Executive Summary

New Neighbors: 2016 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 2016*

Last year's "New Neighbors" report for the first time provided a detailed tally of the operations of Chinese-affiliated companies in the United States, and the local impacts of those investments. This update reviews China's US investments in 2015 and describes how they have affected the footprint of Chinese companies in each region, state, and congressional district.

Chinese investment in acquisitions, new operations, and expansions in the US grew to more than $15 billion in 2015, setting a new record. The number of Chinese-affiliated companies in the US exceeded 1,900 by year-end, extending across more than 80% of congressional districts (362 of 435). As greenfield foreign direct investment (FDI) picked up and many existing companies expanded local employment, the number of Americans employed by Chinese-affiliated companies rose by another 12%, to 90,000.

With over $30 billion already in pending deals and projects, 2016 is likely to be another record year for Chinese FDI in the US. Regulators and Members of Congress have a responsibility to guarantee that legitimate concerns about Chinese FDI are addressed. At the same, they also need to ensure that political rhetoric and politicization do not needlessly impede job-creating investment inflows, particularly in an election year.

Chinese FDI in the US set a new record in 2015

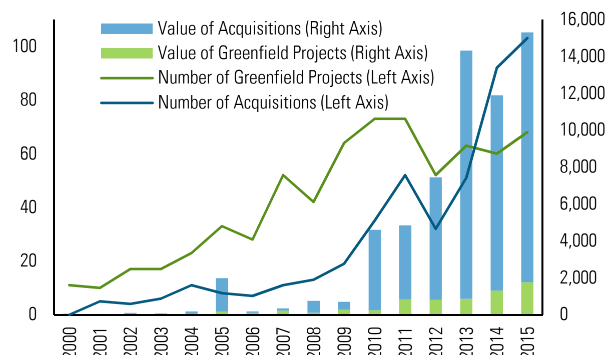
Economic growth in China continued to slow in 2015, reaching a 25-year low of 6.9%. Slowing growth transformed China's trade and investment dynamics: FDI into China increased only 6% in 2015. Year-on-year exports decreased 3% and imports 14%. Outbound FDI by Chinese companies, by contrast, grew by nearly 15% and hit a record high of $120 billion.

China's FDI in the US continued to grow, reflecting the ongoing shift of Chinese investment activity from developing to high-income economies. In 2015, Chinese direct investors put over $15 billion into transactions in the US, a near-30% increase compared to the previous year and a new all-time high. The number of transactions also reached a new high of 171, 13% higher than 2014.

Acquisitions still dominate but greenfield FDI surges

Mergers and acquisitions (M&A) continue to be the preferred entry mode for Chinese investors in the US market as they seek fast growth. For the second year in a row, Chinese companies completed more than 100 M&A deals in the US, totaling $13.5 billion. The biggest transactions were Fosun's purchase of Ironshore Insurance ($2.4 billion), Anbang's acquisition of the Waldorf Astoria hotel in New York ($1.95 billion), Yantai Xinchao's investment in Texas oil fields ($1.3 billion), and a consortium's purchase of semiconductor firm Integrated Silicon Solutions ($800 million).

Figure 1: Chinese FDI Transactions in the US by Entry Mode
Number of deals, USD million



Source: Rhodium Group.

Greenfield projects historically accounted for a low share of total Chinese FDI in the US, but growth in this category now outpaces M&A growth (even though we only log investment incrementally for large multi-year projects over time). Chinese spending on US greenfield projects totaled $1.8 billion in 2015. This only accounts for 10% of total investment in 2015, but represents an increase of 34% from 2014 levels, and a doubling of the investment amount in 2013. In 2015, 68 Chinese greenfield projects broke ground, including large projects such as Yuhuang Chemical's $1.85 billion methanol plant in Louisiana, Tranlin Paper's $2 billion paper plant in Virginia, and an auto production facility by Geely-owned Volvo in South Carolina. Other big Chinese greenfield developments that were already under construction like Fuyao's auto glass plant in Ohio and Yanfeng's auto interiors plant in Tennessee also made significant progress last year.

