Chinese Foreign Direct Investment in North America: Comparing Canadian and U.S. Attitude

by

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AUTHOR’S DECLARATION

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.
ABSTRACT

As China’s economy becomes larger—naturally, the global outflow of China’s foreign direct investment (FDI) has also been increasing at a rapid pace. One of the most popular regions for Chinese investment today is North America. Yet despite China’s great enthusiasm to invest in Canada and the US, Chinese firms have received much antagonism in North America. Often times, Chinese acquisitions are viewed in a negative light, and are even denied on grounds which appear to be erroneous. This study asks an important question: what are the political reasons and conditions behind the acceptance and rejection of recent Chinese FDI in North America? To answer this question, this study analyzed and compared Canada and the US in great detail. By observing the sectorial distribution of Chinese FDI, the institutional constructs, as well as the most controversial cases of Chinese takeovers in both countries, the study has found that hegemonic competition and institutional structure plays a major role in the evaluation of Chinese FDI. Hegemonic competition creates the perception that Chinese FDI is a threat in the US, while the institutional structure in US allows the negative perceptions of China to influence the FDI evaluation process. Derived from the two major factors, secondary factors such as the policy preference of lawmakers, as well as the type of FDI itself are also important determinants of Chinese FDI in North America. As a result, Chinese FDI is more likely to be denied in America. While in Canada, due to the absence of a Sino-Canadian rivalry, Chinese FDI is perceived with more normalcy. Hence, Chinese FDI is less likely to be denied in Canada.
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To my parents
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LIST OF ABBREVIATIONS

APF  Asia Pacific Foundation of Canada
CCC  Congressional China Caucus
CCP  Chinese Communist Party
CFIUS Committee on Foreign Investments in the United States
CINC Composite Index of National Capability
CNOOC China National Offshore Oil Corporation
DC  Developed Countries
FDI  Foreign Direct Investment
FINSA Foreign Investment & National Security Act
GDP  Gross Domestic Product
GNP  Gross National Product
HI  Historical Institutionalist
ICA  Investment Canada Act
LDC  Less Developed Countries
NDP  New Democrat Party
RHG  Rhodium Group
RCI  Rational Choice Institutionalist
SOE  State Owned Enterprises
SSA  Special Security Arrangement
USCSRC United States-China Economic and Security Review Commission
USCWG US-China Working Group
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CHAPTER 1: INTRODUCTION

1.1 Research Question

In recent years, Chinese FDI (Foreign Direct Investment) outflow has increased at a rapid pace, especially from 2005 onwards. Despite the potential economic benefits that FDI would bring to all parties, a looming uncertainty remains. While adhering to open economic principles, Canada and the US are selective towards Chinese FDI. For example, Chinese SOES (State-Owned Enterprises), Huawei and CNOOC (China National Offshore Oil Corporation), which had attempted to acquire American firms in the communication and resource sectors respectively, were evidently rejected by Congress on grounds of national security. As Chinese FDI begins to play a larger role in the global economy, North American economies now must either choose to capitalize on the inflow of Chinese FDI or reject it in appeal to national security concerns. In response to the heightened awareness of Chinese FDI and its growing global importance, this paper poses a unique question:

What are the political reasons and conditions behind the acceptance and rejection of recent Chinese FDI in North America?

There are several available works on the subject of Chinese FDI, and its inflow to Canada, and the US. Organizations such as the Conference Board of Canada, and the US-China Economic and Security Review Commission (USCSRC), to name a few have released reports analyzing the nature of Chinese FDI, and its potential benefits and threats. Despite the commonness of the topic, the research question will facilitate the exploration of the political factors involved in the acceptance and/or rejection of Chinese FDI—a nuance perspective in today’s literature.
1.2 Theoretical Framework

There are numerous IR theories which seek to explain the China-US relationship in general. However, there is no single theory present which can explain in an all-encompassing manner why Chinese FDI is rejected. As such, this research took an inductive approach. By exploring several established theoretical frameworks from the realist, constructivist, and pluralist, schools of thought, a composite-framework was devised in this paper to explain the acceptance and rejection of Chinese FDI. The paper establishes that as China’s relative power increases, there is potential for Sino-American competition (2010).

