

FDI Flows between China and U.S.: Implications for Sino-U.S. Economic Relations

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Abstract

The establishment of a diplomatic relationship in 1979 opened a channel for exchange and cooperation between China and the United States. During the past 30 years, although there have been ups and downs, the Sino-US relations have been advancing steadily especially in terms of economic relations, with the United States being the No.1 trading partner of China and China being the No.2 trading partner of the United States. It has become one of the world’s most vigorous and influential relationships with greatest potential. However, this promising relationship has always been harassed by the increasing trade imbalance since the United States fell into a \$6.27 billions trade deficit with China in 1993.¹ With no sign of alleviation in this regard, both sides began to turn their attention to FDI, which is also a very important drive in developing bilateral relations. Under this background, this article aimed at shedding some light on the position of FDI in Sino-U.S. economic relation, the status quo of and barriers to FDI flows between the two countries, and finally the implications for the policymakers.

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I. Introduction

Trade has always been the leading actor in Sino-U.S. economic relations, which is also posing more and more challenge on China for its enormous and still growing surplus with the United States. So far, China has made great efforts to solve the problem of imbalance, such as reforming RMB exchange rate system² and bulk buying American-made merchandise such as Boeing airliners and many other high-valued products. However, the problem is still there. As shown in table 1, according to

¹ But according to the U.S Statistics, it began its trade deficit over China in 1983 with the amount of \$300 millions.

² China’s currency has appreciated by about 20% to the dollar since reforms were made in July 2005, but many U.S. policymakers still contend that it remains significantly undervalued.

the U.S. statistics, China’s percentages in U.S. total deficit had gone up from 25.6% in 2005 to 31.9% in 2008 and from 14.4% to 20.3% according to China’s statistics.

It seems that all these efforts still cannot eradicate Sino-US trade surplus because it is not the matter of currency but fundamentally the current stage of economic development which has endowed China with the competitive advantages over the United States in trading commonly manufactured goods. And regretfully this will not reverse in a short time. As a matter of fact, trade issue has become a problem of vital importance but with no sense of novelty in discussion.

Meanwhile, FDI, as one of the major actors in developing bilateral economic relations, began to draw attention. Many scholars and officials suggested that investment should be a key instrument to balance the two nations’ economies, which mainly means to enlarge China’s FDI in America. As a matter of fact, both sides have practically pursued this goal. Investment has now been one of the most important subjects in the past high-level official meetings, including the five Sino-U.S. Strategic Economic Dialogues (SEDs) for the past three years and this year’s first Sino-U.S. Strategic and Economic Dialogue (S&ED). During the fourth SED in 2008, both agreed to launch negotiations on bilateral investment protection agreement, which is a good sign to make us believe that barriers to both sides’ investors will be gradually dismantled in the future. Will the real spring come to the investors of both countries? Maybe yes on the U.S. investors’ side regarding the fast growing investment in China’s financial sectors.

II. What Mutual FDI Means to Sino-U.S. Economic Relations

FDI has played a very important role in domestic economic development in both countries and might be a crucial propeller in mediating the trade imbalance between the two countries.

1. FDI is very important in both countries’ domestic economy

The United States is the world’s biggest economy and has always been a “hotbed” of international capital for its vigorously strong economy and highly efficient capital market. Inward FDI provides a number of benefits to the U.S. economy both at the microeconomic and macroeconomic level. In 2004, while the relatively high productivity of U.S. affiliates of foreign-owned firms accounted for 5.7 percent of output and 4.7 percent of employment¹, they accounted for a disproportionately high share of U.S. exports (19 percent), imports (26 percent), physical capital expenditures (10 percent), and R&D expenditures (13 percent). Inward FDI also provides a number of benefits to the U.S. economy at the macroeconomic level. For instance, inward FDI is an additional source of investment that helps to modernize the U.S. capital stock. Another benefit is that it provides a source of financing for the U.S. current account deficit, which measures net flows of goods and services between the United States and the rest of the world. As the United States continues to run a current account

¹ According to China Ministry of Commerce, there had been 1,200 affiliates of Chinese firms in the United States, employing 6,000 local workers by 2008. It’s not so small compared to the scale of China’s FDI in the U.S..

deficit, foreigners continue to accumulate U.S. assets, and inward FDI is one of the main ways in which they do so.² Thus, the United States adopted a very welcome attitude toward foreign investors in the past years. In spite of the fluctuation of inward FDI in recent years, the U.S. retained its position as the largest single host country, with inflows of some \$316 billions in 2008, accounting for 18.6% of the world total, 5 percentage points more than last year.

China is even more depending on FDI inflows, though not so much for recent years as shown on its ratios of FDI against GDP(See table 2). Being the biggest developing recipient since 1993, China's economic growth should credit a lot to the inflow FDI. In 2006, inflow FDI contributed 31.5%, 58.2% and 21.2%¹ respectively to industrial output, export and tax income of the country. Furthermore, what is perhaps the most important but incalculable is that the pressures and vigor brought about by the foreign investors has played a very important role in pushing forward China's systemic reform from planned to market economy.

