Sidelined: US-China Investment in 1H 2019

Thilo Hanemann, Cassie Gao, Adam Lysenko, Daniel H. Rosen

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US-China tensions further escalated in the first half of 2019, amplifying political risk for investors. Both sides ratcheted up bilateral tariffs following the breakdown of trade talks in May. The Trump administration then raised the stakes further by placing Huawei on the "Entity List", restricting the ability of US suppliers to do business with the Chinese firm. China reciprocated, announcing its intent to create an "Unreliable Entities List" of its own.

This report reviews US-China investment trends in the first six months of 2019, documenting the political dynamics and market developments that weighed on cross-border investment flows between the two nations. The key findings are:

- **Two-way capital flows between the US and China dropped to the lowest six-month value in five years:** Combined direct investment and venture capital flows between the US and China totaled $13 billion in 1H 2019, which represents an 18% drop from 2H 2018 and the lowest level since 1H 2014.

- **Chinese FDI in the US remained anemic as acquisitions dried up and ballooning political risk weighed on greenfield activity:** Firms from mainland China only completed $3.1 billion of FDI projects in 1H 2019. This mostly reflects persistent capital controls and other pressures on outbound investors in China, but US regulatory tightening and an uncertain outlook for US-China relations are creating additional headwinds.

- **US FDI in China held firm in some sectors but started unraveling in others:** American firms continued to invest in electric vehicles, entertainment and biotech, but are losing appetite for ICT and electronics investments. Investors are also gearing up to take advantage of lower restriction on foreign ownership in certain financial services.

- **Chinese venture capital investment in the US is declining but remains more resilient than direct investment:** Chinese VC investment in the US has held up much better (at a lower investment baseline) than direct investment but still moderated somewhat during 2H 2018 and 1H 2019. This drop was felt across sectors and disproportionately impacted state-owned Chinese venture investors.

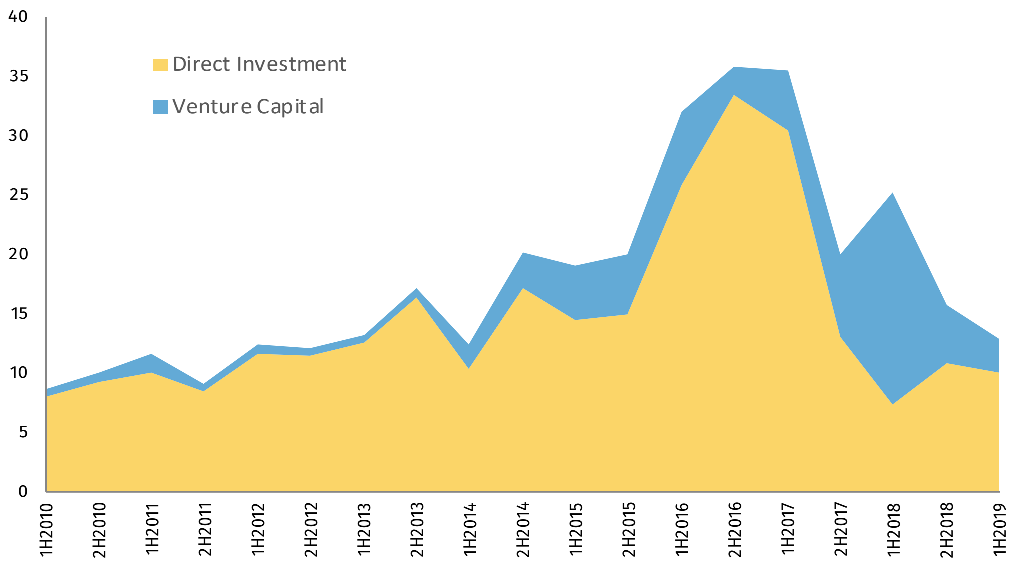
- **US venture investment in China dropped sharply amidst a broader slowdown in China's technology sector:** Compared to flows in the other direction, US venture capital in China has a longer history and greater scale in terms of both number of transactions and estimated total investment. Over the last year, US VC investment has fallen in conjunction with a broader slowdown in China's technology and venture capital markets, impacting all sectors and especially weighing on big dollar later-stage investments.

TWO-WAY CAPITAL FLOWS BETWEEN THE US AND CHINA DROPPED TO THE LOWEST SIX-MONTH VALUE IN 5 YEARS

Combined direct investment and venture capital flows between the US and China totaled $13 billion in 1H 2019, which represents an 18% drop from 2H 2018 and the lowest level since 1H 2014 (Figure 1).

Figure 1: Completed Two-Way Direct and Venture Capital Investment between the US and China

USD billion



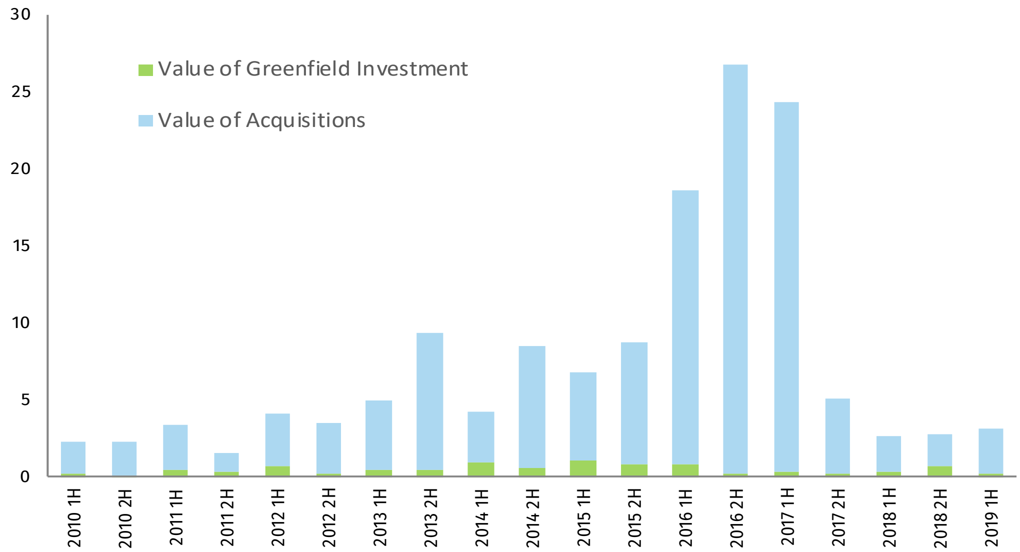
Source: Rhodium Group. FDI data represents the combined value of direct investment transactions by mainland Chinese companies in the US, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). VC data represents pro-rata value of investment from investors controlled by mainland Chinese or US general partners or companies. 1H 2019 data are preliminary only.