Genuine threats from China often cause Chinese FDI to be perceived as a threat, even though in many cases there were no threats associated with the Chinese FDI. In essence, China’s growing relative power, based on its economic and militaristic rise, alters the perception of its FDI. Since the US, the world’s only hegemonic power is challenged by China; the US would be more likely to perceive Chinese FDI as a threat. While in Canada, since Canadians do not directly compete with the Chinese for hegemonic supremacy, Chinese FDI is perceived to be less of a threat.

To explain the evaluation process of FDI in the two countries, a pluralist decision model was used. Decision makers in both countries were assumed to accept and reject Chinese FDI based on group and individual perceptions/interests on Chinese FDI. Following the assumption that FDI is more likely to be perceived as a threat in the US, decision makers in the US would therefore be more likely to reject Chinese FDI than in Canada. Therefore, the independent variable of this study is the perception of Chinese FDI, and the dependent variable is the acceptance or rejection of Chinese FDI. A negative perception is formed by the presence of hegemonic competition between China and the host country. While in countries not engaged in
competition with China, the perception of Chinese FDI is more positive. With this logic in mind, countries not engaged in competition with China (e.g. Canada) are more likely to accept Chinese FDI than countries engaged in such completion with China (e.g. US). Second, due to the institutional construct of America’s FDI evaluation process, negative perceptions and opinions regarding China are more easily able to influence the evaluation of Chinese FDI in the US than in Canada.

Due to the complicated nature of Sino-American relations, there are several more minor factors which—under the backdrop of Sino-American competition and institutional constraints—also negatively influence the evaluation of Chinese FDI. First, facing a growing China, policy makers may have an inherent distrust of Chinese intentions. Such intentions are based on the policy preferences and ideological orientations of the lawmakers. And second of all, if the FDI is in a strategic sector, chances of its rejection are higher in the US than in Canada.

1.3 Case Selection

To examine the inflow of Chinese FDI in North America, the US and Canada are chosen. The selection of these two countries is quite self-explanatory. Geographically, they compose the majority of the North American Continent, and are very similar—in that they are both mixed-economies adhering more or less to free-market principles and are both federal systems. Mexico is not chosen because it is culturally and economically different. To illustrate, both Canada and US are undoubtedly Anglo-Saxon countries, while Mexico is generally not considered a member of this culture. Canada and the US are both advanced Developed Countries (DC) while Mexico is a less developed country (LDC).
More importantly, Mexico receives far less FDI from China vis-à-vis the US and Canada. In fact, the two are amongst the top 10 recipients of Chinese FDI (Naidu-Ghelani, 2012). Canada ranked number 8: between 2004 and 2010 it had received $2.9 billion worth of FDI from China (Ibid). US ranked number 1: between 2004 and 2012 it had received $3.4 billion FDI (Ibid). For time frame, this study will primarily focus from the late 1990s and onwards because Chinese FDI outflows first began to increase globally, and in North America in the late 1990s. But more specifically, this study will examine Chinese FDI outflows to North America from 2005 onwards, as Chinese FDI increased dramatically in and after 2005. In short, this study will attempt to find necessary conditions using a most similar cases design.

Currently, the majority of reports on the topic is completed on an ad hoc basis—on either the US or Canada—or firm specific studies on major Chinese state owned enterprises (SOEs) seeking to invest in Canada and US such as Huawei, and CNOOC. For example, the Asian Pacific Foundation’s *China Goes Global* reports describe Chinese FDI inflow in Canada ("China goes global," 2010), while reports by the Rhodium group attempts to explain and quantify Chinese FDI inflow in the US (Rosen & Hanemann, 2011). The selections of specific transactions for examination are based upon some of the most controversial cases in Canada and the US in the last 10 years. Controversial cases are selected because they can best highlight the details of the review process in the two countries. Furthermore, consideration in selection is given to sectors in Canada and the US with the largest amounts of Chinese FDI. This information is derived from the data shown in chapter 2.
1.4 Methodology