2. FDI is a very important tool in mediating the imbalance of International Payment between the two nations.

In terms of international payment account, the biggest problem besieging China is that the state of "double surplus"² will not disappear overnight for two reasons. First, as mentioned above, trade surplus with the U.S. will not decrease suddenly because it takes time for China to consume more and the U.S. to save more. Especially at this moment when facing the global rampant financial crisis, the adjustment progress will surely be postponed for the sake of economic recovery. Secondly, China's fast economic growth ensures sustainable FDI inflows(including from the U.S.) into China. Thus, learning from the experience of Japan in the middle of 1980s, China needs to expand its overseas investment, especially investment in the U.S. to alleviate great pressures on its domestic monetary policy and exchange rate resulting from the tremendous holding of foreign reserves caused by the "double surplus". In this sense, it's most desired by China to invest more in the U.S. to offset its trade surplus. Besides, the current Sino-U.S. investment relation itself is also in a state of severe imbalance. To be worse, the gap has been widening at a very fast pace for the recent years. The gap reached \$15.3 billions in 2008 (See table 3).

3. The U.S. FDI in China is beneficial to enlarge its service trade surplus over China.

As a matter of fact, the U.S. trade deficit is not so large as it always complained if considering its tremendous surplus in services under the current account. As shown in table 4, the U.S. trade deficit in goods has actually increased from \$454.7 billions in 2000 to \$840.3 billions in 2008, with a rise of 85%; by contrast, the U.S. trade surplus in services has increased from \$74.9 billions to \$144.3 billions in the same period, with a rise of 93%.

The U.S. rise in services trade surplus can be mostly attributed to its increasing FDI flows to China. As shown in table 5, China has been a very important and still

² Economic Report of the President 2007,PP173-174.

¹ Source: Calculated on the data from China Statistical Yearbooks.

² According to the State Administration of Foreign Exchange, this state of "double surplus" began in 1999 and lasted for 10 years.

growing importer of U.S. services, holding a surplus of 18.3 billions in 2007 with 14% share of US total services surplus. And this part of surplus was mainly accomplished by the U.S. majority-owned affiliates in China. As seen from table 6, services delivered by the U.S. majority-owned affiliates in China had increased by 4.5 folds from 2000 to 2007, with the amount mounting from \$2.1 billions to \$13.65 billions, while at the same period, the services surplus accomplished by cross-border had only increased by one fold. The U.S. invested affiliates in China has greatly contributed to the country's services export to China, especially in the financial sectors.

Therefore, it should be the most effective channel to alleviate the imbalance of the two economies by boosting mutual FDI, which can help solve the problem of domestic economic development and redress trade imbalance through both its impact on capital (mainly by enlarging China's FDI in the U.S.) and trade (mainly by enlarging U.S. services export to China) flows.

III. The Status Quo of Mutual FDI

1. U.S. FDI in China

U.S. FDI in China has been growing at a surprising speed since the early 1990's. During 1990 and 2008, U.S. FDI abroad had increased over nine folds reaching \$311.8 billions in 2008 (the highest hit \$378.4 billions in 2007, See figure 1) and its FDI in China had increased almost 211 folds reaching \$15.7 billions (See figure 2). There were two major waves of U.S. FDI growth in China. One was in the middle and late 1990s when many U.S. manufacturing multinationals established their factories in China (Zhuang Zongming, 2007). The second and also the latest wave of growth occurred since China opened many of its service sectors (especially finance) to a very high degree following its commitments to the entry of WTO in the end year of 2001. Therefore, this tide of growth in FDI flows into China was led by the enterprises in service sectors and is still going on. On the other side, the U.S. FDI flows into China's non-financial sectors (dominated by manufacturing sectors) have been in a state of decrease and stagnation since 2002 (See figure 3).

2008 had witnessed two substantial changes in U.S. FDI in China. One is the position of the United States in China's FDI inflows, which has greatly upgraded for the first time as the third source of China's total FDI inflows (only after Hongkong and British Virgin Islands) and the fourth host country of U.S. FDI abroad (only after Netherland, Ireland and the United Kingdom, See figure 4). The other is a sharp turn in the investment structure. For a very long time, the U.S. FDI flows into China had dominated in the manufacturing sectors with an average share of 63% compared to 26% in service sectors for the period from 1994 to 2008. This composition was far away from that of U.S. total FDI abroad, with only an average share of less than 25% in manufacturing sectors and more than 50% in service sectors. But as mentioned above, the U.S. FDI flows into China's manufacturing sectors began to decrease in

2003 and has been in a state of stagnation for recent years. On the contrary, the U.S. FDI in China's service sectors began to boost in 2002. The average share in service sectors had been raised to 40% in the 7 years from 2002 to 2008. 2008 was a year of turning point sense because it was in this year that the U.S. FDI in service sectors surpassed half, reaching an overwhelming percentage of 60%¹ in its total \$15.7 billions FDI in China (See table 7).

