

## Executive Summary

# New Neighbors: 2017 Update Chinese Investment in the United States by Congressional District

*A Report by the National Committee on U.S.-China Relations and Rhodium Group April 2017*

Since 2015 the “New Neighbors” report series has analyzed the operations of Chinese-owned companies in the United States and the local impacts of those investments. This update reviews China’s US investments in 2016 and describes how their footprint by region, state, and congressional district has changed during the year.<sup>1</sup>

A detailed stocktaking of local impacts is more urgent now than ever before. An unprecedented Chinese investment jump in the US from \$15 billion in 2015 to \$46 billion in 2016 has spurred a number of initiatives to alter the US inward investment screening regime, to address security and economic concerns. As proposals for policy reform surface, members of Congress will have to balance legitimate concerns against the goal of preserving America’s open investment tradition, as well as the many economic benefits foreign investment brings to the United States. The 2016 data on Chinese investment patterns in the United States presented in this report will help officials and others participating in this debate to make informed decisions.

### Chinese FDI in the US tripled in 2016

From 2010 to 2015, annual growth in Chinese foreign direct investment (FDI) in the United States averaged 32%. In 2016, investment jumped to \$46 billion, a 200% increase from the previous record of \$15 billion set in 2015.

In addition to long-term secular market forces pressuring Chinese companies to move up the value chain and closer to their export customers by venturing abroad, political and economic risk in China played a role last year as well, feeding worries over the value of China’s currency. Together, this tangle of concerns contributed

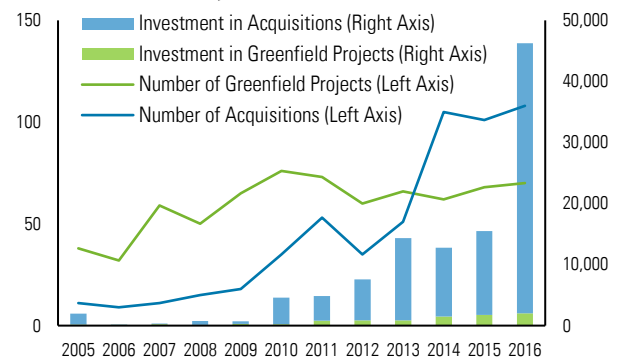
to an extraordinary increase of Chinese outbound investment in 2016.

The United States became one of the top destinations for Chinese outbound investment in 2016, and China is now one of the top sources of FDI for the United States. At the end of 2016 the cumulative value of Chinese FDI transactions in the US since 2000 exceeded \$109 billion.

### Acquisitions continued to dominate

Mergers and acquisitions (M&A) have historically been the main channel for Chinese capital entering the US. In 2016, the relative importance of M&A further increased: 96% of the \$46 billion in Chinese FDI entered the US as M&A while greenfield projects only accounted for 4% of total investment. Greenfield FDI expanded but not at the same pace as M&A activity.

**Figure 1: Chinese FDI Transactions in the US by Entry Mode**  
Number of transactions; USD million



Source: Rhodium Group. See Data Appendix in the full report for more details.

The largest M&A transactions in 2016 were HNA’s purchase of Ingram Micro (\$6.0 billion), Haier’s

and long-term interest (at least 10% of equity or voting rights). See the methodology in the Data Appendix in the full report for more details.

<sup>1</sup> “Operations” and “establishments” are used interchangeably in this report to describe each geographically distinct operation of a business within the United States. “Chinese-owned” refers to firms in which Mainland Chinese investors have a significant

acquisition of GE’s appliance business (\$5.6 billion), Anbang’s investment in a portfolio of real estate from Strategic Hotels (\$5.5 billion), and Apex Technology’s purchase of printer company Lexmark (\$3.6 billion).

The most important greenfield projects that began or continued construction in 2016 were Yuhuang Chemical’s \$1.85 billion methanol plant in Louisiana, Tranlin Paper’s \$2 billion paper plant in Virginia, Fuyao’s \$600 million auto glass plant in Ohio, Geely Volvo’s \$500 million auto production facility in South Carolina, and glass fiber manufacturer Jushi Group’s \$300 million manufacturing site also in South Carolina.

**Chinese companies added 1,300 US operations**

The 178 individual Chinese investments last year included more than 1,300 new US operations, bringing the total number of Chinese-owned establishments in the US to 3,200 from just 1,900 at the end of 2015.