CHINESE FDI IN THE US REMAINED ANEMIC AS ACQUISITIONS DRIED UP AND BALLOONING POLITICAL RISK WEIGHED ON GREENFIELD ACTIVITY

Chinese firms completed $3.1 billion of FDI transactions in the US in the first six months of 2019, which is slightly higher than the $2.6 billion recorded in 1H 2018 but well below 2013-2015 levels. Direct investment by Chinese companies in the US has fallen from a six-month average of more than $20 billion in 2016 and 1H 2017 to less than $5 billion on average in the past two years (Figure 2).

Figure 2: Completed Chinese FDI Transactions in the US

USD billion



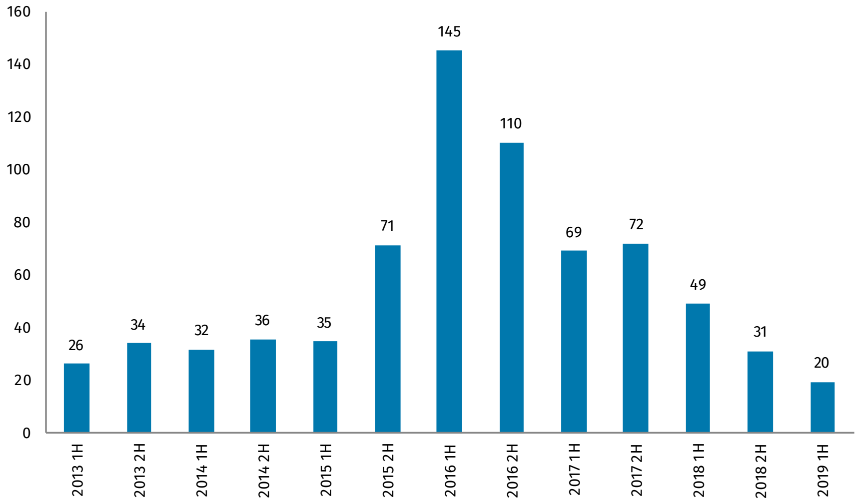
Source: Rhodium Group. Data represents the combined value of direct investment transactions by mainland Chinese companies in the US, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

A sharp drop in acquisitions was the main driver for depressed investment levels. While tougher screening for foreign acquisitions through the Committee on Foreign Investment in the United States (CFIUS) may have played a role, this decline was primarily driven by Chinese policies and market conditions. Global outbound M&A activity by mainland Chinese firms peaked in 2016 and has since declined sharply as Beijing has tightened administrative controls on outbound capital flows to address financial system risks and macroeconomic concerns. Efforts to reign in high debt and financial leverage, slowing domestic growth and growing geopolitical risk have further weighed on firms' abilities to invest abroad. Due to these pressures, newly announced global M&A by Chinese firms dropped from $145 billion in 1H 2016 to only $20 billion in 1H 2019, the lowest level in more than six years (Figure 3).

In addition to declining M&A, greenfield FDI by Chinese firms also dropped markedly in 1H 2019. Trade frictions initially helped trigger more than $2 billion of newly announced greenfield projects in the US in 2H 2018 as Chinese firms considered local manufacturing as one option to circumvent tariffs (see for example Healthcare Co.'s mattress manufacturing facility in South Carolina, or GE Appliances' expansion in Kentucky). However, as US-China frictions have escalated, some of these projects have been put on hold, and the value of newly announced projects collapsed to just $340 billion in 1H 2019. Firms still have strong commercial rationales for establishing greenfield operations in the US – including tapping US talent and avoiding tariffs – but on net the escalation of bilateral frictions increased political risk perceptions enough that investors seem to have decided to put their investments on ice until there is enough confidence that a worst-case outcome of a deep and messy decoupling can be avoided.

Figure 3: Announced Global Outbound M&A Transactions by Chinese Companies

USD billion



Source: Rhodium Group; includes all announced M&A activity by mainland Chinese companies irrespective of resulting stake.

Amid the general slowdown in Chinese FDI in the US, some sectors held up better than others (Table 1). Investment completely dried up in several sectors that were driving the 2016-2017 boom including *Entertainment, Media and Education*, *Information and Communications Technology* (ICT) and *Transport and Infrastructure*. After a temporary drop in 2017 and 2018, investment recovered in *Consumer Products and Services* ($1.7 billion in 1H 2019), mostly due to Shandong Ruyi Group's acquisition of Invista's apparel and advanced textiles business. Investment in the *Automotive* industry remained relatively stable and bounced back in 1H 2019 ($0.8 billion) due to Envision Energy's acquisition of Nissan's battery manufacturing operations in Tennessee. Investment in the *Health and Biotech* sector dropped somewhat in 1H 2019 ($0.2 billion) but remains one of the top sectors for Chinese investors. Investment in *Real Estate and Hospitality* have dropped dramatically since 2016 but saw a slight recovery in 1H 2019 ($0.3 billion).

