CHINA US Focus

Why U.S. Retirees and Households Should Welcome Chinese Investment, Not a 45 Percent Tarrif

Doug Bandow

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Trade with China briefly became an election during the 2012 presidential campaign. Barack Obama and Mitt Romney traded charges that the other was a patsy for Beijing. After the election the Obama administration quietly dropped the issue.

Now Donald Trump is targeting the trade deficit with the People's Republic of China, which he promised to "get rid of," and do so "fairly quickly." He also proposed a 45 percent tariff on Chinese imports. Doing so would punish American consumers, violate international trade rules, and ignite a trade war.

The trade deficit is merely an accounting fiction, adding up private transactions. Moreover, in theory, people should prefer imports to exports, receiving real goods and services for little pieces of paper.

Unfortunately, the Chinese don't burn their dollars. Still, the U.S. benefits when Chinese unload excess dollars collected as part of the dreaded "trade deficit." Many have gone to purchase U.S. debt, easing the burden on American taxpayers. Other dollars return as investment in America—at least when allowed by the federal government.

The PRC's rapid economic growth has allowed Chinese individuals and companies to increasingly invest abroad. Indeed, total Chinese foreign direct investment rose by almost 15 percent last year to a total of $120 billion.

And more of that money is coming to America. Five years ago PRC investment ran just $5 billion. Last year it hit $15 billion. This year so far completed and pending investment deals are running $30 billion.

As of the start of 2016 there were more than 1900 Chinese-affiliated firms in the U.S. Total employment jumped 12 percent last year, to 90,000. Recent transactions include Fosun buying Ironshore Insurance, Anbang purchasing New York's Waldorf Astoria Hotel, and Yantai Xinchao acquiring Texas oil fields.

American companies that attract investment are more likely to grow, enjoying increased profits and creating more jobs. Chinese investment even helps boost exports to the PRC. For instance, last year Yuhuang Chemical spent $1.85 billion on a Louisiana methanol plant that will produce for its home market.

Moreover, explained a new report from the National Committee on U.S.-China Relations and Rhodium Group: "When a Chinese company pays top dollar to acquire a public U.S. company, the U.S. company's shareholders generally receive cash in excess of the stock price. Given that the largest owners of U.S. stocks are American pension funds and households, it follows that the purchase benefits accrue primarily to American retirees and households."

The study helpfully added that companies benefiting from Chinese investment operate in every state and 362 of 435 congressional districts. The South enjoys first place, collecting $21.5 billion between 2000 and 2015. Among the major Chinese-related firms are Lenovo, Haier's, Smithfield Foods, Continental Motors, Golden Dragon, and even World Triathlon Corporation.

The Midwest comes in second, with $14 billion. There are Aviation Industry Corporate of China and Wanxiang subsidiaries, Henniges Automotive, Nexteer, and Meadowbrook Insurance. The Northeast ranked third, with $12.8 billion. Major affected firms include banks, Smithfield affiliates, Wuxi Pharmaceutical subsidiaries, Ironshore Insurance, and Plaza Construction. The West placed fourth, with $10 billion. Companies included Alibaba, Baidu, Huawei, Red Lion Hotels, and Shenzhen New World Group.

Despite the obvious benefits, Chinese investment often faces political obstacles. For instance, in 2005 UNOCAL accepted a lower offer from Chevron in the face of opposition to the bid by the China National Offshore Oil Corporation (CNOOC). Earlier this year Angbang, a Chinese insurance group, offered $14 billion for Starwood, a hotel chain. The proposed deal was sharply criticized and faced review by the Committee on Foreign Investment in the United States. At the end of March Angbang abandoned its bid "due to various market considerations." Unfortunately for Starwood's shareholders, Marriott subsequently won the chain with only $12.4 billion.

CFIUS acts as a major barrier for investment from China, which accounts for one-fifth of the deals scrutinized. For instance, Philips dropped plans to sell its LED operation to GO Scale Capital because of the Committee's "unforeseen concerns." Uncertainty resulting from the panel's review led the Tsinghau group to drop plans to acquire Western Digital and Fairchild Semiconductor International to reject a bid by China Resources Microelectronics. No doubt, there may be valid security concerns in the computer field, but, noted Zachary Karabell of Envestnet, a financial services company: "The deals nixed, though, didn't involve ultra-sensitive National Security Agency equipment but rather mass-produced, commoditized technology."

Unfortunately, as the National Committee and Rhodium warned: "public debate is susceptible to alarmist theories of Chinese intentions." Yet some lawmakers want to toughen scrutiny. Shuanghui International's acquisition of Smithfield Foods in 2013 and plans by Chongqing Casin Enterprise Group to buy the Chicago Stock Exchange faced vocal opposition. Moreover, legislation has been introduced to expand federal investigation into economic and health factors. Sen. Sherrod Brown (D-Ohio) urged the panel to review ownership structure, investment patterns, and "all possible mitigation measures to protect Americans." That is, apparently, to "protect" Americans from the benefits of foreign investment.

So Washington politicians who criticize China for buying too few U.S. products punish Americans by rejecting money from China to invest in the U.S. Blocking PRC investment is a similarly counterproductive means to punish Beijing for other misbehaviors, such as inadequate protection of intellectual property.

The political harm of current policy is equally serious. There is a legitimate national security concern, but such reviews should not be used as indirect protectionism. Encouraging greater financial investment in the U.S. would give the PRC an increased stake in the bilateral relationship. Economics alone may not overcome nationalism, but the higher the price Beijing would pay for a rupture in relations the more likely it would be to forge a cooperative relationship with America.

International commerce is good for Americans. International investment benefits workers, shareholders, and communities. If the U.S. wants the world to welcome its products and money, it must in turn accept the same from other nations, including China.

Doug Bandow is a Senior Fellow at the Cato Institute and a former Special Assistant to President Ronald Reagan. He is author of several books, including Foreign Follies: America's New Global Empires(Xulon).