Acquisitions of companies with numerous US locations included California-based Ingram Micro with major operations in six states and Michigan-based Key Safety Systems with factories in five other states. Carlson Hotels was another notable example with over 500 properties including Radisson and Country Inn & Suites spread across nearly all states.

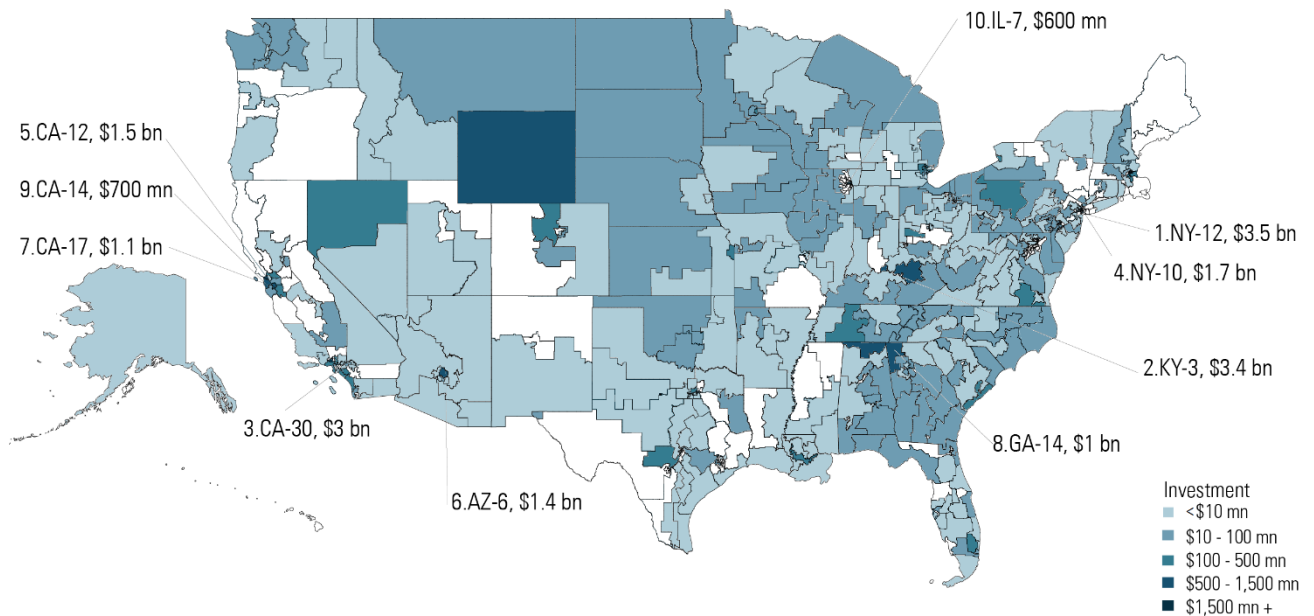
Similar to previous years, we observed few divestitures or cases of Chinese-owned entities downsizing US operations in 2016. The notable exceptions were Fosun’s decision to sell insurance company Ironshore after just one year of ownership and the continued downsizing of Motorola Mobility’s operations in Chicago as part of ongoing restructuring.

**Coastal economies remained major beneficiaries, but Chinese presence in the South and Midwest grew significantly**

California was again the leading destination for Chinese FDI, receiving investments in varied sectors including entertainment (Legendary Pictures in CA-30), transport and infrastructure (Ingram Micro in CA-45), information and communications technology (ICT) (OmniVision in CA-17), and real estate and hospitality (the Montage Laguna Beach in CA-48, the Ritz-Carlton in San Francisco, CA-12, and the Four Seasons in Palo Alto, CA-14).

New York also continued to be a major destination for Chinese FDI. As in previous years, it largely attracted investment in commercial real estate and hospitality in New York City (1221 Sixth Avenue) and financial and business services (a stake in art auction house Sotheby’s in NY-12).

**Figure 2: Chinese FDI in the US by Congressional District, 2016**  
Color indicates value of investments in 2016



Source: Rhodium Group. See Data Appendix in the full report for more details.

In addition to deepening their presence in traditional markets, Chinese investors also expanded to several states that had not received significant Chinese capital before. Kentucky hosts the headquarters of Lexmark (KY-06) as well as a production facility for GE Appliances (KY-03). Arizona attracted a number of Chinese investments in AZ-06, including in real estate and hospitality (the Four Seasons in Scottsdale), infrastructure and logistics (Ingram Micro’s facility in Scottsdale), and financial services (AssetMark in Phoenix). In Georgia, a GE Appliances plant in Lafayette (GA-14) came under Chinese ownership, adding to a number of other Chinese manufacturing operations in the state.