Table 1: Completed Chinese FDI Transactions in the US by Industry

USD billion

	Avg. of 1H and 2H 2016	Avg. of 1H and 2H 2017	Avg. of 1H and 2H 2018	1H 2019
Agriculture And Food	0.03	0.09	0.04	0.01
Automotive	0.51	0.20	0.32	0.81
Aviation	<0.01	0.03	<0.01	<0.01
Basic Materials	0.34	0.04	0.21	<0.01
Consumer Products And Services	2.83	0.02	0.26	1.70
Electronics	2.12	0.11	0.02	0.04
Energy	0.01	0.02	0.04	<0.01
Entertainment	2.39	0.27	0.42	<0.01
Financial And Business Services	0.96	0.66	0.12	0.04
Health And Biotech	0.49	1.26	0.72	0.24
ICT	1.65	1.37	0.11	0.01
Industrial Machinery And Equipment	0.10	0.04	0.18	<0.01
Real Estate And Hospitality	8.66	5.33	0.19	0.28
Transport And Infrastructure	3.02	5.20	0.05	<0.01

Source: Rhodium Group. Data represents the combined value of direct investment transactions by mainland Chinese companies in the US, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

One other important trend in 1H 2019 was the slowing pace of asset divestitures. In 2018 we counted more than $13 billion of Chinese asset divestitures as Beijing forced a handful of high-profile and high-leverage outbound investors (such as HNA, Wanda and Anbang) to clean up their books. This first wave of divestitures has now subsided, and we only registered $2 billion of completed divestitures in 1H 2019.

However, asset divestitures are now impacting a larger circle of firms as capital controls and domestic financial troubles force more companies to scale down overseas projects. For example, several real estate developers are struggling to follow through on their financing commitments: Oceanwide and Shenglong Group both paused construction on their Los Angeles developments in 1H 2019, and Greenland was sued for alleged unpaid bills on the $1 billion Metropolis project, also in downtown LA. There has also been a significant slowdown in the US expansion of Chinese technology companies this year and several firms had to announce significant layoffs for the first time (See Table 2). Most struggling tech firms are concentrated in sectors that are experiencing a correction in China (electric vehicles, digital currency), but some are directly related to tighter US policies on investment screening, export controls and supply chain security (ICT equipment).

Table 2: Select Chinese Technology Companies that Announced Downsizing US Operations in 1H 2019

Date	Company	Description
7/14/2019	Huawei	Huawei Technologies is preparing to lay off hundreds of people at its US R&D subsidiary, Futurewei Technologies.
7/10/2019	SF Motors	Chinese electric carmaker Seres, formerly known as SF Motors, laid off 90 people at its US headquarters in Santa Clara and paused plans to build and sell cars in America.
6/27/2019	Faraday Future	Faraday Future sold its headquarters and land originally purchased for an electric vehicle plant in Nevada and laid off 40 workers.
5/29/2019	Lenovo	Lenovo laid off 500 workers across its global operations, including some 200 people in the Morrisville, North Carolina, data center group.
5/2/2019	NIO	Chinese electric vehicle startup NIO laid off 70 employees across two Silicon Valley offices and closed its San Francisco office.
1/14/2019	Bitmain Technologies	Bitmain suspended its operations in Rockdale, Texas, and froze its planned investment of $500 million.

Source: Company announcements and media reports.

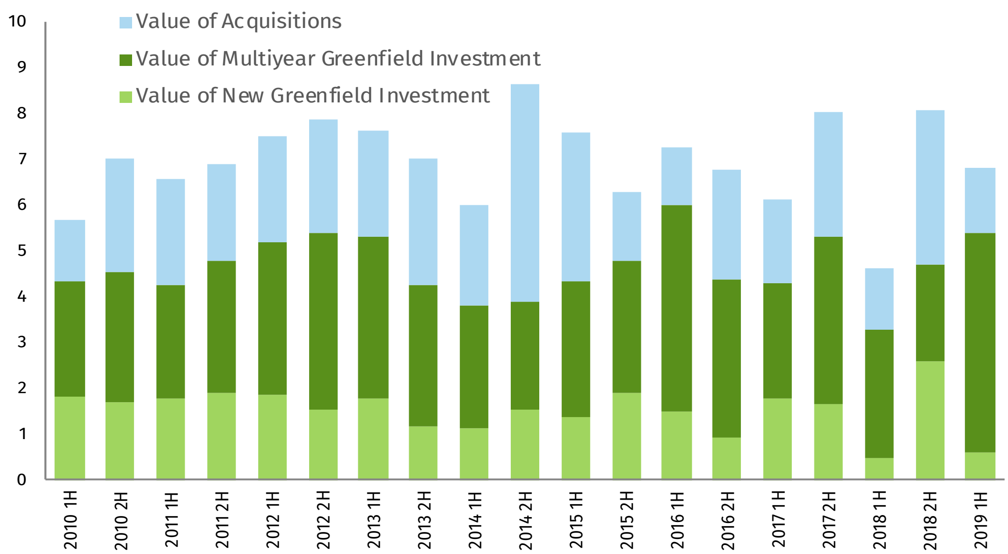
US regulators also triggered several divestitures in 1H 2019. CFIUS asked at least two firms to sell assets they had acquired in previous years: Beijing Kunlun was ordered to unload dating app Grindr, and iCarbonX was ordered to sell health research app Patientslikeme. Importantly, CFIUS action in these cases was not related to expanded powers under the new Foreign Investment Risk Review Modernization Act (FIRRMA) legislation but resulted from investors' decision to not voluntarily submit their investments for review before deals were closed. China Ocean Shipping (Group) Company (COSCO) also completed the sale of an operational lease in a container terminal in Long Beach, following through on an agreement from 2018 to obtain CFIUS approval for COSCO's takeover of the Hong Kong container shipping operator Orient Overseas International Ltd (OOIL).