2. China's FDI in the U.S.

Compared to U.S. FDI in China, China's FDI in the United States is really of very tiny scale, only reaching \$462 millions in 2008 and accounting for 0.8% of China's total outward FDI of \$55.9 billions (see figure 5) and a nonentity in U.S. total FDI inflows of \$316.1 billions. The United States ranked No.9 in hosting China's outward FDI inflows in 2008. On the other side, FDI inflows from China are really nothing to U.S. huge total inflows. But as a matter of fact, China, as the biggest investor from the developing countries, has stepped into a fast growing stage in investing abroad for the recent years, with FDI outflows increasing from \$2.5 billion in 2002 to \$55.9 billions in 2008 and ranking from the world No.26 to No.11. Undoubtedly, China has become an important player in foreign direct investment, but its investment in the U.S. is still at the beginning stage. By the year of 2008, China invested \$2.39 billions totally in the United States, only accounting for 1.8% of China's total outward FDI stock. The mutual FDI activities caused a very big investment surplus for China against U.S., with a gap of \$51.28 billions in 2008.

The main sectors which U.S. multinationals invested in China included: retail and wholesale (36%), manufacturing (23.5%), finance (13.2%), transportation/warehousing/postal services (9.4%), leasing and business services (7.4%) and information transmission/computer service/software services (4.1%) (See table 8). It seemed that China's FDI in the U.S. had a very obvious trend toward investing more in the finance sector for recent years. In 2008, China invested \$213 millions in the U.S. finance sector, accounting for 46% of its total FDI in the United States. However, this sum is still a dwarf before China's total outward investment in finance sector (\$14.5 billions dollars).

To summarize, Sino-U.S. investment relation is quite imbalanced, with a gap of \$5.1 billions in 2007 and \$15.3 billions in 2008, which helped to aggravate the imbalance of international payment accounts between the two sides. And it could be even worse if nothing is done to straighten up the situation because the gap is really getting bigger with U.S. service FDI continuously entering into China.

Here we must make it clear that what effects the different directions of FDI may have on the balance of international payment accounts between the two countries. On the side of U.S FDI in China, we can see that this activity won't affect much the balance because FDI brings the increase of service trade surplus for the United States and far exceeds the deficit caused by FDI (See table 3). And since U.S. affiliates based in China are more focused on serving the local market (or less export-oriented), they

¹ Though 2002 hit the percentage of 80.11% but it was still not as much impressive as 2008 for two reasons: One is that this unusual high ratio was caused by a sharp decrease in mining sector which offset substantially the total amount; the other was because of its small scale with only about \$700 millions dollars which meant not so much in China's total FDI inflow of \$53.5 billions.

have done little in China's incredible surge of export growth (Lee Branstetter & C. Fritz Foley, 2007). In this sense, U.S. FDI in China will not worsen but will be beneficial to alleviating the imbalance. On the side of China's FDI in the U.S., since it is still at the beginning stage, there had seemed no obvious effect on trade by far and the enlargement of its FDI in the United States will surely improve the state of imbalance by reducing the FDI surplus directly. Therefore, we can conclude that it is an effective way to mediate the imbalance between the two countries at present by encouraging mutual FDI investment, especially China's investment in the United States for the purpose of bridging the gap in FDI.

IV. Factors Affecting Mutual FDI

Undoubtedly, the present Sino-U.S. mutual FDI relations lag far behind their trade relations, in which the United States acts as the No.1 trading partner of China and China as the No.2 trading partner of the United States. The above analysis also shows that both countries are now the major investors in the world FDI activities. But the relative positions in each other's FDI activities is not as important as it should be and China's position as an investor in the United States is almost equal to zero. This situation can be attributed to many factors. Some are from the market itself such as the changes in both sides' industrial structures, preferences of entrepreneurs like spatial interdependence (Bruce A. Blonigen & Ronald B. Davies & Glen R. Waddell & Helen T. Naughton, 2004), strategic adjustment of companies, etc, which cannot be controlled by the policymakers. Other factors are beyond the market and mainly embodied as policies and measures managed by the policymakers. Here we'll discuss the latter because they can always influence the former, and sometimes even pose problems and barriers to the former.

The major factors affecting U.S. FDI in China are from both sides.

On the Chinese side, the two major policy factors affecting FDI from the U.S. are the problems of market entry and intellectual property rights protection in China.

The low economic openness of China (especially in service sectors such as finance and insurance) has long been restricting the scale of U.S FDI in China because it is in these sectors that the United States invested heavily for the past two decades. For instance, the U.S. invested 17.4%, 85.1%, 11.5%, 22.1% and 13.8% of its total outward FDI in the finance (except depository institutions) and insurance sectors respectively for the year from 2004 to 2008, while the percentages in China were only 0.98%, 8.8%, -0.1%, 8.5% and 8.7% respectively for the same years. Let alone the years before China's entry into WTO. But we must admit that the gap is narrowing. Considering FDI in banking sector, the United States had invested \$8.5 billions in the finance (including depository institutions) and insurance sectors, accounting for 54% of its total FDI in China.

