



The American Chamber of Commerce in Shanghai
上海美国商会



Two-Way Street: 2017 Update

US-China Direct Investment Trends

EXECUTIVE SUMMARY

The US-China FDI project seeks to clarify trends and patterns in bilateral foreign direct investment (FDI) flows between the world's two largest economies. This report updates the picture with full year 2016 data – the biggest year for bilateral investment on record, and the most remarkable politically – and describes the outlook for 2017.

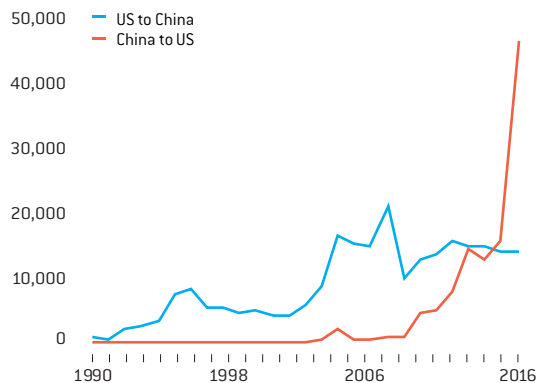
Our key findings are:

(1) US-China two-way FDI reached an all-time high in 2016, elevating the importance of this facet of the bilateral economic relationship, and generating a new level of debate about the consequences.

- Two-way flows passed \$60 billion in 2016, more than any other year in history.
- The deepening of FDI ties is even more meaningful in light of slower growth in other long-standing elements of the bilateral relationship including trade and Chinese purchases of US government securities.

FIG ES-1: Annual Value of FDI Transactions between the US and China, 1990-2016

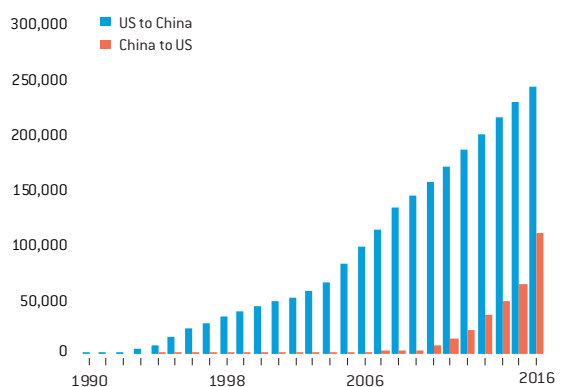
USD million



Source: Rhodium Group.

FIG ES-2: Cumulative Value of FDI Transactions between the US and China, 1990-2016

USD million



Source: Rhodium Group.

- The growth in two-way flows was driven entirely by rapid expansion of China’s outbound investment: US FDI in China was essentially flat.

(2) The gap between Chinese FDI in the US and US FDI in China widened dramatically last year, fueling debate about the asymmetry in two-way flows and reciprocity in investment market access.

- In 2016, Chinese FDI in the US tripled from the previous year to \$46 billion; US FDI in China, by contrast, was flat at just a quarter of that level. In nine of 14 industries Chinese FDI in the US was larger than flows the other way, up from seven in 2015.
- At the same time, the US corporate footprint in China remains larger than that of Chinese companies in the US. The cumulative value of US FDI transactions in China since 1990 now exceeds \$240 billion, while Chinese companies had invested \$110 billion in the US by the end of 2016.
- However, the growing gap in annual flows is

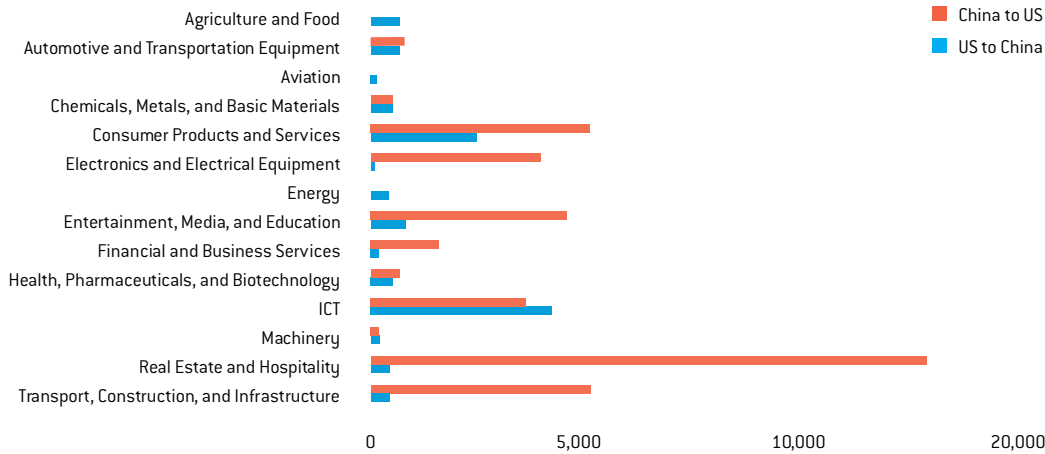
the focus of attention. The painful legacy of asymmetric trade market access is still a major irritant in the relationship, and frictions related to trade imbalances should serve as a warning signal to legislators and leaders to make all efforts to reduce an analogous gap in investment market access now before it festers.