US FDI IN CHINA HELD FIRM IN SOME SECTORS BUT STARTED UNRAVELING IN OTHERS

US FDI in China was less volatile in past years compared to Chinese FDI in the United States. We recorded $6.8 billion of completed US FDI transactions in China in 1H 2019, only slightly higher than the half-year average of $6.7 billion in 2017 and 2018 (Figure 4). At $5.4 billion, greenfield investment continued to account for most of the investment (79%), driven by multiyear projects or expansions announced in previous years. However, newly announced greenfield FDI dropped sharply in 1H 2019, suggesting weakness in traditional manufacturing industries and reluctance to commit to large projects in the current political environment. US companies completed M&A transactions worth $1.4 billion, including several big real estate and ICT deals.

Figure 4: Completed US FDI Transactions in China

USD billion



Source: Rhodium Group. Data represents the combined value of direct investment transactions by US companies in China, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

In terms of industry breakdown, growth in FDI concentrated in sectors with recent liberalization measures. *Automotive* was the top sector for US FDI to China in 1H 2019. This was driven by Tesla's factory in Shanghai, which completed the bulk of construction in the first half of the year and will be the first wholly foreign-owned auto factory in China. *Financial and Business Services* — another sector with recent liberalization policies — saw only a modest increase in completed investment, but US banks and securities firms are gearing up for new opportunities, which should drive up investment substantially in the coming two years. Examples include wealth management firms (Blackrock is in talks to acquire a majority stake in China International Capital Corporation (CICC) Fund Management), investment banks (Morgan Stanley and JPMorgan are looking to increase the stake in their securities JVs to 51%) and electronic payments processors (American Express received the first part of an approval to build a network to offer electronic payments services in China through a joint venture, and is working towards obtaining final approval. Mastercard also said in January 2019 that it plans to re-submit an application for a bankcard clearing license).

Direct investment in *Real Estate and Hospitality* remained elevated at $0.6 billion in 1H 2019, as US investors took advantage of falling asset prices in tier-1 cities such as Shanghai and Beijing. Other sectors that continued to see stable investment include *Entertainment, Media and Education* (mostly theme parks by major US entertainment companies) and *Health and Biotech* (such as Varian Medical Systems' acquisition of Hangzhou Alicon Pharmaceutical).

Table 3: Completed US FDI Transactions in China by Industry

USD billion

	Avg 1H and 2H 2016	Avg 1H and 2H 2017	Avg 1H and 2H 2018	1H 2019
Agriculture and Food	0.38	0.82	0.57	0.25
Automotive	0.42	0.96	0.85	2.52
Aviation	0.13	0.03	0.02	<0.01
Basic Materials	0.34	0.35	0.10	0.11
Consumer Products and Services	1.25	0.05	0.06	0.05
Electronics	0.07	0.14	0.02	0.01
Energy	0.29	0.43	0.01	<0.01
Entertainment	0.56	0.81	1.01	1.11
Financial and Business Services	0.09	0.17	0.08	0.17
Health and Biotech	0.51	0.46	0.31	0.29
ICT	2.15	1.92	1.19	1.65
Industrial Machinery and Equipment	0.12	0.26	0.08	0.02
Real Estate and Hospitality	0.35	0.61	1.99	0.56
Transport and Infrastructure	0.33	0.07	0.07	0.09

Source: Rhodium Group. Data represents the combined value of direct investment transactions by US companies in China, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

Other sectors saw slowing investment. US FDI in China's *ICT* sector fell by nearly half compared to two years ago. Previously announced multi-year projects are still being built but some are modified and downsized in light of recent developments (such as GlobalFoundries' semiconductor plant in Chengdu). Total US FDI into China's *ICT* sector recovered slightly in 1H 2019 from 2018 half-year averages due to two M&A deals (Bain Capital's investment in data center developer and operator Xiamen Qinhuai Technology and its subsidiary Beijing Qinhuai Technology). However, newly announced large-scale greenfield investments have almost come to a halt as US ICT firms reconsider their China exposures against the backdrop of changing national security sensitivities, higher US tariffs on China-made products and persistent market entry barriers for foreign firms in fast-growing areas (cloud computing) (Table 4).

US FDI in China's *Electronics* manufacturing sector also slowed down, reflecting a low appetite to expand manufacturing capabilities in China. Investment into consumer goods manufacturing and other consumer-driven sectors (such as *Agriculture and Food*) continued to flow in, but at slightly lower levels compared to previous years. Some companies are investing in upgrades (such as Walmart) while several other retail-focused foreign companies including Amazon and big European retailers (Metro, Carrefour) announced pullbacks from the Chinese market amidst brisk competition. FDI also remained at relatively lower levels in sectors shaken by a slowdown of China's energy and infrastructure intensive growth, including *Industrial Machinery and Equipment*, *Energy* and *Basic Materials*.

Table 4: Select US Firms that Announced Downsizing China Operations, 2H 2018 - 1H 2019

Date	Company	Description	Type of Operations
7/5/2019	Dell	Dell is reportedly consider moving some of its hardware production out of China.	FDI
7/5/2019	HP	Hewlett-Packard (HP) is reportedly planning to reallocate some of its notebook production out of China.	FDI
6/19/2019	Apple	Apple is reportedly exploring moving between 15 and 30 percent of its hardware production out of China and has asked key suppliers to evaluate available options.	Contract manufacturing
6/17/2019	Intel	Intel says it is considering moving part of its global supply chain away from China.	FDI
6/11/2019	Google	Google is reportedly moving some production of Nest thermostats and server hardware out of China.	Contract manufacturing
5/7/2019	Oracle	Oracle said it will cut an estimated 500 jobs at its China research and development center as part of a global reorganization effort.	FDI
5/3/2019	Brooks Running	Brooks Running said it will shed much of its presence in China by moving running shoe production to Vietnam.	Contract manufacturing
5/2/2019	Super Micro	Server maker Super Micro is moving production out of China and plans to expand its own in-house manufacturing facilities.	Contract manufacturing
4/17/2019	Amazon	Amazon said it will shut its China online store by July 18, 2019.	FDI
12/12/2018	Under Armour	Under Armour plans to only source 7% of its products from China by 2023, down from 18% currently.	Contract manufacturing
12/10/2018	GoPro	GoPro says it will move production of cameras for the US market out of China, but production of cameras for non-US markets will remain in China.	Contract manufacturing
7/23/2018	Hasbro	Toymaker Hasbro said it will move the bulk of its China production out of the country.	Contract manufacturing

Source: Company announcements and media reports.

