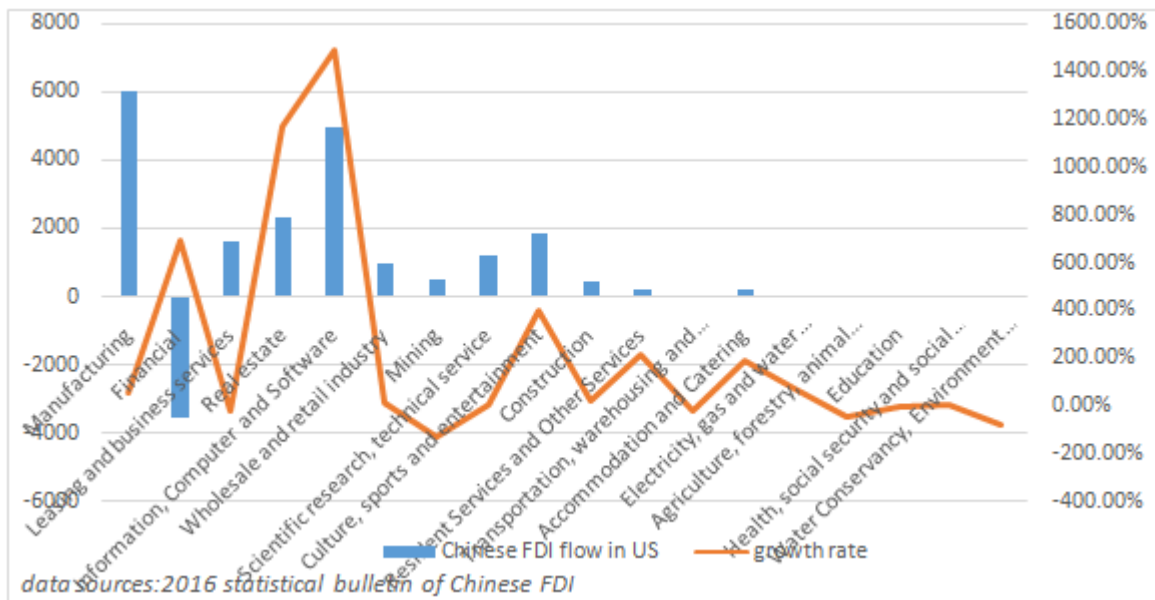


Figure 3: China's investment flows to various industries in the United States in 2016

From the perspective of the industry distribution of investment stocks, the manufacturing industry topped the list with 15.182 billion US dollars, accounting for 25.1% of the stock of investment in the United States, indicating that manufacturing is still the main industry for Chinese investment in the United States. According to the 2016 China Foreign Direct Investment Statistics Bulletin, the manufacturing industries directly invested by China in the United States in 2016 are mainly distributed in the automobile manufacturing, pharmaceutical manufacturing,

special equipment manufacturing, leather/fur/feather and its products and footwear industry, computer/communication and other electronic equipment manufacturing, railway/ ship/ aerospace and other transportation equipment manufacturing, metal products, non-metallic mineral products, chemical raw materials and chemical manufacturing. Most of the manufacturing industries belong to industries with high technical requirements, indicating that China's industrial structure has been improved.

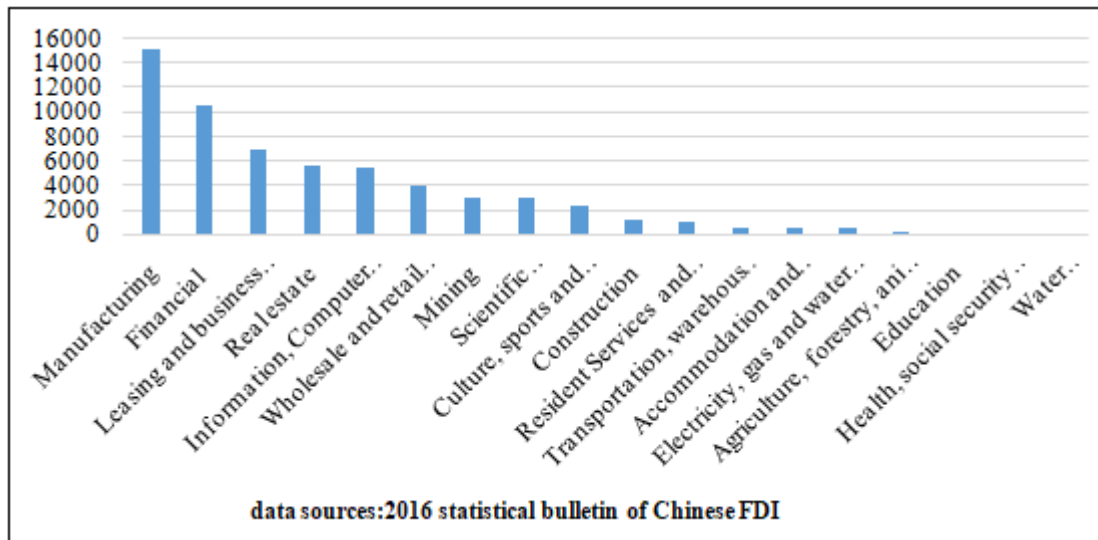


Figure 4: China's investment stock in each industry in 2016

1) The main structure of Chinese investment in the United States

According to the ownership of investors, China's investment activities in the United States are characterized by state-owned enterprises and private enterprises following and surpassing. In 2008, state-owned enterprises accounted for 58% of investment stocks and private enterprises accounted for 42%. After that, the proportion of state-owned enterprises' investment increased slightly. After 2010, the proportion of private enterprises' investment continued to rise rapidly, as of 2016. The proportion of private companies has reached 71%, accounting for the majority of investment. It shows that the achievements of China's market economy construction are remarkable, and private enterprises have