### Almost all congressional districts now host Chinese companies

The acquisition and construction of 1,300 new operations further expanded the footprint of Chinese companies in the US economy in 2016. By the end of the year, nearly 98% (425 of 435) of congressional districts hosted Chinese-owned establishments.

The majority of districts (249 or 59%) have received less than \$50 million in Chinese investment since 2000. 135 districts (32%) have received more substantial investment in the \$50-500 million range, while 41 districts (9%) have landed more than \$500 million.

**Table 1: Top 15 Recipient Districts of Chinese FDI, Cumulative Investment from 2000-2016**

District	Investment (\$ million)	Metro Area	Representative
NY-12	8,660	New York City	Carolyn Maloney
IL-07	3,880	Chicago	Danny K. Davis
NC-04	3,640	Raleigh-Durham Triangle	David Price
KY-03	3,360	Louisville	John Yarmuth
CA-12	3,160	San Francisco	Nancy Pelosi
CA-30	3,040	Los Angeles	Brad Sherman
NY-10	3,040	New York City	Jerry Nadler
CA-17	2,400	San Jose	Ro Khanna
VA-03	1,920	Eastern Virginia	Robert C. Scott
TX-07	1,810	Houston	John Culberson
KS-03	1,740	Kansas City	Kevin Yoder
TX-23	1,640	SW Texas	Will Hurd
OK-03	1,610	NW Oklahoma	Frank Lucas
AZ-06	1,430	Phoenix and Scottsdale	David Schweikert
TX-19	1,380	North Texas	Jodey Arrington

Source: Rhodium Group. See Data Appendix in the full report for more details.

The ranking of top districts for cumulative Chinese FDI remained similar to 2015: NY-12 leads thanks to large real estate investments. IL-07 (Motorola and InterContinental and Fairmont hotels) and NC-04 (IBM’s PC division) follow. Newcomers to the top 15 list in 2016 included KY-03, CA-30, and AZ-06.

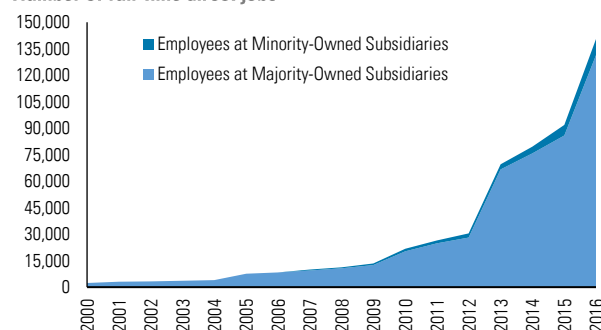
### Chinese-owned companies now employ more than 140,000 Americans

Chinese companies added about 50,000 US employees to their payrolls in 2016. The total number of Americans directly employed by Chinese-owned US companies reached 141,000 at the end of the year—a 46% increase from 2015 and more than nine times higher than 2009.

This employment count includes full-time direct jobs at US entities that are at least 10% owned by a Chinese parent company. Companies in which Chinese investors hold more than 50% of equity or voting shares (majority ownership) account for 131,000 of those jobs. US companies with Chinese minority ownership (between 10% to 50%) employ another 10,000 people. Examples of firms with minority Chinese ownership include Lyft, WeWork, Sotheby’s, and Lending Club.

These jobs figures do not include indirect employment during project construction or at suppliers. Counting that indirect employment would augment the count by tens of thousands of additional jobs.

**Figure 3: Employment at Chinese-owned Companies in the US**  
Number of full-time direct jobs



Source: Rhodium Group. See Data Appendix in the full report for more details.

A handful of major acquisitions were responsible for the majority of the 2016 increase in employment: HNA’s purchases of Carlson Hotels and Ingram Micro, Ningbo Joyson’s purchase of Key Safety Systems, Haier’s purchase of the GE Appliance division, and Apex Technology’s purchase of Lexmark Technology. Together these acquisitions accounted for roughly 65% of the 50,000 newly added US employees in 2016.

The number of new jobs created through greenfield projects and expansions remained small compared to the number of “acquired” employees in 2016. However, this from-scratch employment was still significant in absolute terms, thanks to new greenfield FDI in both manufacturing and services. We estimate that these projects created 3,000 new jobs in 2016, the highest annual total to date, bringing the cumulative number of jobs created by Chinese greenfields and expansions since 2000 to more than 14,000.

