

Remarks of Ambassador Locke
China's Outbound Direct Investments: Risks and Remedies
September 24, 2013

Thank you Professor Shirk for that kind introduction. I'd also like to thank the 21st Century China Program at UC San Diego, the Brookings – Tsinghua Center for Public Policy, and the Development Research Center of State Council for giving me the opportunity to speak to you today.

We in America want and benefit from a more prosperous China. From our point of view, a prosperous China is good for the United States.

The United States is committed to broadening the U.S.-China relationship and further building a cooperative partnership through strong economic engagement at all levels.

Because people in both our countries benefit from this deepening economic integration.

One such win/win opportunity I would like to talk about today is investment.

Promoting and facilitating Chinese investment into the United States is one of my top priorities as Ambassador, and we've seen some tremendous results that I would like to highlight.

Chinese investment in the United States has soared from virtually zero in 2000 to nearly \$28 billion, and continues to grow rapidly.

In the first six months of 2013 alone, Chinese firms spent \$4.7 billion on investments in America, the strongest six months ever recorded.

Recent notable investments reflect a broad range of sectors, including:

- Dalian Wanda Group (media and entertainment);
 - Sanan Optoelectronics (high technology);
 - Sinochem's \$1.7 billion investment in U.S. shale;
 - Vanke's stake in a \$600 million dollar real estate project;
- and

- Shuanghui's investment in Smithfield (food products).

However, that's just the beginning. Chinese cumulative direct investment abroad could total between one and two trillion dollars by 2020, according to a 2011 study by the Asia Society and the Kissinger Institute.

As Chinese companies go global, we want Chinese companies to invest in America because we know that foreign direct investment in America is vital to our economic growth, job creation, and productivity,

while at the same time growing their businesses to the benefit of their owners and their shareholders here in China.

Why invest in America?

The U.S. has a GDP of more than \$15 trillion; a population of more than 310 million; and a per capita income of more than \$48,000.

The U.S. was also ranked as the most open economy for foreign investment, outside of Hong Kong, in a 2011 survey sponsored in part by the China Council for the Promotion of International Trade (CCPIT).

Because of this, in 2012, the United States attracted some \$175 billion of foreign direct investment from all around the world.

I'd like to show you a short video that shares success stories from Chinese companies. They'll explain the advantages they've found by investing in the United States

[Show video]

As we just saw, more and more Chinese companies are seeing great opportunities for foreign direct investment in America.

Let me just go over very briefly some of the specific benefits that the U.S. offers foreign investors.

First, the U.S. labor force. The U.S. work force is one of the most educated in the world. American workers are also among the most productive, diverse, flexible and adaptable in the world.

Second, access to third markets. The U.S. has some of the world's most advanced and comprehensive free trade agreements from North and South America to the Middle East and Asia.

Investing in the U.S. gives companies the benefits of these 20 comprehensive free trade agreements. So when you manufacture in the United States you can then export to those markets, duty-free.

Third, education. Hundreds of thousands of Chinese students can attest that the U.S. has the world's best university and college system.

Much of the research and development that takes place in our economy originates from those universities. That R&D has resulted in over 430,000 annual patent applications.

Fourth, energy. The International Energy Agency recently released a report estimating that due to the ongoing boom in shale gas development, electricity costs in the U.S. will be as much as 50 percent cheaper than in other developed countries by the end of the decade.

And the cost of natural gas in the United States is one-fourth of the cost in Asia.

So the cost savings of manufacturing products in America for the American and third-country markets can be an enormous benefit to companies who invest in the United States.

Fifth, intellectual property rights. The United States is the world's leader in protecting intellectual property rights including patents, trademarks and copyrights.

Which brings me to the sixth benefit, the U.S. regulatory system.

Some people think the strong regulatory environment in the United States can be intimidating to many foreign investors.

However, as companies from around the world have learned, the U.S. regulatory environment offers many benefits to foreign investors.