fully exerted their own market vitality.

Compared with China's foreign investment, private investment in China's direct investment in the United States accounts for the majority. As of the end of 2016, the proportion of investment by private enterprises reached 71%, and the investment of the public economy accounted for only 29%. In the stock of China's foreign direct investment, the proportion of state-owned enterprises accounted for 54%, accounting for a large part, private enterprises. The proportion is 46%, not yet over half. It shows that China's investment in the United States is mainly private enterprises, and private enterprises are more eager for the US market.

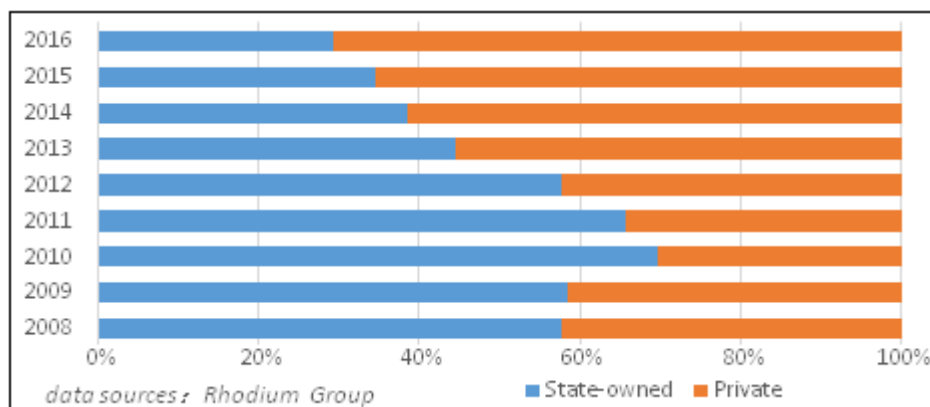


Figure 5: The type of investors

2) The way China invests in the US 1

Since 2008, China's investment in the United States has been dominated by acquisitions, supplemented by greenfield investments. As of 2016, the proportion of acquisitions reached 91.7%, and the investment in greenfields accounted for 8.4%. Judging from the changes in the proportion of

investment over the years, the proportion of greenfield investment in 2008 and 2009 has increased to a certain extent. The proportion of acquisitions in 2010 has risen sharply. The gap between the two has further widened. Since then, the proportion of acquisitions has continued to rise. By the end of 2016, the proportion of acquisitions was as high as 91.7%, and greenfield investment only accounted for 8.4%. In addition, the proportion of greenfield investment in 2010 has dropped significantly. This change is consistent with the changes in investment entities. In 2010, the proportion of state-owned enterprises in China's investment in the United

¹Greenfield investment refers to the investment in building new projects in the local area; Acquisition refers to mergers or acquisitions or acquisition of at least 10% of the equity of local assets

States has declined significantly. Enterprises mainly invest in investment in the United States with greenfield investment as the main method, while private enterprise investment is mainly based on acquisition.

The same as China's foreign investment, China's investment in the United States is still based on acquisitions, and the proportion of acquisitions is greater. According to the 2016 China Foreign Direct Investment Statistics Bulletin, in 2016, Chinese companies implemented a total of 164 M&A projects with US\$35.4 billion in actual transactions, mainly in manufacturing, transportation and warehousing, software and information technology services, real estate, Cultural and entertainment fields. Including HNA's Tianjin Tianhai Logistics Investment Management Co., Ltd., US\$6.01 billion acquisition of Ingram Micro International, Qingdao Haier's US\$5.88 billion acquisition of General Electric's home appliance business project, Wanda Group's US\$2.8 billion acquisition of American Legendary Pictures, and Apex Group's US\$2.7 billion Acquisition of Lexmark International and HNA Group's \$1.88 billion acquisition of Carlson Hotels Group. In 2016, Chinese companies achieved more than \$40

billion in investment in the United States through direct investment and reinvestment by overseas companies.

However, it must be noted that with Trump's coming to power, the economic and trade relations between China and the United States are becoming increasingly tense, and China's direct investment in the United States will certainly be affected. On March 23, 2018, the White House official website issued a memorandum on the US presidential action against the 301 investigation, expounding the results of the US 301 investigation and the presidential instructions for the results. The presidential memorandum signed by US President Trump will impose a 25% tariff on certain Chinese goods, call for WTO members to boycott, and restrict Chinese companies from investing in the United States. In addition, the US Treasury will soon launch a program within 60 days to restrict Chinese companies from investing in US companies. This will greatly reduce China's enthusiasm for investment in the United States, and the number of acquisitions will also decline.