While this number is modest, several large and labor-intensive manufacturing facilities are currently under construction or pending, including Tranlin Paper in Virginia (VA-04), Volvo’s South Carolina plant (SC-01), Faraday Future in Nevada (NV-04), Sentury Tire’s plant (GA), Sun Paper’s pulp plant (AR-04), and China Sunergy’s facility in California (CA-14). Taken together, Chinese greenfield projects currently under construction may create over 10,000 new jobs in the coming years if they hit their employment targets.

The ranking of districts with the greatest number of jobs supported by Chinese companies is different from the ranking by investment, as districts with real estate holdings and other capital-intensive investments drop out. KY-03 tops the ranking due to the GE Appliances plant in Louisville, followed by NC-09 (Smithfield), MI-05 (Nexteer), NC-04 (Lenovo) and CA-12 (various technology companies).

Considering newly created jobs through greenfield projects only, we get a different picture. The

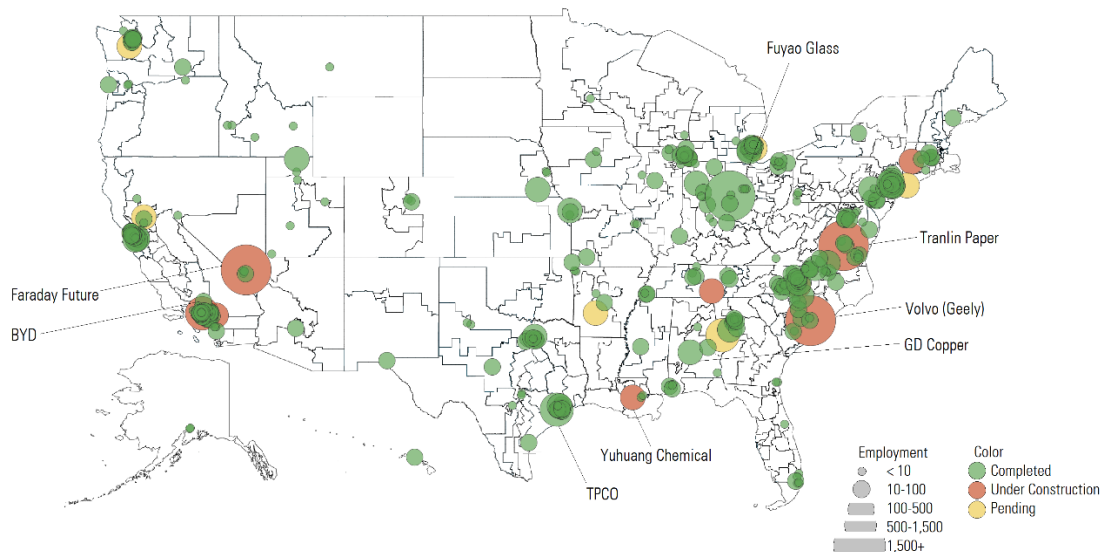
congressional districts with the most newly created greenfield jobs since 2000 are OH-10 (Fuyao Glass America’s plant), TX-27 and TX-03 (Tianjin Pipe Corporation and Huawei), CA-17 and CA-43 (LeEco’s Faraday Future), CA-23 (BYD), and AL-07 (Golden Dragon Copper).

**Table 2: Top 15 Districts in Terms of Total Jobs Provided by Chinese Companies in the US, 2016**

District	Jobs	Metro Area	Representative
KY-03	6,020	Louisville	John Yarmuth
NC-09	5,680	Charlotte	Robert Pittenger
MI-05	5,200	Central Michigan	Dan Kildee
NC-04	4,180	Raleigh-Durham Triangle	David Price
CA-12*	3,960	San Francisco	Nancy Pelosi
NY-12*	3,900	New York City	Carolyn Maloney
SD-01	3,500	South Dakota at-large	Kristi Noem
VA-03	3,430	Eastern Virginia	Robert C. Scott
IA-04	3,390	NW Iowa	Steve King
MO-06	3,250	Northern Missouri	Sam Graves
CA-17	3,040	San Jose	Ro Khanna
OH-10	2,370	Dayton	Mike Turner
NE-03	2,290	Western and Central NE	Adrian Smith
NC-07	2,190	Southern NC	David Rouzer
KY-06	2,180	Central Kentucky	Andy Barr

Source: Rhodium Group. See Data Appendix in the full report for more details. \*Jobs from minority-owned operations account for more than 50% of total jobs provided in these districts.