Chinese companies add 327 US operations in 2015

Taken together, the 171 transactions in 2015 led to 327 new Chinese-owned operations across 42 states. Many acquisitions resulted in multiple new operations, including the takeover of Ironshore Insurance (which operates 21 subsidiaries across the US), Meadowbrook Insurance (which has 22 subsidiaries across the nation), and Henniges Automotive with its headquarters in Michigan and four manufacturing plants in North Carolina, Iowa, Missouri, and Oklahoma.

At the same time, we recorded only a small number of divestitures or cases in which Chinese-affiliated entities downsized existing US operations. While several pending greenfield projects collapsed (for example, UniTao Pharmaceuticals' planned Virginia plant) and a few companies slimmed down their operations (for example, Lenovo in Illinois and North Carolina), the vast majority of existing Chinese-affiliated companies in the US maintained or increased the size of their operations in 2015. This is in line with the generally positive US economic outlook and the growth in employment across all US businesses.

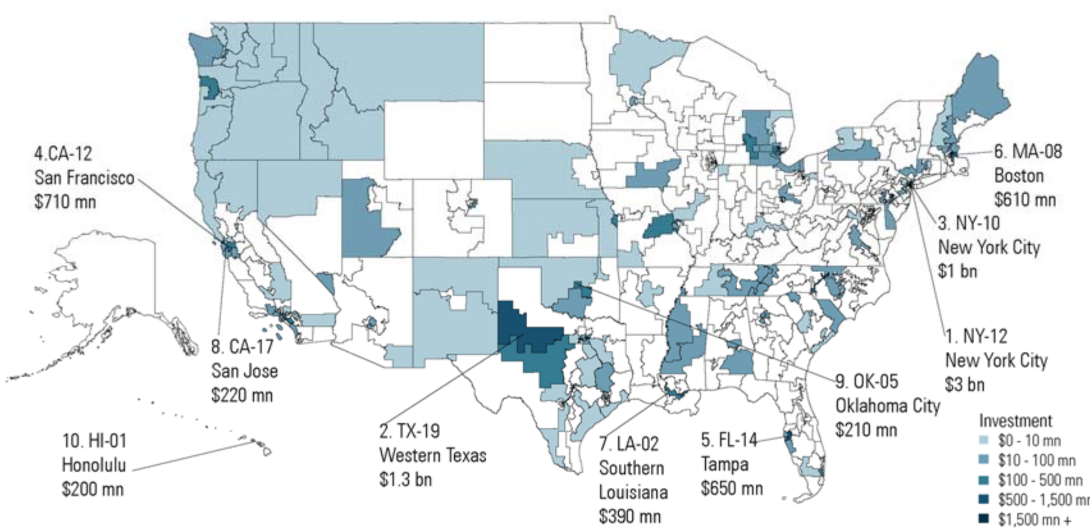
The coasts are still king but new recipients emerge

New York was the leading recipient of Chinese investment in 2015, with several large transactions in commercial real estate and growing investment in financial and business services. New York's 12th congressional district (NY-12) further expanded its role as a host of Chinese capital (Anbang's purchase of the Waldorf Astoria hotel). NY-10 is home to Ironshore Insurance, now part of financial conglomerate Fosun.

California maintained its position as a leading host for Chinese FDI, attracting a diverse mix of mostly mid-sized investments. High-tech sectors such as semiconductors saw major investments (Integrated Silicon Solutions in CA-17). Real estate continues to receive great attention, with progress on major developments (Greenland's Metropolis site in Los Angeles, CA-34) and new projects (Oceanwide's new project at Market and Mission St. in San Francisco, CA-12). California is also benefiting from a Chinese rush to invest in overseas movie production; CITIC's investment in the new Dick Cook Studios (CA-28) is one such example.

Figure 2: Chinese FDI in the US by Congressional District, 2015

Color indicates value of investments in 2015



Source: Rhodium Group.