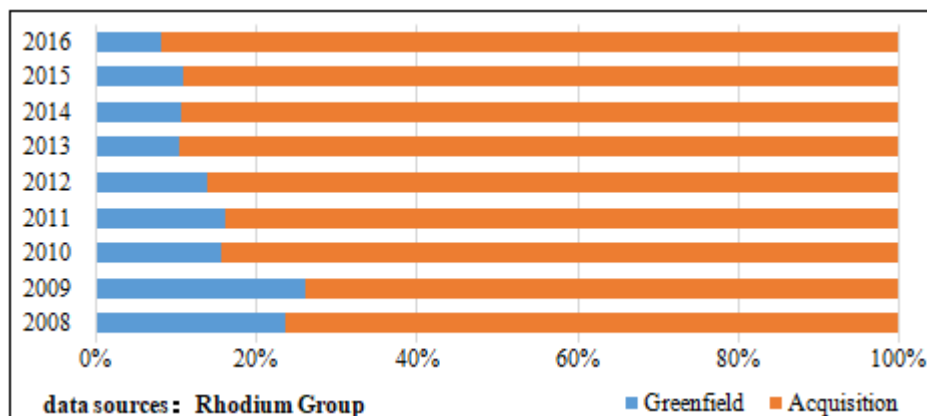


Figure 6: The type of entry mode

4. Characteristics of China's investment in the United States

4.1 The United States is an important foreign investment location for China. The importance of Chinese investment in the United States is different in both countries.

In 2016, China's foreign direct investment flows were US\$196.15 billion, of which direct investment flows to the US were US\$24.6 billion, accounting for 8.7% of total flows, and China's direct investment flows to the US reached record highs. In terms of investment stock, as of the end of 2016, the stock of investment in the United States was US\$60.58 billion, accounting for 4.5% of China's foreign direct investment stock. The United States is the second largest target for China's foreign investment. In recent years, China's total investment in the United States has been increasing. In 2016, China's investment flows to the United States grew at a high rate, with a growth rate of 450%. The United States' position in China's foreign investment. more and more important. However, China's investment in the United States is not high in foreign investment accepted in the United

States. In 2016, China's stock of investment in the United States accounted for 2% of all foreign investment in the United States, ranking 11th. It shows that China's total foreign investment is not high, and investment activities are still at the initial stage of development.

4.2 Continuous optimization of the US investment structure, as well as irrational investment

The manufacturing industry ranked first with US\$5.995 billion, up 49.6% year-on-year, accounting for 35.3% of US investment flows; investment in information, computer and software industries grew at a faster rate, with a total investment of US\$4.932 billion, an increase from the previous year. 15.9 times, accounting for 29%; the real estate industry ranked third with US\$2.326 billion, which was 12.7 times of the previous year, accounting for 13.7%. Regardless of the proportion of investment or the growth rate of investment, the information, computer and software industries have become more and more important, indicating that the structure of China's investment in the United States has improved. The rational investment in the United States is

the main reason for the rapid growth of the real estate industry.

4.3 The investment method is mainly based on acquisition. As of 2016, the proportion of acquisitions reached 91.7%, and the investment in greenfields accounted for 8.4%.

In view of the changes in the proportion of acquisitions and greenfield investments over the years, the proportion of acquisitions has further expanded, and the proportion of greenfield investments is shrinking. Mainly due to the company's desire to quickly achieve industrial upgrading and improve technology.

4.4 Enterprises that are not controlled by the public economy are the main force investing in the United States.

Chinese private companies are more eager for the US market. As of the end of 2016, private companies accounted for 71% of US investment, and state-owned enterprises accounted for only 29%. Judging from the changes in the proportion of investment in the United States over the years, the proportion of private enterprises has been increasing, and the proportion of state-owned enterprises has been decreasing. The achievements of China's market economy construction are remarkable, and the market vitality of private enterprises has been fully exerted.

4.5 The international situation is unpredictable and investment in the United States will be hindered.

In 2017, the process of world economic recovery is still not stable, international trade protectionism is on the rise, and anti-globalization trends are spreading throughout the world, and foreign direct investment activities, as a product of globalization, will be greatly affected in this environment. At the beginning of 2017, Trump came to power, the rise of populism in the United States, and the huge trade deficit between China and the United States became the first "attack" object of the Trump administration. On March 23, 2018, the White House official website issued a memorandum on the US presidential action against the 301 investigation, expounding the results of the US 301 investigation and the presidential instructions for the results. The presidential memorandum signed by US President Trump will impose a 25% tariff on certain Chinese goods. The Sino-US trade war began. On the same day, the US government announced that it would restrict Chinese companies from investing in the United States. The trade relationship between China and the United States has become increasingly tense. All of this will worsen the foreign investment environment of Chinese enterprises, and the investment activities of enterprises will become more difficult.

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