**Figure 4: Chinese Greenfield Investments in the US and Employment Impact**  
Number of jobs



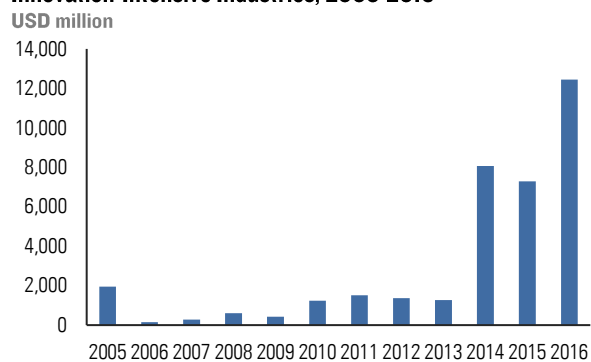
Source: Rhodium Group. See Data Appendix in the full report for more details.

## Chinese investment and US innovation

In addition to real estate, technology has become a key driver of Chinese investment activity in the US. Chinese FDI in high-tech and innovation-intensive industries has increased rapidly since 2013 and averaged \$9 billion annually in the past three years.<sup>2</sup>

In 2016, debate about the potential impact of Chinese FDI on US innovation and long-term competitiveness came to a head following a sharp increase in Chinese takeover bids in semiconductors, robotics and other sectors promoted by China's industrial planners. These patterns have raised important concerns, including the transfer of defense-related technology and potentially negative long-term impacts of state-sponsored acquisitions on competition, market structures, and innovation.

**Figure 5: Chinese FDI Transactions in US High Tech and Innovation-Intensive Industries, 2005-2016**



Source: Rhodium Group. See Data Appendix in the full report for more details.

As officials and the public evaluate these legitimate concerns and frame potential policy responses, our data offer a reminder that Chinese investors have become important contributors to high value-added activities in many parts of the United States. In 2016, Chinese companies continued to invest in laboratories, research and development centers, testing operations and other greenfield facilities. Examples included Huawei's R&D center in Seattle, Faraday Future's facility in Los Angeles and Cirrus Aircraft's new service center in Knoxville, Tennessee.

Chinese entities also continued to invest in early-stage growth companies in America. While these investments have raised some security concerns, they have provided an important source of financing for many US technology companies. In 2016, Chinese investors

focused particularly on software (EyeVerify and Firefly Games), financial and business services (ZestFinance, WeWork) and biotechnology (ReadCoor and Histogen).

Finally, our 2016 data support earlier findings that Chinese investors do not have a greater propensity than other foreign investors for moving R&D and other high value-added activities back to their home country post-acquisition. To the contrary, the great majority of Chinese investors continued to add local staff in the US during the year (for example see solar panel developer MiaSole in California). As previously noted, there were few cases in which Chinese companies downsized US operations and employment in 2016 (for example Motorola).

### Outlook: From boom to bust?

After a booming 2016, the prospects for 2017 are more complicated. The commercial rationale for further Chinese expansion in the US economy remains strong, but Chinese capital controls, likely changes to US FDI policy, and an uncertain trajectory for broader US-China economic relations are headwinds.

There remain several reasons to be optimistic about 2017. For one, the 2016 boom filled the pipeline with transactions likely to be completed in the first half of 2017, including HNA's purchase of a 25% stake in Hilton Hotels for \$6.5 billion, Oceanwide's acquisition of Genworth Financial for \$2.7 billion, and Zhongwang's acquisition of aluminum company Aleris for \$2.3 billion.

In addition, Chinese investors have committed hundreds of millions of dollars to organic growth through ongoing greenfield projects. If frictions between the US and China result in additional barriers to trade, greenfield investment should increase substantially as Chinese manufacturers seek to localize production "inside the tariff wall" to defend their US market shares. This historical pattern arose in the context of US-Japan trade frictions and subsequent investment growth in the 1980s and 1990s.