Another major problem on the Chinese side is its inadequate protection of intellectual

property rights alleged by people from all walks in the United States. China has made great strides toward strengthening its IP regimes, which has resulted in the comprehensive revision of its patent, copyright and trademark legislations, as well as the amendment of these laws to conform to the provisions of key IP conventions and treaties (Donatuti, 2007; Drezner, 2007; Yu, 2006). But some IP experts have contended that the existing IP laws in China do not send a clear message to pirates and counterfeiters, who have continued to thrive on profits made from IP technologies duplicated from more innovative companies (Omario, 2007). Furthermore, the enforcement of IP laws in China remains unreliable and the country is still considered to excel in all sorts of trade in pirated products that range from counterfeit software to fake versions of Viagra and other trademark rip-offs (Brenda Pamela Mey, 2009). This kind of public opinion like "IP black hole" toward China, which is to some extent not real and somewhat exaggerated, will surely harm China's image in the world and affect the decision-making of the U.S affiliates based in China and potential investors from the United States, and the rest of the world as well.

On the U.S. side, there are also two major factors affecting U.S. FDI in China. One is U.S. Export Control Policies on Science and Technology and the other is its escalating abuse of protectionism.

Firm-specific advantages (FSA) are necessary to overcome disadvantages of foreignness and are therefore believed to be one of the driving factors behind FDI (Dunning, 1977). Undoubtedly Technology falls within this kind of FSA. However, according to the Export Administration Act of 1979, the United states had very strict export controls against China of dual-use items—those that have military and as well commercial applications—including software and technology. This conduct greatly undermined the technology advance of U.S. affiliates based in China. Just as Chairman Bart Gordon put it, "In recent years there has been a growing chorus of concern that the current system of export controls is undermining our nation's competitiveness in the global economy, undermining our science and technology enterprise, and weakening our national security—not strengthening it" and "the entire international markets are denied to U.S. companies because they are forbidden to ship their technologically sophisticated products to foreign countries"¹. The US business community in China now has a very urgent call for the US government to carry out a review and revision of "antiquated export control regulations". According to the 2009 White Paper² on the State of American Business in China released by the American Chamber of Commerce in China (AmCham-China), US export control policies do not adequately incorporate the realities of the global environment and the rigorous licensing procedures and the long list of controlled technologies concerning China have greatly increased the costs of doing business in China for US companies. They have also created the impression that China presents too many business risks and uncertainties, causing some US firms to shy away from exporting commercial items and technology to legitimate, civilian end users in China. This unnecessarily hurts the

¹ In a hearing held by the Committee on Science and Technology of the House of representatives on February 25, 2009 , examining the impacts of current export control policies on U.S. science and technology activities and competitiveness. Source: <http://science.house.gov/press/PRArticle.aspx?NewsID=2367>

² The report can be seen at : <http://web.resource.amchamchina.org/Podcasts/WhitePaper2009.pdf>

American economy at a time when companies should be aggressively targeting the Chinese market.

The other problem is that the escalating trade friction between the two countries have brought about many trade remedy measures and in turn greatly increased the risks for those U.S. affiliates based in China. According to the Chinese Ministry of Commerce, the year 2009 (by the mid-Nov) had seen 13 remedy cases (including 10 both anti-dumping and countervailing investigations, 2 countervailing investigations and one special safeguard investigation) initiated by the United States against China-made products. This unusual frequency in filing a case is extremely rare in the history of the world trade, posing a serious challenge for the U.S. affiliates based in China. For instance, the September Special Safeguard tariff imposed by the U.S. on China-made tires would affect not only the whole tire industry and other related industries such as rubber in China, but also the U.S. tire producers based in China (currently US tire manufacturers, such as Bridgestone/Firestone, Goodyear, Michelin and Cooper have operations in China). These U.S. tire producers would suffer a big loss from the decision because they accounted for two-thirds of China's tire exports to the United States.¹

Factors Affecting China's FDI in the United States

On the Chinese side, it has been a very important policy to make Chinese enterprises "go abroad" since the end of last century, aiming at changing its growing pattern, escalating economic structure and relieving the risks of its huge dollar reserves. According to the Theory of Investment Development Cycle (Dunning, 1986), China's outward FDI has now stepped into the second stage in which outward FDI will boom fast. Actually the story is proved true by the data above-mentioned. But China's FDI in the United States, who is the biggest host country in the world, is really negligible. Why? There are two reasons which can be stressed here on the U.S. side.

One reason is that there are also restrictions on market access in the United States. They typically take the form of limiting the share of foreign companies' equity capital in a target sector that non-residents are allowed to hold, e.g. to less than 50 per cent, or even prohibit any foreign ownership. Examples of majority domestic ownership requirements include airlines and coastal and freshwater shipping in the United States. FDI in financial services in the United States is restricted by the diverse and complex set of regulations at the state level.² The problem of market access restrictions will surely affect China's FDI in the United States, but frankly speaking, they are discriminating to all investors from the world. The real barrier facing Chinese companies who wish to invest in the United States is rested in its obligatory screening and approval procedures, which can be used to limit FDI at the host's option, giving different constraining effects to different countries. Due to this reason, China has so far had very little success in the U.S. In 2005, the state-owned China National Offshore Oil Corporation (CNOOC) attempted but ultimately failed to buy American oil company Unocal Corporation due to intense political pressure from Congress, which questioned the communist-owned CNOOC's motives and argued that it did not represent a free-market transaction. A similar bid by Chinese appliance maker Hai'er

