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Opinions

The Chinese want to buy more American companies — and we should let them

By Zachary Karabell April 1

Zachary Karabell is the head of global strategy at Envestnet, a financial services firm, and the author of "The Leading Indicators: A Short History of the Numbers That Rule Our World."

China was poised to make its largest-ever investment in the United States this past week, after the Chinese insurance group Angbang topped Marriott in a bidding war for the Starwood hotel chain. The offer was extremely attractive: $14 billion in cash. But a chorus of skeptics urged Starwood to say no.

"Who are these guys?" Bloomberg News anchor Tom Keene asked. "It's the Butch Cassidy analysis here. I have absolutely no clue what their balance sheet is. I have no clue how they're going to finance this puppy. And more than anything: What's their link to the Chinese government?"

Over at MarketWatch, columnist Tim Mullaney wrote: "Anbang's CEO is no less than the son-in-law of deceased former Chinese leader Deng Xiaoping. While still an also-ran in China's insurance market, it has easily arranged changes in that nation's regulations to let it invest more in asset management and offshore real estate. They couldn't get better service from Beijing if they invited the Communist Party's central committee to the wedding."

The deal also faced scrutiny from the powerful but obscure Committee on Foreign Investment in the United States (CFIUS), which is charged with assessing the national security implications of these sorts of transactions. Buying a hotel chain wouldn't seem to present a particular threat. But Angbang's purchase of New York's Waldorf Astoria was reviewed in 2014. That deal ultimately got a green light, though the U.S. delegation to the United Nations moved its base of operations out of the hotel afterward.

Unfortunately, we'll never know what regulators would have made of the Angbang-Starwood deal. On Thursday, the Chinese company announced that it was withdrawing its bid "due to various market considerations." The intense pushback certainly didn't help — and it's part of a troubling trend.

Suspicion of Chinese motives is hardly new. After all, blaming China for America's economic ills has been a theme of the past three presidential elections. But within the U.S. government and business community, there's intensifying concern — ranging from wrong but reasonable to paranoid and hysterical — that China's drive to invest in the United States is not benign.

The far smarter response would be to embrace Chinese investment. Rather than being a threat to U.S. security, it's the best way to reduce future tension.

As China's economy and reserves have grown, so has its appetite for investing abroad. According to the Rhodium Group, in 2006, China did 39 deals worth $195 million in the United States. By 2015, that had mushroomed to 171 deals worth $15.3 billion. And already this year, Chinese investors have completed transactions in the United States totaling more than $3 billion, with an additional $26 billion in the pipeline.

China's appetite encompasses multiple industries. The country's State Council has encouraged companies to pick targets that will help "raise the international competitiveness of Chinese products," among other goals. Noteworthy deals that have gone through this year include General Electric's $5.4 billion sale of its appliance division to Haier and Hollywood studio Legendary Entertainment's $3.5 billion acquisition by Dalian Wanda (which already owns AMC Theaters).

But as Chinese deals in the United States have become more numerous and more ambitious, there's been more resistance.

Acquisitions involving Chinese investors represent the largest portion — nearly 20 percent — of transactions reviewed by CFIUS, even though China still trails other countries in its direct investments in the United States. And members of Congress are pressing CFIUS to expand the scope of its reviews. For instance, Sen. Sherrod Brown (D-Ohio) wrote a letter last month asking the committee to look at patterns of investment, ownership structure and "all possible mitigation measures to protect Americans." Previously, Rep. Rosa DeLauro (D-Conn.) introduced a bill requiring regulators to assess economic and public health impacts.

Beyond Starwood, this pushback has scuttled a number of high-profile deals.

Last summer, security concerns prevented Tsinghua Unigroup, a state-owned semiconductor company, from buying memory-chip maker Micron Technology for $23 billion, which would have been the largest Chinese acquisition of a U.S. company by far. In February, another state-owned Chinese company bid $3 billion for Fairchild Semiconductor. That transaction fell apart after the Fairchild board "concluded that there is some non-negligible risk of a failure to obtain CFIUS approval." Also in February, Tsinghua yanked its multibillion-dollar bid for hard-drive maker Western Digital after CFIUS decided to launch a review. "There was a strong feeling that the regulators were going to run the deal down," a source close to Tsinghua told the Financial Times.

