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America Concerned About Chinese Investment

SUMMARY

Investment is playing a growing role in U.S. commercial ties with the People's Republic of China. Despite the tension between the two nations, the rate of bilateral investment keeps rising, fueling national security concerns in Washington, DC.

BACKGROUND

U.S. companies investing in manufacturing facilities in China have long faced difficulties doing business there. The 2018 results of a U.S. Trade Representative Office investigation concluded that China engages in unfair trade activities, including restricting foreign ownership of business in China, requiring transfer of technology to Chinese entities, investing in U.S. firms to obtain cutting-edge technology or intellectual property, supporting and conducting unauthorized intrusions into computer networks of U.S. companies, and manipulating Chinese currency to inflate the cost of U.S.-manufactured goods in China. Despite these challenges, many U.S. manufacturers find the lower cost of materials and labor worth the risk.

For many years, the Chinese government invested much of its foreign exchange reserves in U.S. assets, particularly U.S. Treasury securities. China is the world's largest holder of foreign exchange reserves and had $3.2 trillion in reserves as of November 2020. Since 1999, the PRC government has pushed an outward investment policy that has sought to diversify its overseas investments into hard assets by encouraging its companies—many state-tied firms—to invest overseas. These investments have targeted access to critical raw materials and cutting-edge technology and establishing an overseas presence to expand infrastructure and create markets for Chinese goods and services. Some analysts and Members of Congress have raised concerns that China's significant holdings of U.S. securities give it leverage over the United States. They argue, for example, that China could seek (or threaten) to liquidate a large share of its U.S. assets or significantly cut back its purchases of new securities to influence U.S. government decision-making or signal displeasure over a policy dispute.

CURRENT STATUS

Attempts to bolster U.S. infrastructure and manufacturing with domestic investment face a familiar challenge: a surge of low-priced products from China. As U.S. factories spin up to produce electric vehicles, semiconductors, and solar panels, China is flooding the market with similar goods, often at significantly lower prices than American competitors. Some Biden officials are concerned that Chinese products could again threaten the survival of U.S. factories when the government is spending considerable sums to jump-start domestic manufacturing.

An investigation by the House Select Committee on China found that five U.S. venture capital firms have invested more than $3 billion in Chinese technology companies, many of which aid China's military, surveillance apparatus, and human rights violations, the committee said on Feb. 8. U.S. lawmakers renewed calls to pass bipartisan legislation restricting American investment in Chinese technology. "It should come as no surprise that China's military and surveillance state are exploiting loopholes in U.S. policy to access billions of U.S. investment dollars and expertise. We know that U.S. investment has not democratized China, and countries that are controlled by the Chinese Communist Party (CCP) have no power over the applications of their technology. The CCP can direct it to us for military or surveillance purposes," House Foreign Affairs Committee Chairman Michael McCaul said at a hearing on the legislation.

IMPACT

China's capacity for frontier innovation is one of the most critical unknowns in the global economy. Many countries have tried and failed to transition from "imitator" to "innovator." China's ability or inability to succeed in that effort will largely define global geopolitical development in the coming decades. If China can surpass the United States in innovation, the global value chain (GVC) for the highest-value-added products will change tremendously. This shift would represent a severe economic and geopolitical challenge to the United States and its allies, mainly because of China's predatory trade and innovation policy practices.

Remaining competitive in advanced, technology-intensive industries is crucial for U.S. national security. The influence of the U.S. military rests mainly on its technological superiority in areas such as cybersecurity and intelligence gathering. A loss of competitiveness in the domestic production of technologies crucial to national defense and increased outsourced production means the United States becomes more dependent on other countries to supply its military. If the United States must rely on others to develop and produce defense technologies, then its military can only be as technologically advanced as its suppliers.

RESOURCES:

- U.S. Lawmakers Push for Limits on American Investment in China Tech (VOA News)
- New U.S. Solar and Electric Car Factories Face Familiar Challenge (New York Times)
- Expect Outbound Investment Regs, New CFIUS Rules This Year (Export Compliance Daily)
- U.S. Firms Backed 'Problematic' Chinese Companies (Export Compliance Daily)
- U.S.-China Investment Ties (FAS)
- Wake Up, America: China is Overtaking the U.S. in Innovation (ITIF)