¹ Source: <http://auto.people.com.cn/GB/10052968.html>

² Source: OECD. <http://www.oecd.org/dataoecd/24/35/2956455.pdf>

to buy Maytag also failed in 2007 due to foreign ownership concerns, as did an attempt by Chinese firm Huawei's attempt to partner with U.S. firm Bain Capital Partners in a \$2.2 billion buyout of 16.5% of 3Com Corp, an American company that makes systems to protect against computer hackers.³ It's the reality that the Chinese acquisition of bigger and more high-profile companies, especially those in the more sensitive and strategically important sectors like energy, information technology, or security has met with much greater resistance from the U.S. government and Congress in the process of screening and approval procedures. The United States is now a growing target for China's outward FDI, but the response by the American public seems to fall at opposite ends of the spectrum: fear or fever. That might be one of the greatest challenges for the Chinese firms to tackle for a long time.

V. Recommendations for Policymakers

For the past 30 years, trade has remained the key actors in Sino-U.S. economic relations and has made the relations more interdependent. Now the development of the relationship has met with huge drag in terms of the enormous trade imbalance. FDI should have a better role in promoting the relationship. Though the hardest time caused by the Financial Crisis may have passed because both sides have shown the sign of recovery in the third quarter, with a GDP growth rate of 7.7% in China and 3.5% in the U.S. But there is still a long way to go because China is seeking the year's rate of 8% and the United States is facing the highest unemployment rate of 10.3% for the third quarter since 1983. Therefore, now it's the right time to foster mutual FDI because both sides desperately need to enlarge investment to secure economic growth and job recovery. There are three major recommendations for the bilateral economic policymakers.

1. To highlight the Role of FDI in the Bilateral Economic Relations

While trade will always cause imbalance with one side having surplus and the other deficit, FDI is a relatively easier to achieve a win-win result because it will benefit not only the investing country but also the hosting country, such as increasing capital investment, jobs, and trade. Therefore, both sides should attach much importance to the role of FDI in promoting the mutual economic relations. Considering the current severe imbalance in both trade and FDI between the two countries, it's more imperative to enlarge China's FDI in the United States. Especially China should provide more incentives for the private firms to invest in the United States because this kind of investment is welcome as it helps to create or maintain jobs and does not usually attract much media attention except in the local papers in the towns of the affected companies.

2. To remove barriers to FDI through communication rather than protectionism

Since each side has its own vision and fundamental interests, it's common to see the disputes and problems popping up and down in the field of market entry, intellectual

³ Source: U.S.-China media Brief. http://www.aasc.ucla.edu/uschina/trade_investment.shtml

property rights, export control and abuse of trade remedy measures, etc at different period of time. Trade and investment protectionism won’t do anything but worsen the bilateral economic relations and lose the benefits that should have been shared in the right order.

As a matter of fact, communication itself is a very effective way to dismantle the barriers. For instance, China has made great efforts in order to provide better protection for the IPRs but the world outside China won’t know without sufficient communication. During the US–China Intellectual Property Protection Cooperation and Research Forum hosted by John Marshall Law School in September, 2009, China’s efforts are really appreciated by some of American professionals because forum is a very good place to communicate and exchange views. Chief Judge of U.S. District Court, Northern District of Illinois, Chicago, James F. Holderman affirmed that China had made outstanding progress in protecting IPRs during this forum.¹

And FDI itself is also a very efficient channel of communication because it not only promotes the flows of capital, but the flows of people who will foster mutual understanding once face-to-face.

3. To safeguard FDI flows by establishing the institutional investment framework

By June, 2009, the United States has signed Bilateral Investment Agreements (BITs) with 51 countries and China with 108 countries.² The conclusion of international investment agreements (IIAs) during the ongoing global economic and financial crisis demonstrates that countries continue to rely on IIAs as a means of promoting foreign investment.³ China and the United States had initiated the negotiation of bilateral investment agreement during the fourth Strategic Economic Dialogue in 2008. This is a good message for the investors. But when will the agreement be concluded is still unknown because there is a great gap in the standards of the agreement such as the definition of investment, dispute settlement and divestment, etc. As for the investors, it couldn’t be better if both sides can sit down face-to-face and negotiate. The same is true of the governments.

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¹ About the Forum, See: http://www.jmls.edu/academics/ip_law/Grand%20Opening.pdf

² Source: UNCTAD Database. <http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1>

³ UNCTAD: “Recent Developments in International Investment Agreements (2008–June 2009)”, P11.