Since FDI is a quantifiable subject, and that political conditions for rejection are often times unquantifiable, a combination of qualitative and quantitative approach is taken in this study. There are a number of different sources used in this project. Journal articles, books, and analytical reports from scholars and researchers in the field will primarily provide the theoretical and conceptual frameworks used to guide the research. Articles and reports are readily found online in databases such as Jstor, and that of various think-tanks such as the Asia Pacific Foundation, Heritage Foundation, Conference Board of Canada, Peterson Institute, and Rhodium Group. The collection of statistics and data regarding Chinese FDI are to be found on government databases and websites such as Statistics Canada, the US Bureau of Economic Analysis, The US and China Economic and Security Review Commission. Lastly, case specific evidence and data of Chinese FDI are found in news articles from Medias such as Bloomberg, The Wall Street Journal, The Economist, The Financial Times, The Economic Times, Taipei Times and Caixin.

In order to assess whether national security problems truly exists, Theodore Moran’s “Three Threats Framework” was used (2011). Designating supply as the most critical factor in determining whether certain FDIs pose a threat, in each of the cases chosen, the effect of each particular FDIs’ potential to influence supply was examined. Furthermore, in order to determine if a pluralist decision model, group interests apply in the evaluation of Chinese FDI, efforts were made to present the motivations and contentions of law makers capable of affecting the decision of Chinese FDI acceptance or rejection.
1.5 Key Findings

This research has several key findings. First, Chinese FDIs are usually not as threatening as North American governments deemed them to be. In all the deals examined in chapter 5, the capacity for Chinese firms to manipulate the supply of their products in attempt to hurt the host country’s economy is too insignificant. In other words, Chinese firms will not be able to significantly alter the distribution and/or the price of the products. Second, a misunderstanding of Chinese FDI exists in both countries. Both host countries were unable at times to see the benefits of Chinese FDI, and instead chose to deem unthreatening Chinese investments as threats. Third of all, in all of the cases examined, group contention and group interests play a role in determining the host country’s tendencies towards treating Chinese FDI; either influencing direct blocks and/or the creation of legislative measures to make future FDI more difficult. Due to institutional constraints on the choices of policymakers in Canada, group interests are shown to be more influential in the US than in Canada. Lastly, in the US, when Chinese takeovers were politicized the chances of their rejection are much higher, while in Canada chances of their rejection are comparatively lower. This outcome suggests that institutional differences between the two North American countries may trigger different outcomes in the evaluation of Chinese FDI.
CHAPTER 2: INITIAL DATA AND ANALYSIS

This chapter will accomplish several goals. First, to give the reader a basic understanding of the historical context of Chinese Foreign Direct Investment (FDI), and also more importantly, to give a basic understanding of Chinese FDI outflows to North America. Second, to display recent data on Chinese FDI in North America compiled from the databases of several think tanks, and government agencies. Third, to give a primum-facie analysis of the displayed data, this will be used in proceeding chapters as evidential support. In essence, this chapter will show whether FDI inflow has largely remained in the same sectors throughout time, or have a different pattern in sectorial distribution.

Doing so will enhance the preceding chapters’ capability to give explanations on Chinese FDI inflow and their assessment on whether a certain theory or number of theories underpins the inflow of Chinese FDI in North America. As such, the first part of the chapter will be a brief overview of global and historical data on Chinese FDI. Part two will be a sectorial analysis of Chinese FDI in Canada. And part three will be a sectorial analysis of Chinese FDI in the US. Throughout the three parts, the chapter will make comparisons and highlight the key differences or similarities of Chinese FDI in the context of the globe, Canada, and the US.

2.1 Introduction and Background

A few decades ago, China was primarily a recipient of foreign direct investment which originated from more advanced developed countries (DCs). In the period between 1985-2005, Hong Kong, Macau, and Taiwan have accounted for at least 60% of the total FDI inflow in China, whereas, the US, Canada, Japan, and the European Union comprised 25% of the
cumulative FDI inflow (Naughton, 2007: 414). Despite the large concentration of regional FDI inflow, the US remained the third largest investor in China through 2002 (Ibid: 414). Soon after the turn of the century—China, despite its relatively low per capita income, has seen an increase in its FDI outflows along with other high-growth and medium growth developing countries such as India (Prasad, Rajan & Subramanian, 2007).