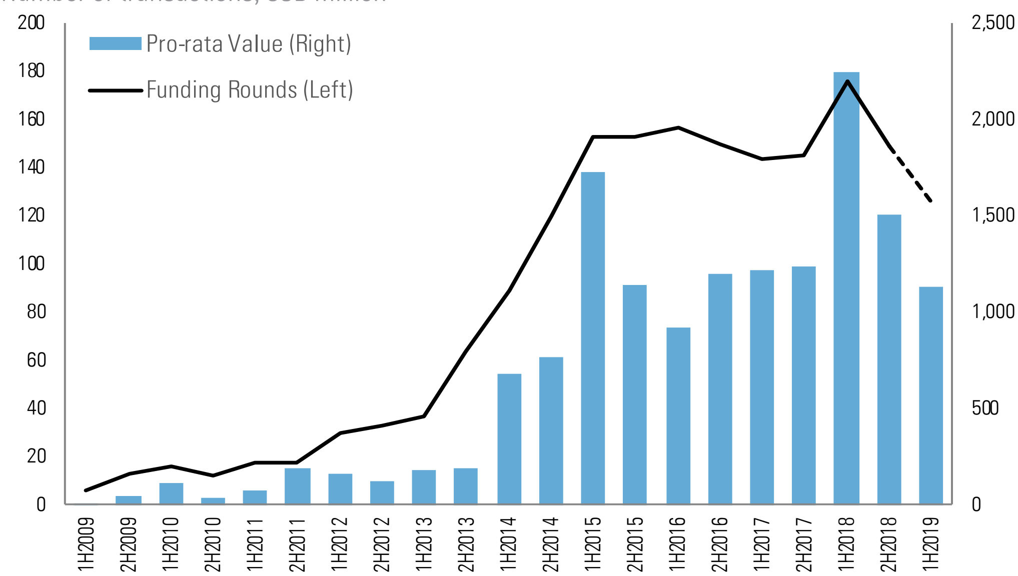
CHINESE VENTURE CAPITAL INVESTMENT IN THE US IS DECLINING BUT REMAINS MORE RESILIENT THAN DIRECT INVESTMENT

Rhodium Group's venture capital (VC) dataset tracks the cross-border investment activities of mainland Chinese corporations and their subsidiaries, professional venture investment funds controlled by Chinese general partners (GPs) and Chinese angel investors. In line with US regulatory treatment of foreign investors, we determine foreign ownership based on ultimate ownership instead of domicile. Similarly, we exclude China-domiciled venture investors that are ultimately not Chinese owned. This approach creates a differentiated view of Chinese venture activity abroad, which is comparable to our direct investment data.

Viewed through this ultimate ownership lens, Chinese VC investment in the US has held up much better (at a lower investment baseline) than direct investment since 2016. Barely existent before 2014, Chinese VC investment in the US grew rapidly to a peak of more than 170 transactions in 1H 2018 with Chinese investors contributing an estimated $2.2 billion (Figure 5). Activity moderated somewhat during 2H 2018 and 1H 2019, with a small drop in transaction count each period and estimated total contributed capital falling back to levels typical of 2016 and 2017 (venture transactions data are often reported with a lag, so 1H 2019 figures are preliminary). This drop is distinctively Chinese – overall venture fundraising in the United States (and non-Chinese foreign VC investment in the US) remained close to peak 2018 levels in 1H 2019.

Figure 5: Completed Chinese VC Investment in the US

Number of transactions, USD million



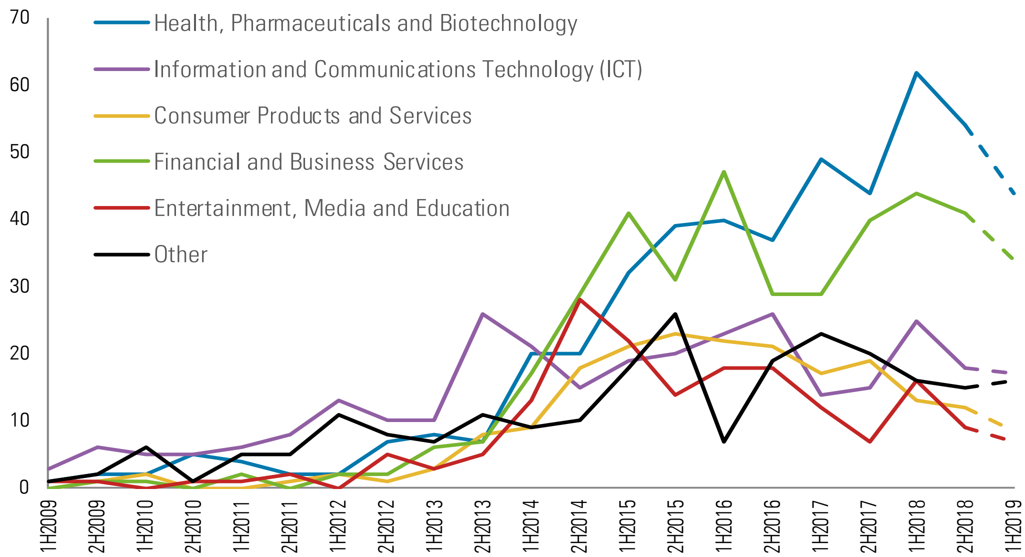
Source: Rhodium Group based on Bloomberg, Pitchbook and other sources. Pro-rata value determined as the Chinese proportional share of each funding round's value based on the number of participating investors. 1H 2019 data are preliminary only.