For example, clear rules ensure a level playing field for all competitors (U.S. and foreign), and ensure that standards for health, safety and the environment are met by all companies in the U.S.

The U.S. regulatory environment ensures fair competition.

I also think it's crucial to mention the hard work we've done to make it easier for Chinese citizens to travel to America.

We recognize that if we want to attract Chinese investment into the U.S., we need to make it easier for investors to travel to America to learn about projects and meet potential partners.

Before I arrived as Ambassador, Chinese visa applicants often had to wait anywhere from 70 to 100 days to receive an appointment for a visa interview. That was completely unacceptable. Streamlining our visa processes became one of my top priorities as Ambassador.

And thanks to the great work of our five Consulates and our staff at the Beijing Embassy, the average wait time to schedule a visa has been five days over the last 2 years even as applications have increased by 74% during that period.

As of this spring, we implemented a new on-line application system so that applicants can schedule their own appointments on-line, and even change their appointment times without any extra cost.

If you already have a visa and you want to renew it, all you have to do is drop off your passport at a Citic Bank. Another interview is not required, even if the visa has expired – provided for not more than 4 years.

You can see that we are working tirelessly to make it easier for Chinese business travelers, tourists, and students to visit America.

Yet despite the extensive data on rising Chinese investment in the United States, we continue to hear skepticism about the United States' commitment to open investment. Much of this comes from misconceptions and mischaracterizations about CFIUS, the Committee on Foreign Investment in the United States.

Let me address some of those misconceptions.

First, CFIUS only reviews transactions that may result in foreign control of a U.S. business, essentially mergers and acquisitions. It does not review, for example, greenfield investments or purely passive minority interests.

Second, CFIUS focuses exclusively on genuine national security concerns, not economic or other national policies.

Finally, I want to stress that CFIUS applies the same rules to all companies seeking to invest in the United States regardless of which countries the companies are headquartered in and regardless of the economic sectors of the investment.

And this non-discriminatory approach extends to CFIUS's review of transactions by state-owned enterprises.

I certainly am aware of the rumors that some Chinese companies are afraid their investments may be blocked by the United States Government for national security reasons. I simply ask you to look at the facts.

The vast majority of foreign investment from all countries, including China, do not raise national security concerns.

And the vast majority of foreign investments that go through the CFIUS process have been approved without any conditions.

From 2009 and 2011, over 3,800 merger and acquisition transactions of foreign acquisitions of U.S. companies were

completed. During this time period, CFIUS reviewed 269 transactions from around the world.

Out of the 269 transactions reviewed, only 20 involved Chinese companies.

Only 22 – or 8 percent – of the 269 transactions reviewed resulted in government imposed modifications.

In other words, more than 90 percent, in fact 92 percent, of these 269 transactions from all around the world were approved without any conditions.

Let me repeat that.

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Only 22 – or 8 percent – of the 269 transactions reviewed resulted in government imposed modifications.

92 percent of these 269 transactions from all around the world were approved without any conditions.

The bottom line is that the CFIUS process has not been a barrier to legitimate foreign investments in America.

Of course, companies will always encounter new challenges when first investing in an unfamiliar market.

Each of our 50 states is different. Each state has different incentives, tax structures, and regulatory systems.

But successful China companies can testify that the key to successful investment in America is taking advantage of the expert advice provided by law firms, accounting firms, investment banks, PR firms, and management consultants.

They can simplify matters and can help you avoid difficulties.

They can save you time and money and actually ensure greater success.

Our Embassy and five Consulates stand ready to help you explore investment opportunities in America.

In Washington on October 31 and November 1, President Obama will host the first ever SelectUSA Investment Summit, where Chinese companies can see in person what America has to offer.

We hope you come join the many Chinese companies that have already successfully invested in the United States.

Let me close by saying that our efforts to promote cross-border trade and investment show that the United States and China can work together to support common goals and to achieve real results for our peoples.

A prosperous China is good for the United States and a strong U.S. economy is good for China.

A strong U.S.-China relationship is good for the entire world.

Thank you.