Before 1982, no data on any type of Chinese FDI was found in the World Bank Database. The lack of such data may be understandable as China’s market liberalization reforms (Gaige Kaifang-改革开放) only had begun in late 1978. As one observes the inflow of Chinese FDI from the beginning of in 1982, one will see a gradual increase which reaches a peak in 1988, drops slightly in 1989, and then proceeds to remain unchanged until 1991-1992. Likewise, when examining the level of FDI outflows, a less noticeable but, similar pattern is observed. What then may explain this pattern?

After the June 4th Tiananmen Crisis (Liushi Shijian-六四事件) which took place in 1989, members of the pro-reform faction within the Chinese Communist Party’s (CCP) central leadership quickly fell out of power. Replacing Zhao Ziyang, a member of the pro-reform faction as premier, Li Peng, a member of the conservative faction wished to “…recommit the Chinese government to socialism; that is, to the preeminence of public ownership and central planning” (Coase & Wang, 2012:105). The change in CCP central leadership after Liushi, coupled with the dissolution of the Soviet Union and the numerous bankruptcies of Communist states in the early 1990s diminished the sentiments for reform within the politburo during this period (Ibid: 107). As such FDI flows between 1989 and 1991 declined and were relatively stagnant. The time was not ripe until 1992 in which the then retired “Paramount Leader” Deng Xiaoping initiated his
Southern Tour (Nanxun-南巡) in order to reinvigorate the market reforms which were “caged” by the conservatives. By fiercely arguing against his opponents as he visits the Special Economic Zones (SEZs) on the Nanxun, and by threatening his opponents using his control over the People’s Liberation Army (PLA) as leverage, Deng was soon successful in implementing his desired pro-growth policies (Fewsmith, 2008: 62-71). As such, Deng’s success in reinvigorating the reforms may explain the increase of FDI flows beginning 1992.

(Figure 1) Inflows and Outflows of FDI to/from China between 1982-2011, as % of GDP

(The world bank, 2012)

In figure 1, the percentages of FDI flow in the 2000s appear to be not as high as the percentages in the peaks between 1992 and 1993. One should remember that figure 1 is merely a percentage of GDP. Figure 2 shows China’s GDP per capita between the years 1982 and 2011 by using three different measures for GDP per capita. On all measures, China’s GDP is has been inclining steadily since 1982. By combining the data on figure 1 and figure 2, one is able to
determine the relationship between FDI and GDP to a more exact degree. The percentage of FDI outflow and inflow from each year, beginning in 1982 is multiplied by the GDP per capita of each year to determine FDI per capita. Doing so will indicate whether an upward trend exists for both inflow and outflow of FDI. The data presented on figure 3 is calculated using this formula by using GDP per capital (constant 2000 US$) as the benchmark GDP per capita.

Overall, the trend is positive—the GDP per capita rises with each following year, and both the inflow and outflow of FDI rises with along with GDP per capita. The dramatic increase in both the inflow and outflow of FDI beginning 2005 can also be observed. According to Dan Steinbock (2012: par 4), “Between 2005 and 2010, China’s FDI abroad soared from an annual average of below $3 billion to more than $50 billion, bringing its total global FDI stock abroad to over $300 billion”. China’s FDI outflow is one of the fastest growing in the world—in 2011 reaching a total of $1.7 trillion (“Economist”, 2012). The surge of FDI outflow can be attributed

(Figure 2) China's GDP Per Capita Between 1982-2011

(The world bank, 2012)
to China’s “Go Out Policy” (Zouchuqu Zhanlue-走出去战略), first proposed by the central government in 1999 but most effectively implemented five years later (Ibid). Promoting FDI outflow, diversifying production, and gaining new international markets for domestic products among other goals which enhance China’s capability for international investments are some of the major aims of this policy ("To better implement," 2006).