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Tables and Figures

Table 1: U.S. Trade Deficit against China: 2001—2008 (Millions Dollars)

Period	Statistics by U.S.			Statistics by China	
	Total deficit	From China	China’s percentage	From China	China’s percentage
2001	-429,898	-83,296	19.4%	-28,080	6.5%
2002	-482,832	-103,273	21.4%	-42,720	8.8%
2003	-549,012	-124,379	22.7%	-58,613	10.7%
2004	-671,835	-162,649	24.2%	-80,269	11.9%
2005	-790,851	-202,814	25.6%	-114,173	14.4%
2006	-847,260	-234,611	27.7%	-144,263	17.0%
2007	-830,991	-258,902	31.2%	-163,325	19.7%
2008	-840,251	-268,411	31.9%	-170,860	20.3%

Source of data: The Ministry of Commerce of the United States, <http://www.bea.gov/interactive.htm>

The Ministry of Commerce of People’s Republic of China. <http://zhs.mofcom.gov.cn/tongji.shtml>

Table 2: Ratios of FDI against GDP: China and the U.S. (Unit: Millions Dollars, %)

Period	U.S. FDI inflows	U.S. GDP (current prices)	U.S. FDI/GDP	China FDI inflows	China GDP (current prices)	China FDI/GDP
1990	48,422	5,800,500	0.83%	3,487	390,278	0.89%
1991	22,799	5,992,100	0.38%	4,387	409,165	1.07%
1992	19,222	6,342,300	0.30%	11,007	488,222	2.25%
1993	50,663	6,667,400	0.76%	27,515	613,223	4.49%
1994	45,095	7,085,200	0.64%	33,767	559,225	6.04%
1995	58,772	7,414,700	0.79%	37,521	727,946	5.15%
1996	84,455	7,838,500	1.08%	41,726	856,002	4.87%
1997	103,398	8,332,400	1.24%	45,257	952,649	4.75%
1998	174,434	8,793,500	1.98%	45,463	1,019,481	4.46%
1999	283,376	9,353,500	3.03%	40,319	1,083,285	3.72%
2000	314,007	9,951,500	3.16%	40,715	1,198,478	3.40%
2001	159,461	10,286,200	1.55%	46,878	1,324,814	3.54%
2002	74,457	10,642,300	0.70%	52,743	1,453,833	3.63%
2003	53,146	11,142,100	0.48%	53,505	1,640,963	3.26%
2004	135,826	11,867,800	1.14%	60,630	1,931,646	3.14%
2005	104,773	12,638,400	0.83%	72,406	2,235,750	3.24%
2006	237,136	13,398,900	1.77%	72,715	2,657,842	2.74%
2007	271,176	14,077,600	1.93%	83,521	3,382,445	2.47%
2008	316,112	14,441,400	2.19%	108,312	4,401,614	2.46%

Source: .The U.S. Data are from the Bureau of Economic Analysis. <http://www.bea.gov/index.htm>. China’s Data of FDI are from UNCTAD “World Investment Reports” and China’s GDP data are from IMF World Economic Outlook Database Oct, 2009.

Table 3 : China’s FDI Surplus Vs. Service Deficit Incurred by the U.S. Affiliates based in China: 2005-2008 (Millions Dollars)

Period	China’s FDI toward U.S.	U.S. FDI toward China	China’s FDI Surplus over U.S.	U.S. service trade surplus incurred by its affiliates based in China
2005	232	1,955	1,723	7,991
2006	198	4,226	4,028	10,225
2007	196	5,331	5,135	13,650
2008	462	15,726	15,264	---

---: Unavailable.

Source: BEA & China Ministry of Commerce.

Table 4 : The U.S. Balance of Trade in Goods and Services : 2001—2008 (Millions Dollars)

Period	Total balance	Change in total balance(%) ¹	Balance of trade in goods	Change in balance (deficit)of goods(%) ²	Balance of trade in services	Change in balance (surplus)of goods(%) ³
2000	-379, 835		-454, 690		74, 855	
2001	-365, 504	-3. 8%	-429, 898	-5. 5%	64, 393	-14. 0%
2002	-421, 601	15. 3%	-482, 831	12. 3%	61, 230	-4. 9%
2003	-495, 035	17. 4%	-549, 012	13. 7%	53, 977	-11. 8%
2004	-609, 987	23. 2%	-671, 835	22. 4%	61, 848	14. 6%
2005	-715, 269	17. 3%	-790, 851	17. 7%	75, 582	22. 2%
2006	-760, 359	6. 3%	-847, 260	7. 1%	86, 901	15. 0%
2007	-701, 423	-7. 8%	-830, 992	-1. 9%	129, 569	49. 1%
2008	-695, 937	-0. 8%	-840, 252	1. 1%	144, 315	11. 4%

1: “+” in this column means the increase of U.S. total trade deficit while “-” means the decrease of U.S. total trade deficit..

2: “+” in this column means the increase of U.S. trade deficit in goods while “-” means the decrease of U.S. trade deficit in goods.

3: “+” in this column means the increase of U.S. trade surplus in services while “-” means the decrease of U.S. trade surplus in surplus.

Source: BEA. <http://www.bea.gov/interactive.htm>

Table 5: U.S. Trade Surplus in Services: Total and over China (Millions Dollars)

Period	Total U.S. trade surplus in services	over China	China’s percentage in U.S. total
2000	74,855	4,034	5.39%
2001	64,393	4,476	6.95%
2002	61,230	5,056	8.26%
2003	53,977	2,045	---
2004	61,848	1,805	---
2005	75,582	10,379	13.73%
2006	86,901	13,417	15.44%
2007	129,569	18,276	14.11%
2008	144,315	----	--

---: Unavailable.