Finally, Chinese internal commercial drivers for further expansion in the US remain strong. The ongoing deceleration of China's GDP growth is compelling Chinese firms to seek market share abroad, while rising costs of production are pushing these firms to invest closer to their overseas customers. Chinese companies

<sup>2</sup> Our sample of innovation-intensive industries includes aviation, automotive, other transportation equipment, chemicals, renewable energy, financial services, business services, pharmaceuticals and biotech, plastic rubber and other

materials, healthcare and medical devices, industrial machinery, electronics, IT equipment, software and IT services, and semiconductors.

are keen to diversify their revenue, and the valuation of US assets often appears cheap compared to China.

At the same time political and regulatory uncertainties loom. Throughout 2016 the Chinese government ratcheted up administrative measures to slow capital outflows, in order to manage the balance of payments. While these measures are ostensibly temporary and are not supposed to represent a fundamental break with China's "going global" policy, there is now increased uncertainty about the ability of Chinese companies to transfer funds offshore and complete transactions. In the first months of 2017, Chinese global outbound investment activity dropped to 2015 levels, which suggests a substantial decline in 2017 investment levels compared to the records reached in 2016.

In addition to Chinese capital controls, the risk appetite of Chinese buyers may also be tempered by looming uncertainty about American policies and new legislation in the US Congress that could tighten the investment screening process.

### **The future of US FDI policy**

The year 2017 will be a critical juncture for US FDI policy. The Trump Administration has promised a tougher stance toward economic interactions with China, including on FDI. Congressional leaders are calling for an expanded role for the Committee on Foreign Investment in the United States (CFIUS) in screening FDI, especially from China. While proposals range from modest to radical, reasonable to counter-productive, it does look likely that some regime change will occur this year.

It is reasonable that the US government modifies investment policies as the modalities and challenges associated with FDI evolve. Washington has adjusted the CFIUS system before, in response to more sophisticated outbound FDI campaigns from nations with greater state-coordination, or less-than-normal commercial conditions, in the 1970s, 1980s, and 2000s. In these instances, changes addressed specific concerns, and lawmakers were mindful not risk US benefits gleaned from investment openness.

The volume of reliable data and analysis relevant to CFIUS policy debate has grown, including through our contributions and work by others in the US, China, Europe, and elsewhere. If public policy debate remains data-driven, then FDI screening reform can be a positive process that rationally weighs risks against opportunities.

Congress has a critical role in shaping the environment for inbound investment. Lawmakers will define the role and scope of the future FDI screening regime: will it continue to focus narrowly on national security, or will it be a broader regime that includes a "net benefits test," which can reflect any conceivable notion of what is beneficial, on net, to a host country? Members must balance "better" defensive measures against the opportunities foreign investment brings to their states and districts, while remembering that competition to attract footloose businesses and the taxes and paychecks they bring is stronger than ever.

Most broadly, for the first time in many decades Congress has a moderating role to play vis-à-vis the executive branch. Until now Congress has tended to emphasize the potential risks from open investment policies to an executive branch inclined to embrace the inflow of capital. In 2017 and the years that follow, it may bear the burden of ensuring America does not swing too far in the other direction.



# About this Report

## About the National Committee on U.S.-China Relations

The National Committee on United States-China Relations (NCUSCR) is a private, nonpartisan, American non-profit organization that promotes understanding and cooperation between the United States and Greater China in the belief that sound and productive Sino-American relations serve vital American and world interests. Since its founding in 1966, the Committee has created opportunities for informed discussion and reasoned debate about issues of common interest and concern to the United States, Mainland China, Hong Kong and Taiwan. NCUSCR currently organizes programs for private and public sector participants on politics and security, governance and civil society, economics and finance, education, and transnational issues such as energy and environment. It carries out its mission via conferences and forums, public education programs, professional exchanges and collaborative projects.

## About Rhodium Group

Rhodium Group (RHG) is an economic research firm that combines policy experience, quantitative economic tools and on-the-ground research to analyze disruptive global trends. It supports the investment management, strategic planning and policy needs of clients in the financial, corporate, non-profit, and government sectors. RHG has offices in New York, California and Hong Kong, and associates in Washington, New Delhi and Singapore. The firm's cross-border investment practice analyzes the rise of China and other emerging markets as trans-national investors. RHG senior staff publish frequently on the growth and impact of Chinese outbound FDI in the United States, and maintain the China Investment Monitor, a database tracking Chinese investment in the United States.

Supported by:

**CHUBB®**

**PERFECT  
WORLD**

**THE STARR FOUNDATION**

*Full report available at [www.ncuscr.org/fdi](http://www.ncuscr.org/fdi)*

© 2017 National Committee on U.S.-China Relations