The modest (-14%) estimated period-over-period decline in total Chinese venture transactions in the United States during 1H 2019 affected most of the historical top sectors with declines of between 15% and 30% (Figure 6). Despite modest drops, the *Health, Pharmaceuticals and Biotechnology* (e.g. WuXi Apptec in drug discovery and materials design software provider Schrödinger; CMB International Capital in oncology therapeutics developer Apollomics) and *Financial and Business Services* (e.g. CreditEase in payment platform Marqeta; Hillhouse Capital in electronic credit trading platform Trumid Financial) sectors remained the top targets. *Health, Pharmaceuticals and Biotechnology* was also the top sector by investment value at an estimated $330 million.

Information and Communications Technology (e.g. Legend Capital in image sensing firm Black Sesame Technologies; TCL in Linux-based mobile operating system developer Kai OS) remained the third-largest recipient by count and also saw the smallest period-over-period drop in transactions among historical top sectors at just -6% in 1H 2019. Finally, *Consumer Products and Services* (e.g. CSC Group affiliate CSC Upshot in ticketing platform provider Lyte) and *Entertainment, Media and Education* (e.g. Tencent in social media platform Reddit) rounded out the top five industries during the period by number of deals. Notably, Tencent's $150 million in Reddit propelled *Entertainment, Media and Education* to second place by investment value, while SF Express' investment in customs brokerage and freight forwarding services provider Flexport – estimated at more than $160 million – made *Transport, Construction, and Infrastructure* the third-ranked sector by investment value despite having only one transaction.

Figure 6: Completed Chinese VC Investment in the US by Industry

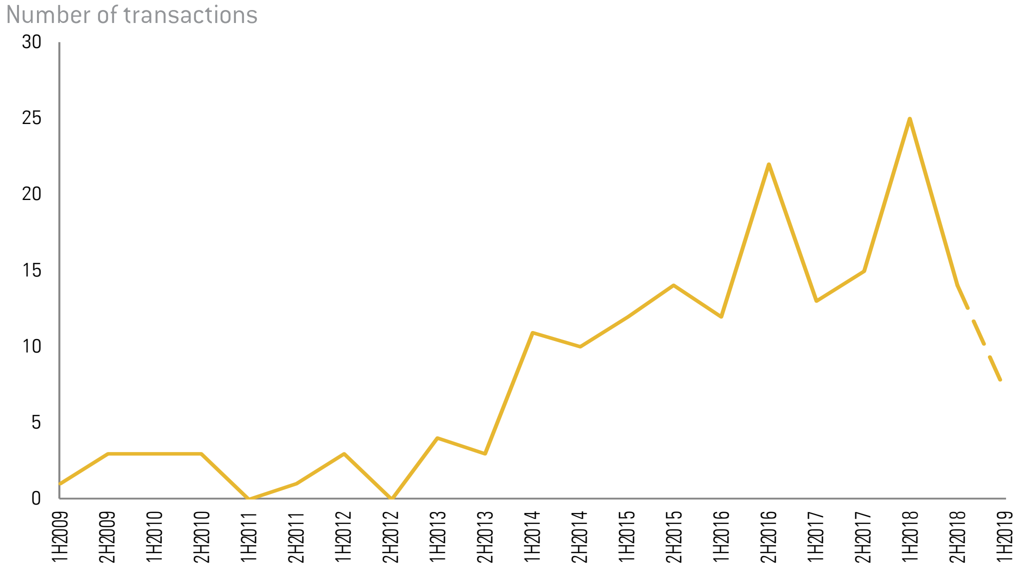
Number of transactions



Source: Rhodium Group based on Bloomberg, Pitchbook and other sources. 1H 2019 data are preliminary only.

The recent drop in venture capital activity has had a disproportionately outsized impact on activity by state-owned Chinese venture investors compared to private players. Overseas investment by Chinese state firms has fallen globally but this sharp drop can at least partially be attributed to recent legislation in the US that expands the role of CFIUS to review foreign venture capital investment, with special scrutiny for state-related investors. State-owned venture activity declined dramatically from around 15 to 25 transactions per six-month period to less than ten in 1H 2019 (Figure 7). This equated to less than 6% of all transactions in 1H 2019.

Figure 7: Completed Chinese State-Owned VC Investment in the US



Source: Rhodium Group based on Bloomberg, Pitchbook and other sources. 1H 2019 data are preliminary only.