(3) The variety of investors and target industries in two-way flows has expanded, reshaping policy debates and amplifying security concerns that will persist and demand attention.

- In five of 14 industries we record more than \$5 billion in two-way deals in 2016. Another five industries witnessed more than \$1 billion worth of two-way transactions.
- Real estate was the number one industry for two-way FDI, driven by a super-sized Chinese appetite for commercial real estate. Consumer products and services, information and communications technology (ICT), transport and infrastructure, and entertainment, media, and

FIG ES-3: Two-Way FDI between China and the US by Industry, 2016

USD million



Source: Rhodium Group.

education were the next biggest.

- Investment growth in both directions was strong in politically charged industries including ICT and entertainment. Evolving commercial patterns call for better defined boundaries for security-related investment measures – preferably common standards rather than a patchwork of unilateral ones.
- The security fears resulting from broader two-way investment reflect overarching geo-strategic tensions, and they cannot be resolved simply with better investment policy. Commercial entities can add ballast to the relationship, but they cannot resolve the fundamental security dilemma that is eroding the relationship. Similarly, government officials tasked with screening investments cannot resolve fundamental national security questions – these are questions for leaders and need to be tackled at the highest level.

(4) Two-way FDI flows may be lower in 2017 compared to 2016, but they will remain a major component of the US-China economic relationship.

- Investment in 2017 is unlikely to reach the same levels as in 2016. We expect a moderate increase in US flows to China but a notable moderation in the other direction due to Chinese capital controls and other short-term factors.
- Our analysis suggests that there is huge room for expanding FDI flows in both directions, even with stepped-up national security screening on both sides.
- While a moderation in investment flows may shift some political attention away from the topic this year, we recommend immediate attention to the fundamental challenges behind tensions in the FDI relationship, and care in modifying existing investment regimes to address evolving realities.

LEAD ORGANIZATIONS

National Committee on U.S.-China Relations

The National Committee on United States-China Relations is an American nonprofit, nonpartisan educational organization that encourages understanding and cooperation between the United States and Greater China in the belief that constructive Sino-American relations serve the interests of both countries and the global community. Since 1966, the National Committee has conducted programs 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. The National Committee's membership of more than 800 Americans and 100 corporations and professional firms represent many viewpoints, but share the belief that productive U.S.-China relations require public education, face-to-face contact, and the forthright exchange of ideas.



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 and New Delhi. RHG'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, Europe, and other economies.



IN PARTNERSHIP WITH

American Chamber of Commerce in Shanghai

The American Chamber of Commerce in Shanghai, known as the "Voice of American Business" in China, is the largest American Chamber in the Asia Pacific region. Founded in 1915, AmCham Shanghai was the third American Chamber established outside the United States. As a non-profit, non-partisan business organization, AmCham Shanghai is committed to the principles of free trade, open markets, private enterprise and the unrestricted flow of information.



China General Chamber of Commerce USA and CGCC Foundation

Founded in 2005, the China General Chamber of Commerce – U.S.A. (CGCC) is the largest nonprofit organization representing Chinese enterprises in the United States. Its mission is to promote Chinese investment in the U.S., support the legal rights and interests of our members, and enhance cooperation between Chinese and U.S. business communities.



The CGCC Foundation is an IRS 501(c)(3) charitable organization affiliated with the China General Chamber of Commerce – U.S.A. It is dedicated to fulfilling social responsibilities by giving back to local communities and enhancing mutual understanding between the people of China and the United States.



THE STARR FOUNDATION