It’s true that semiconductors and hard drives have some security implications. The deals nixed, though, didn’t involve ultra-sensitive National Security Agency equipment but rather mass-produced, commoditized technology. In theory, China could play Manchurian candidate with such technologies, but the Chinese government already has the capacity to disrupt the semiconductor supply chain through its own domestic factories and with its various cyberwar investments. It doesn’t need to spend tens of billions in foreign investment to acquire destructive capacity.

Even deals that have at best minimal security implications have encountered stiff opposition. In February, a Chinese company’s planned acquisition of the Chicago Stock Exchange led 46 members of Congress to draft a letter to CFIUS opposing the deal. Separately, Rep. Robert Pittenger (R-N.C.), a member of the House Financial Services Committee, warned that “China has historically been the leading market and currency manipulator” and that control over an exchange would enable it to unleash havoc on the U.S. economy. He neglected to mention that fewer than 1 percent of all trades in the United States are handed by the Chicago exchange.

Lawmakers were similarly incensed by a Chinese company’s effort to buy Smithfield Foods in 2013. It took months of lobbying by Shuanghui International to get regulator approval, amid concerns about theoretical contamination of the U.S. food supply. Those concerns largely missed the reason for the acquisition: to provide safer pork (produced in the United States) for Chinese consumers. If the motives were pernicious, there are far easier and more devious ways to disrupt the U.S. food supply.

And in January, Dutch conglomerate Philips terminated a planned sale of its LED business for nearly $3 billion to Chinese investor GO Scale Capital “because of inability to resolve CFIUS’ unforeseen concerns.” While LED bulbs certainly make their way into military equipment, it’s a stretch to argue that national security issues were strong enough to kill the transaction — unless a new generation of bulbs would have come equipped with smart chips that could turn under-the-kitchen-cabinet lights into surveillance devices for the Chinese Communist Party.

Instead of raising the battlements, the United States should adopt a policy that follows the old adage “keep your friends close and your enemies closer.” The best way to preserve American security and prosperity and to keep China’s aggression in check is not to resist China’s desire to invest but to encourage it.

The more money Chinese companies pour into the United States, the more motivation China has to maintain good relations and the more it has to lose if relations turn sour. If you are Chinese President Xi Jinping, the scale of these investments and capital flows becomes a serious consideration every time you contemplate an overture to Russia, or policy toward North Korea, or whether to menace that trawler in the seas around Vietnam. It is a factor when assessing how to value the yuan, and how much to confront or accommodate the United States on issues ranging from tariffs to trade agreements.

Consider that the last crisis in U.S.-China relations occurred in 2001, when a U.S. spy plane crashed on Hainan Island and put tensions on high. It may be purely coincidental that nothing even remotely as incendiary has occurred since China joined the World Trade Organization in December of that year and began its foreign investment push. But it’s striking how the U.S.-China relationship — which has all the seeds of a serious and adversarial rivalry — has avoided any serious bouts of angry words, let alone retaliatory action.

Economic ties may not guarantee peace and prosperity, but they do increase the incentives to negotiate differences and accommodate the needs and sensitivities of economic partners. That was the original intent, for instance, behind the creation of the European Union, which for all its many failures nonetheless helped end centuries of deadly conflict between the European powers.

Somewhat surprisingly, in a presidential campaign season that’s been heavy on anti-China rhetoric, one person who seems to understand the benefits of Chinese investment is Republican candidate John Kasich. Speaking with ABC’s George Stephanopoulos last month, the Ohio governor extolled how a Chinese company has created jobs by setting up an auto-glass manufacturing operation in a previously shuttered General Motors plant. “I was just in a plant in Dayton, where we have a half-a-billion-dollar investment from the Chinese, and they’ve employed over 1,000 people there,” Kasich said, adding, “I was intimately involved in bringing that to Ohio.”

We need to make it easier for China to invest in America. Not only would it help invigorate domestic industries, but it would also provide a path to greater security. If instead we let our fears lead us to greater isolationism, we will surely lose.

Twitter: @zacharykarabell

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