Texas is already hosting plenty of Chinese FDI and attracted additional investments in the energy sector in 2015, despite the down cycle in the US oil industry. Private investor Yantai Xinchao purchased oil fields in northern Texas, pushing TX-19 up to one of the top districts by investment value. Florida had not been a major recipient of Chinese capital in the past, but real estate and entertainment conglomerate Wanda last year acquired World Triathlon Corporation, the operator of the Iron Man Triathlons, headquartered in FL-14. Massachusetts also attracted fresh capital from China, with a significant real estate development by Ping An, China Life and Tishman-Speyer in the Boston area (MA-08) and operations by insurance company Ironshore.

Louisiana became a first-time recipient of Chinese investment, through Yuhuang's chemical plant in St. James Parish outside New Orleans (LA-02), which began construction last year. Oklahoma, which has traditionally been a focus for Chinese energy investors, attracted investment in new sectors last year, for example Hepalink's acquisition of biopharmaceutical manufacturer Cytovance in Oklahoma City (OK-05). Hawaii received a large investment through Oceanwide's acquisition of a major development site for new hotels on Oahu (HI-01). Michigan continued to attract Chinese investment in automotive parts manufacturing, with two significant acquisitions in MI-11 (Henniges Automotive) and in MI-03 (Burke E. Porter) and a series of smaller investments.

The 2015 patterns affected the ranking of cumulative Chinese FDI by district. NY-12, CA-12 and NY-10 were already in the top 15 in the previous year and moved further up. TX-19 was another big gainer and a newcomer to the top 15 ranking. TX-27 (Corpus Christi) and IA-04 (NW Iowa) dropped out of the top 15.

Table 1: Top 15 Recipient Districts of Chinese FDI, Cumulative Investment from 2000-2015

District	Investment ($ million)	Metro Area	Representative
NY-12	5,210	New York City	Carolyn Maloney
NC-04	3,360	Raleigh-Durham Triangle	David Price
IL-07	3,350	Chicago	Danny K. Davis
VA-04	1,980	Eastern Virginia	J. Randy Forbes
NY-10	1,930	New York City	Jerry Nadler
TX-07	1,870	Houston	John Culberson
CA-12	1,720	San Francisco	Nancy Pelosi
TX-23	1,640	SW Texas	Will Hurd
OK-03	1,590	NW Oklahoma	Frank Lucas
KS-03	1,530	Kansas City	Kevin Yoder
TX-19	1,370	North Texas	Randy Neugebauer
MA-06	1,350	NE Massachusetts	Seth Moulton
CA-17	1,260	San Jose	Mike Honda
NC-07	1,250	Southern NC	David Rouzer
TX-09	1,090	Houston	Al Green

Source: Rhodium Group.

Chinese companies now employ 90,000 Americans

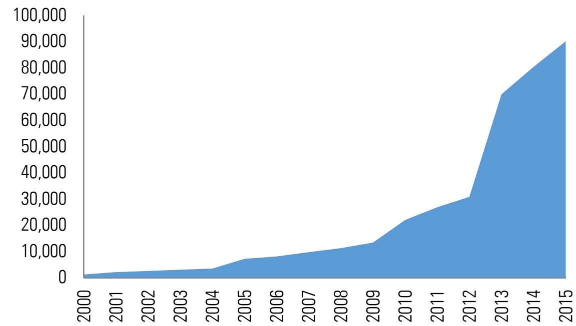
Chinese companies added about 13,000 employees to their US payrolls in 2015, an increase of 12% over 2014. The total number of Americans employed by Chinese-affiliated US companies is now 90,000, a threefold increase in just three years.

The majority of newly added jobs in 2015 resulted from acquisitions, including numerous purchases of medium-sized US companies in employment-intensive industries such as financial services and automotive parts manufacturing. Patterns in 2015 further support our earlier finding that new Chinese owners tend to expand local employment post-acquisition, contrary to fears that Chinese investors could acquire US assets and then move related activities to China. High-profile examples include Smithfield Foods, which added 1,500 workers after it was acquired by Shuanghui in 2013, and Nexteer, which grew from 6,000 employees to more than 10,000 since it was acquired by Aviation Industry Corporation of China (AVIC) in 2010.