Source: BEA. <http://www.bea.gov/interactive.htm>

Table6: Services Supplied to China and U.S. Markets Through Cross-border Trade and Through Affiliates (Millions Dollars)

Period	Through cross-border trade			Through nonblank majority-owned affiliates			
	U.S. exports to China	U.S. imports from China	U.S. surplus	To persons affiliates U.S. companies in China	Chinese by of in	To persons affiliates U.S. companies in U.S.	U.S. by of U.S. surplus
2000	5,207	3,259	1,948	2,166		80	2,086
2001	5,639	3,643	1,996	2,627		147	2,480
2002	6,044	4,123	1,921	3,456		321	3,135
2003	5,982	3,937	2,045	3,800		D	--
2004	7,642	5,837	1,805	6,914		D	--
2005	9,015	6,627	2,388	8,332		341	7,991
2006	10,902	7,710	3,192	10,486		261	10,225
2007	13,453	8,827	4,626	13,965		315	13,650
2008	15,870	9,810	6,060	--		--	--

--: Unavailable.

D: Suppressed to avoid disclosure of data of individual companies.

Source: BEA. <http://www.bea.gov/international/index.htm>

Table7 U.S. FDI Flows Abroad and into China by Sectors 1994—2008 (Millions Dollars)

Period	U.S. total outward FDI	Percentage in manufacturing sectors (%)	Percentage in service sectors (%)	U.S. FDI flows into China	Percentage in manufacturing sectors (%)	Percentage in service sectors (%)
1994	73,252	32.75	52.97	1,232	36.85	20.54
1995	92,074	48.30	39.02	261	130.65	4.59
1996	84,426	28.81	52.19	933	55.73	35.69
1997	95,769	29.58	46.92	1,250	74.96	30.48
1998	131,004	17.65	62.44	1,497	74.48	0.67
1999	209,392	18.95	29.22	1,947	64.77	14.23
2000	142,627	30.15	38.07	1,817	73.31	4.84
2001	124,873	20.72	23.86	1,912	83.63	3.09
2002	134,946	23.92	27.90	875	51.31	80.11
2003	129,352	24.13	70.29	1,273	37.39	38.33
2004	294,905	21.51	66.84	4,499	72.79	12.42
2005	15,369	182.97	-291.04	1,955	28.90	47.93
2006	224,220	18.89	64.64	4,226	72.53	36.77
2007	378,362	17.63	72.64	5,331	69.63	16.81
2008	311,796	14.43	70.38	15,726	22.89	60.25*

*: Since China’s investment in U.S. depository institutions in 2008 is suppressed to avoid disclosure of data of individual companies, this datum is an estimate. The rationale is to estimate the investment amount of other sectors which is also marked as “D” to go with the depository institutions to be about \$1.32 billions by reckoning on the

basis of the average growth rate (170.6%) for the past three years. Then deduct the sum of all other sectors except depository institutions from the total and get the amount of about \$8 billions Chinese FDI in the U.S depository institutions.

Source: BEA. <http://www.bea.gov/international/di1usdbal.htm>

Table 8 : The Main Sectors of China’s FDI in the United States 2008 (10 Thousand Dollars)

Sector	flows	Percentage in total(%)	stock	Percentage in total (%)
Wholesale & Retail	6,748	14.6	85,957	36
Manufacturing	7,862	17	56,212	23.5
Finance	21,300	46.1	31,600	13.2
Transportation/Warehousing/Postal Services	-997	-2.2	22,396	9.4
Leasing and Business Services	3,646	7.9	17,666	7.4
Information transmission/Computer/Soft Ware Services	4,062	8.8	9,778	4.1
Mining	-375	-0.8	3,055	1.3
Construction	1,678	3.6	2,945	1.2
Scientific Research/Technology Services/	1,894	4.1	2,862	1.2
Real Estate	-65	-0.1	2,398	1
Household Services and Other Service Sectors	183	0.4	1,877	0.8
Other Sectors	267	0.6	2,244	0.9
Total	46,203	100	238,990	100

Source: China Ministry of Commerce. “ Statistical Bulletin of China’s Outward Foreign Direct Investment 2008”.

Source: BEA.

Figure1: U.S. FDI outflows, 1990—2008 (Billion Dollars)