US VENTURE INVESTMENT IN CHINA DROPPED SHARPLY AMIDST A BROADER SLOWDOWN IN CHINA'S TECHNOLOGY SECTOR

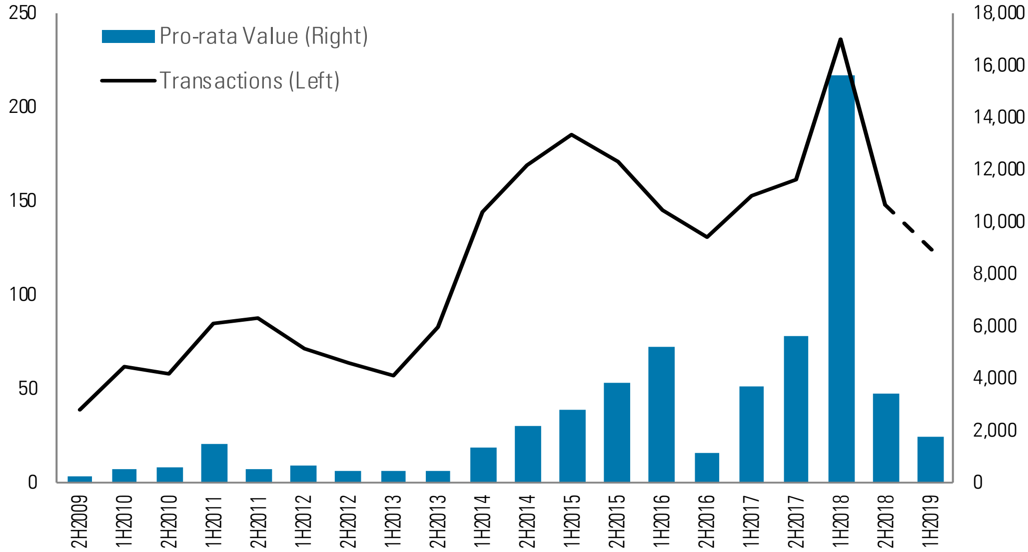
US venture capital in China has a longer history than Chinese VC in the US and has a greater scale in terms of both number of transactions and total investment. Most of this activity stems from the last several years as China's technology sector growth has fueled a boom of venture capital opportunities for US firms. From 2015 to 2017 American VC investors contributed an estimated average of $3.7 billion per 6-month period to Chinese startups' venture funding rounds through an average of around 160 unique transactions per period. In the 1H 2018 this spiked to $15.6 billion on the back of more than 230 transactions including massive later stage investments in several big Chinese technology unicorns like Ant Financial, Pin Duoduo, Meitu Dianping and Didi Chuxing.

Over the last year, activity has moderated in conjunction with a broader slowdown in China's technology and venture capital markets. According to Pitchbook, total venture funds raised by Chinese-headquartered startups fell from a record $61 billion in 1H 2018 to $37 billion in 2H 2018 and to just $17 billion in 1H 2019. This drop came as investors became more selective in the face of increasing economic uncertainty and the growing perception that parts of China's tech ecosystem (e.g. in areas like artificial intelligence and the shared economy) had become overheated after years of rapid growth. A string of disappointing Chinese IPOs and venture capital "down rounds" (fundraising rounds with company valuations below those from previous fundraising rounds) have further weighed on private equity investor sentiment, including in the VC space.

In tandem with this broad contraction, total estimated US venture investment in China fell to $3.4 billion in 2H 2018 and just $1.8 billion in 1H 2019, back to levels typical of 2014 and 2015 and well below the 1H 2018 peak (Figure 8). However, the drop in number of transactions was much less severe, indicating that a lack of the major later-stage investments seen in previous periods was primarily responsible for the lower total investment numbers.

Figure 8: Completed US VC Investment in China

Number of transactions, USD million

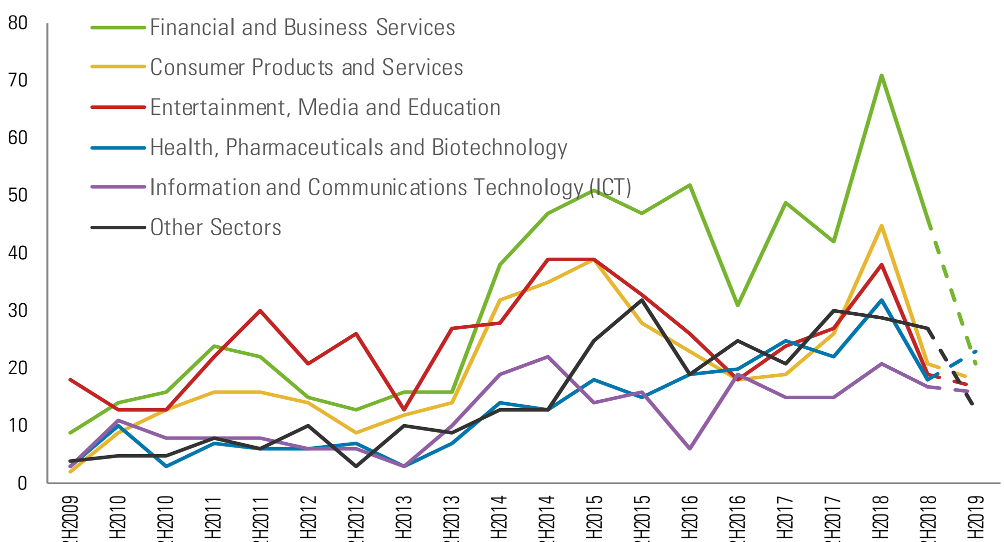


Source: Rhodium Group based on Bloomberg, Pitchbook and other sources. Pro-rata value determined as US proportional share of each funding round's value based on the number of participating investors. 1H 2019 data are preliminary only.

The drop in number of US venture transactions in China from 1H 2018 to 2H 2018 was spread across several sectors, but was more focused in the *Financial and Business Services* sector in 1H 2019 (Figure 9). Based on preliminary data, the top five industries each saw between 15 and 25 transactions in 1H 2019, a relatively narrow range. The top sectors were *Health. Pharmaceuticals and Biotechnology* (e.g. Sequoia Capital in doctor-patient communication platform provider Xingren), *Financial and Business Services* (e.g. LA-based TI Capital in supply chain management services provider JUSDA), *Consumer Products and Services* (e.g. Tiger Global Management in second-hand electronics trading platform operator Aihuishou), *Entertainment, Media and Education* (e.g. DCM Ventures in English and mathematics education platform operator VIPThink) and *Information and Communications Technology* (e.g. GGV Capital in facial recognition technology developer Face++).

Figure 9: Completed US VC investment in China by Industry

Number of transactions



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OUTLOOK

Policy and politics remain the dominant variables for the future trajectory of two-way capital flows between the United States and China.