The creation of new jobs through greenfield projects and expansions remains small compared to "acquired" employees, but is growing significantly due to the recent pickup in greenfield FDI. We estimate that Chinese greenfield FDI projects created 1,000 new jobs in 2015, the highest annual number so far, taking the cumulative number of jobs created by Chinese greenfield projects and expansions since 2000 to more than 10,000. While this is still a very modest number, several large and labor-intensive manufacturing facilities are currently under construction, including Fuyao's plant in Ohio, Tranlin Paper in Virginia, and Volvo's South Carolina plant. Taken together, Chinese greenfield projects currently under construction will create over 10,000 new jobs in the coming years if they hit their employment targets.

These figures only refer to full-time direct jobs at Chinese-affiliated US entities and do not include indirect employment during construction or at suppliers, which would add tens of thousands of additional jobs. For example, Yuhuang's chemical plant in Louisiana is projected to create more than 2,300 indirect jobs, in addition to the 400 direct jobs. Dalian Wanda's Vista project in Chicago will create around 2,000 construction jobs.

Figure 3: Employment Provided by Chinese-affiliated Companies in the US
Number of full-time direct jobs



Source: Rhodium Group.

New employment in 2015 did not greatly change the ranking of congressional districts by total jobs provided by Chinese-affiliated companies. The top five districts stayed the same, reflecting their role as hosts for large operations by Chinese-owned entities in comparably labor-intensive service and manufacturing sectors, such as Lenovo (NC-04), Nexteer (MI-05), and Smithfield (NC-07, VA-04, and SD-01). The districts that moved up the rankings are CA-12, due to growing investment by Chinese tech companies in local start-ups, and NY-12, thanks to new business and financial services investments.

Other districts, including OR-01 and MI-03, experienced strong labor-intensive Chinese investments in 2015, but not large enough to be included among the top 15 ranking. Leyard Optoelectronic's acquisition of Planar Systems, a developer of digital signage and display technology, put 300 employees in the greater Portland area (OR-01) on Chinese payrolls. AVIC's purchase of automotive parts maker Henniges made the difference in Missouri's third district, which is home to one of its key manufacturing facilities in Franklin County.

Table 2: Top 15 Districts in Terms of Total Jobs Provided by Chinese Companies in the US, 2015

District	Jobs	Metro Area	Representative
NC-07	7,640	Southern NC	David Rouzer
MI-05	5,330	Central Michigan	Dan Kildee
NC-04	3,890	Raleigh-Durham Triangle	David Price
VA-04	3,800	Eastern Virginia	J. Randy Forbes
SD-01	3,400	South Dakota at-large	Kristi Noem
IA-04	3,320	NW Iowa	Steve King
MO-06	3,190	Northern Missouri	Sam Graves
NE-03	2,280	Western and Central NE	Adrian Smith
IL-07	1,960	Chicago	Danny K. Davis
IL-17	1,710	NW Illinois	Cheri Bustos
CA-17	1,600	San Jose	Mike Honda
CA-12	1,360	San Francisco	Nancy Pelosi
NY-12	1,230	New York City	Carolyn Maloney
KY-05	1,220	Eastern Kentucky	Hal Rogers
CA-33	1,120	Los Angeles	Ted Lieu

Source: Rhodium Group.

Innovation and technology are major draws

The patterns of Chinese investment in 2015 show that US innovation clusters, strong protection of intellectual property rights, and the talent pool continue to be major draws for Chinese companies, increasing their role as contributors to American innovation and competitiveness.

Access to technology and talent remains an important driver of Chinese acquisitions in the US, as illustrated by a growing number of transactions in information and communications technology (Integrated Silicon Solutions), automotive (Henniges Automotive, Burke Porter Machinery, Stern Rubber), aviation (Align Aerospace, United Turbine Corp.), and health and biotech (Cytovance Biologics, NextCODE Health). Several acquisitions from previous years have resulted in additional hiring, for example at Wanxiang-owned Neapco, which is expected to create more than 160 jobs as part of a $58 million expansion.