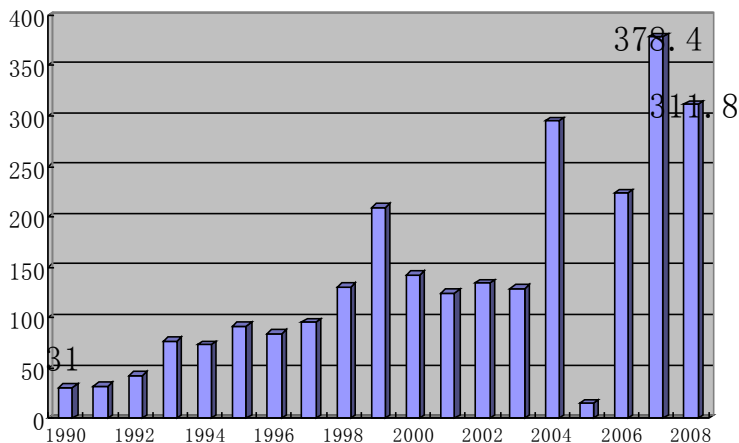
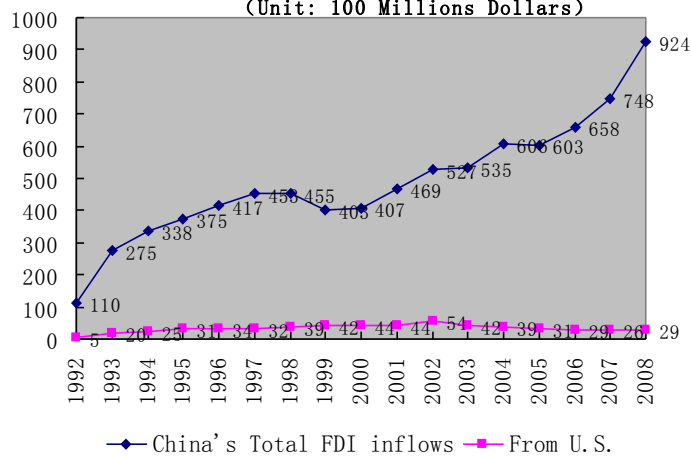
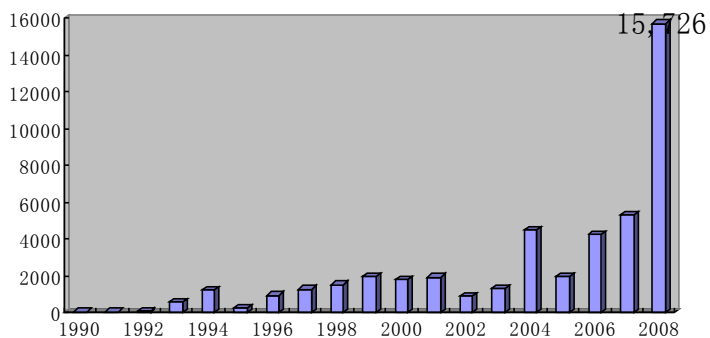


Figure2 China's total FDI Inflows in non-financial sectors and from U.S.: 1992—2008 (Unit: 100 Millions Dollars)

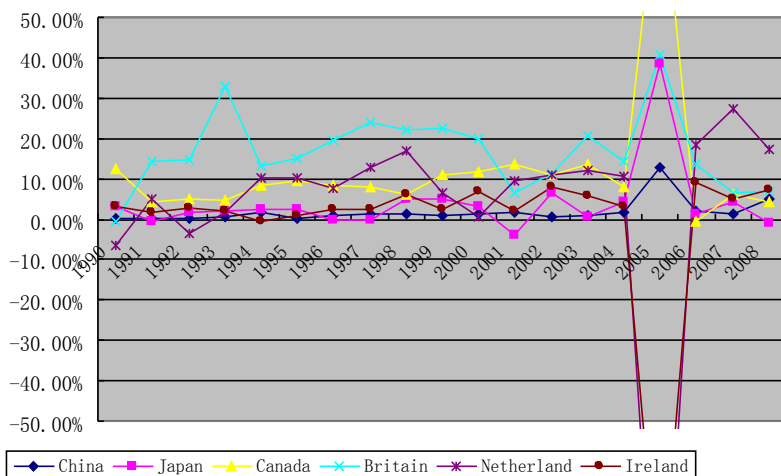


**Figure 3 U.S. Direct Investment in China:
1990—2008 (Unit: Millions Dollars)**



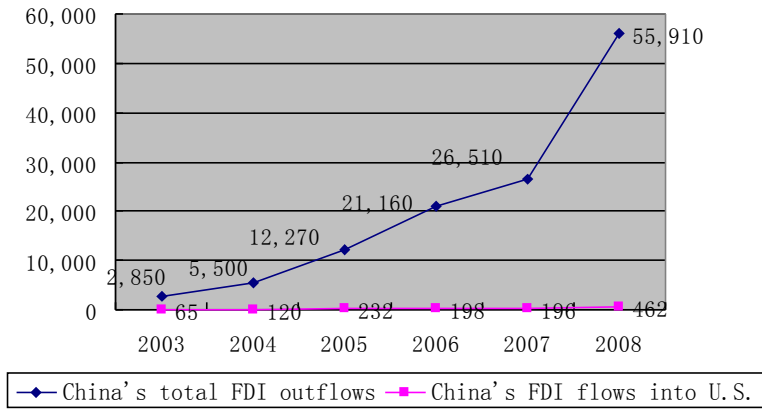
Source: China Ministry of Commerce.

Figure 4: China's percentages in U.S Total FDI outflows: 1990-2008



Source: BEA.

Figure 5 China's Total FDI Outflows and into the U.S.: 2003-2008 (Millions Dollars)



Source: China Ministry of Commerce.