For the near term, the outcome of US-China negotiations will be key. Talks restarted after the Osaka G-20 summit, albeit in a halting manner that belies continued problems. Breakthroughs, even if partial, would at least demonstrate to market participants that rational solutions to concerns are possible, and a deep and irrational form of decoupling is not inevitable. If this round of talks also fails, it is likely that calls for accelerating financial decoupling – with even deeper harm to two-way capital flows – will get further traction. Senator Mark Rubio and others have already positioned themselves to the right of President Trump on this issue.

A year ago, most businesses were reluctant to concede that some partial US-China disengagement was worth talking about; today – largely outside the trade sphere – most firms are acknowledging that partial dis-engagement in areas with national security sensitivities is hard to avoid, and the focus has shifted to ensure that rules of reason are applied to prevent gratuitous separation that serves no logical purpose. The US government continues to work on implementation regulations for foreign investment screening and export controls, both of which will be critical for future investor behavior. Rules for supply chain security will also be an important factor for two-way investment. As we have long argued, the vast majority of Chinese FDI in the US previously undertaken would still be possible today, and there is room for growth even from the previous high-water mark without compromising security. Without a modicum of political goodwill, however, that will not be happening.

Chinese policy decisions will be equally important. Stepped-up administrative controls on outbound capital flows were arguably the most important driver for the sharp slowdown of Chinese investment in the US, and they also remain one of the most important impediments for higher levels of foreign capital deployment in China. Reform measures that give Beijing's confidence in letting private investors move money in and out of the country are perhaps the most important step for reviving two-way capital flows between China and the US. As latest data in the auto and financial sectors show, further liberalization of market access and a more level playing field for foreign firms are strong levers for sustaining and growing the inflow of American FDI to China. Finally, China has also stepped up efforts to bolster defensive policies in national security relevant areas, including plans to set up a national technology security list, restrictions on cross-border flow of data, and a modified foreign investment screening regime. As with US regulations, these stepped-up national security policies could emerge as an additional deterrent to cross-border capital flows if they are implemented irresponsibly.

ABOUT THIS REPORT

This report was produced by the US-China Investment Project, a multi-year research initiative to provide greater transparency on investment flows between China and the United States.

The project is led by Rhodium Group, an independent research firm combining economic data and policy insight to analyze global trends, and the National Committee on U.S.-China Relations, an American nonprofit, nonpartisan educational organization that encourages understanding and cooperation between the United States and Greater China.

More information about the project, an archive with previously published reports and an interactive data visualization with data through the end of 1H 2019 is available at: www.us-china-investment.org

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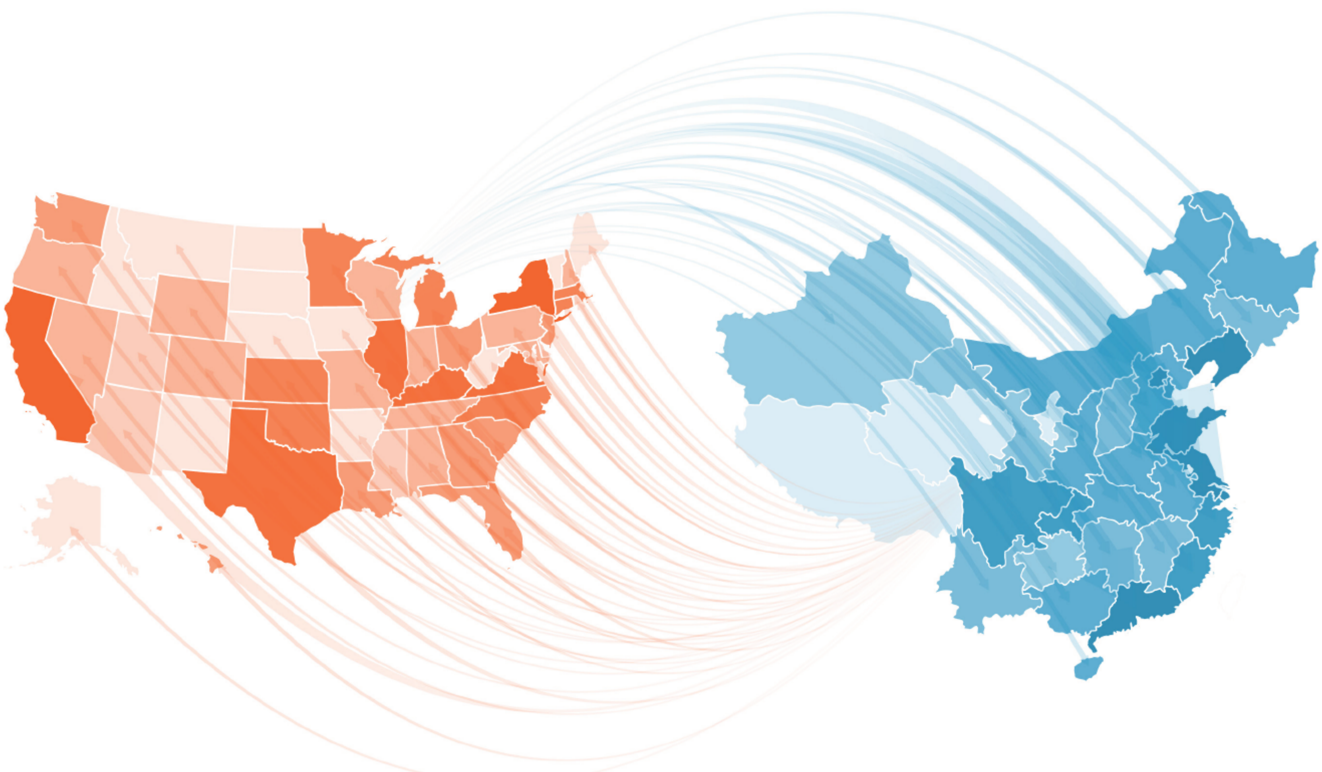

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