Several Chinese technology companies streamlined operations and reduced US staff last year, most notably Lenovo and Complete Genomics. However, these outcomes largely reflect post-merger rationalization or strategic reorientation in response to market conditions. They do not represent cases of Chinese investors moving high value-added activities back to China against market logic.

Greenfield FDI in innovative activities also continues to be strong, for example in the new research and development (R&D) centers of e-commerce giant JD.com (Santa Clara, California) and automaker BAIC (Fremont, California), and data centers built by Alibaba's cloud computing division, also in Santa Clara.

Chinese entities also visibly expanded their role as financiers for early-stage growth companies. In 2015, Chinese investors particularly focused on biotechnology companies such as AltheaDx (Wuxi PharmaTech), Cynvenio Biosystems (Livzon Pharmaceutical), and CliniCloud (Ping An and Tencent) and software firms such as Glu Mobile (Tencent), Social Finance (Renren), and Quixey (Alibaba).

Finally, the growth of industrial greenfield FDI projects resulted in increased manufacturing job-training programs by Chinese companies in several regions. Fuyao Glass's partnership with local colleges and other institutions in Ohio to train workers for its new auto glass plant in Moraine is one such example.

New projects will boost US exports

Growing Chinese investment creates and strengthens connections between US communities and the Chinese market. New greenfield projects and acquisitions in 2015 illustrate the important role that FDI can play in facilitating the export of "Made in the US" goods and services to China.

One example from 2015 that illustrates the potential of FDI to spur US exports of goods to China is the ground breaking of a new $1.85 billion greenfield facility by Yuhuang Chemical in Louisiana, which will produce methanol for the Chinese market. The project demonstrates Chinese companies' increasingly global view of their value chains and greater eagerness to utilize foreign comparative advantages (in this case mostly the abundance of low-priced natural gas in North America) instead of ramping up production capacity at home. Once completed, the Louisiana facility will export the majority of the methanol produced to China. Washington and Oregon are under consideration for three similar billion-dollar facilities by another investor group from China.

With regard to the export of US services, one sector with obvious potential is tourism and hospitality. China's middle class is large and increasingly eager to travel overseas. The number of outbound trips to the US surpassed 2.5 million in 2015 and the US Department of Commerce projects Chinese tourist arrivals to exceed 5 million by 2020 (spending related to these trips counts as US services exports). Chinese investors have begun ramping up their FDI in hospitality and travel logistics, which can help the US secure its share in this growing revenue opportunity. Investments in 2015 include hotels (among them the Red Lion Hotels, Waldorf Astoria New York, Waldorf Astoria Chicago, and the Hyatt Regency Orange County), golf courses (including more than 20 Myrtle Beach golf courses in South Carolina), and travel logistics (such as new operations by Hainan Airlines in San Jose).

The growing Chinese interest in the US entertainment industry is another development that illustrates the role that FDI can play in establishing linkages. Chinese firms are looking for brands, knowledge, and content from overseas to capitalize on the growing demand for a range of entertainment services. Movie production in Hollywood received much focus in 2015, with Chinese companies participating in movie financing and taking equity stakes in production companies (Dick Cook Studios). Chinese interest reaches beyond just movie production, with 2015 investments in motorsports (Miller Motorsports Park), comics (Valiant Entertainment), poker (World Poker Tour), and endurance sports (World Triathlon Corporation).

China's US FDI could reach $30 billion in 2016

While growth in previous years was impressive, China's outward FDI catch-up is not over yet. The ongoing overhaul of China's growth model, lower political barriers for outbound investment, and greater confidence by Chinese businesses to invest overseas will propel an outflow of hundreds of billions of dollars from China in the coming decade.

In 2016, China's outbound FDI will likely grow even faster than in previous years. A more pronounced slowdown in economic growth and concerns about the stability of the renminbi exchange rate have visibly accelerated the pace of Chinese deal-making abroad since mid-2015, with a record $100 billion of announced M&A transactions worldwide in the first three months of the year.

A significant share of that new wave of Chinese capital will flow to North America. By the end of the first quarter of 2016, Chinese companies had already completed M&A transactions worth more than $5 billion, including Wanda's $3.5 billion purchase of Legendary Pictures, and the $1.9 billion acquisition of semiconductor firm Omnivision by a Chinese consortium led by Hua Capital and CITIC Capital.

Announced US acquisitions are together worth over $20 billion, including HNA Group's $6 billion bid for technology distributor Ingram Micro, Haier's $5.4 billion acquisition of GE's home appliances unit, Zoomlion's $3.4 billion bid for construction equipment manufacturer Terex, and Wanda's $1.1 billion investment in movie theater chain Carmike. Insurer Anbang is eyeing two more acquisitions together worth more than $8 billion: P&C insurer Fidelity & Guaranty for $1.5 billion and hospitality group Strategic Hotels for $6.5 billion.

Together with committed expenditures for large greenfield projects (more than $1 billion for 2016), this pipeline of deals puts Chinese FDI in the US on track for another record year in 2016.

Rising politicization poses risk to incoming investment

The regulatory and political environment in the US is an important consideration when projecting future Chinese investment. As with other countries hosting FDI from China, the US has both security concerns related to incoming investment, and popular political and economic concerns inflaming protectionist sentiment if not addressed. Compared with many other advanced economies, the US conducts a narrow formal screening for objectionable deals. Nonetheless, since public debate is susceptible to alarmist theories of Chinese intentions, it is important to have a transparent national discussion on the risks *and benefits* of investment openness to maintain perspective.

The growth of Chinese investment shows that the US has been successful in this balancing act—*so far*. After initial reluctance, mayors, governors and other local officials have intensified efforts to promote Chinese FDI, and this is yielding benefits including job creation. At the federal level, the Committee on Foreign Investment in the United States (CFIUS), with a mandate to review foreign acquisitions for national security risks, generally manages to screen for legitimate concerns without closing the door on benign Chinese deal-making. The increase in Chinese investment across a broad range of sectors testifies to this accomplishment, despite recent media coverage that puts the spotlight on a few troubled cases.

The combination of rising Chinese investment, a shift toward higher-tech assets, and slower than anticipated economic reform in China is leading to public debate about the right regulatory approach to potential *economic* risks related to Chinese investment not presently covered by CFIUS. Key among these are the long-term competitive distortions which would arise if the current asymmetry in investment market access between China and the US is not resolved, and if certain privileges for state-owned and state-related enterprises persist.

Concerns that distortions in China's domestic economic system could spill out with its growing outbound investment and harm host economies need to be carefully considered. Structural economic reforms proposed by China's leadership could greatly reduce some of those risks but are proceeding slowly. It is essential that the debate in the US is objective, grounded in fact, and awake to both the potential risks and potential benefits from Chinese investment.

The presidential election cycle elevates the risk that this debate may take the opposite turn in 2016. The first months of the year have produced numerous instances of politicians from both parties chasing votes and media attention by issuing dire but ill-founded warnings about Chinese investments, and introducing bills that propose severely clamping down on traditional US openness to FDI.

Congress has a responsibility to ensure that the debate about appropriate responses to Chinese FDI proceeds rationally and does not damage America's reputation for openness. Supervising CFIUS and grappling with the right strategies for responding to other challenges related to FDI from China are important tasks for Congress. Representatives must also take stock of the expanding opportunities foreign investment brings to their districts, and recognize the contest for landing mobile global business investors fought by local officials.

The progress and further potential for two-way US-China direct investment flows to grow is one of the most notable bright spots in the bilateral relationship. Not only can these investment links strengthen a new generation of commercial and people-to-people ties to serve as the ballast in relations between the world's two largest economies, but they can signal to businesses and governments elsewhere that economic welfare retains the power to determine outcomes in the international arena.

About this Report

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

The National Committee on United States-China Relations 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. It 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 Washington, and associates in Hong Kong and New Delhi. RHG's cross-border investment practice analyzes the rise of China and other emerging markets as trans-national investors. RHG senior staffs publish frequently on the growth and impact of Chinese outbound FDI in the United States, and maintain the China Investment Monitor, a unique database tracking Chinese investment in the US economy.

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