![Figure 3](The world bank, 2012)

Where then are the top destinations for Chinese investments? Between 2004 and 2010, of the destinations for Chinese FDI: Canada, the US, Australia, South Africa, and Singapore are amongst the top 10 (Naidu-Ghelani, 2012). Needless to say, these countries are all high income DCs. Lucas (1990) demonstrates that a fundamental contradiction exists between international finance theory and the realities of international capital flow. Since poor or less developed countries (LDCs) have a scarcity of capital, marginal returns to capital in poor countries would be much higher than in rich DCs. As a result, theoretically, ceteris paribus, capital should move...
from DCs to LDCS—yet, international investments normally occur between DCs, and not between DCs and LDCs (Ibid). This phenomenon is widely known as the Lucas Paradox. As interesting as this framework may be when encompassing the Chinese context, exploring it is not the purpose of this chapter, nor is doing so within the scope of the thesis.

(Scissors, 2011)

Although as a region, China’s investments in North America are not as large as those in Latin America and the Arab World, as a country, the US ($28.1) is the second largest recipient of Chinese FDI after Australia ($34.8). Combining Canada and the US, collectively, the amount of investment received in the two countries exceeds that of any single country (Scissors, 2011).

Which are the most attractive sectors for Chinese investments? China’s overall global sectorial distribution of FDI is very different from that of the rest of the world. LDCs in general invest in more services and primary industries (agriculture, mining, and oil) than DCs (“The Economist”, 2012). China on the other hand, can be seen as a more extreme version of a LDC.
with an even larger percentage of FDI going to the services and the primary sectors—in fact only 5% of Chinese investments are in manufacturing (Ibid). In the years from 2004 to 2011, China's FDI grew from $5.5 billion to over $65 billion a year—by 2015 it is expect to grow to over $150 billion (Ibid).

(“The Economist”, 2012)

2.2 Sectorial Distribution of Chinese FDI in Canada

Unlike what many would expect, China does not have a significant amount of FDI in Canada. A simple comparison of China’s FDI with that of countries with much greater levels of FDI in Canada is enough to exemplify this point. The following figures were created using data collected from Statistics Canada by selecting a range of countries based on their respective level of FDI in Canada in order to better display the comparison.
FDI inflow into Canada has been growing since 2005, with the US having the most FDI in Canada out of all countries. In 2005, the US has an FDI level of $251,477, and in 2011, it has...
an FDI level of $326,055 (53.7% share of total FDI inflow). As best displayed on figure 6, FDI levels of other DCs in Canada do not come close to that of the US; China’s FDI in Canada is even more insignificant. Using the formula for finding percent change (Percent change = [(Value for 2011 – Value for 2005)/Value for 2005] * 100), it can be determined that American FDI level from 2005 to 2011 has grown by approximately 30%. Interestingly, all three LDCs have witnessed a dramatic incline in outward FDI levels between 2005 and 2007; Brazil jumping from $3,069 to $13,974, India from $171 to $1,988, and China from $928 to $4,224. Using the same formula, for China between 2005 and 2011, it can be determined that Chinese FDI levels grew by approximately 1075%, reaching $10,905 in 2011 (1.8% share of total FDI inflow).

Dividing the percentage growth of American and Chinese FDI by number of years between 2005 and 2011 inclusive (Annual rate of change= percentage change/N), one can determine and compare their respective annual rates of growth during this period. The US has an annual FDI growth rate of 4.28% (30%/7yrs), while China has an annual outward FDI growth rate of 153% (1075%/7yrs). Thus, although it appears that the US has more FDI in Canada overall, annual Chinese FDI growth rate is much higher than that of the US. The data on Chinese FDI in Canada from the two charts are quite unsurprising. The global measurement of Chinese FDI during this period described in the previous section indicated that Chinese FDI was indeed on the rise globally as well. Therefore, the data on the amount of Chinese FDI in Canada can be correlated with the global trend of Chinese FDI in this period. “Given the fundamentals that are driving China’s FDI, it seems reasonable to conclude that China will be the third-largest FDI investor in Canada before 2015, and could easily place second to the US by 2020” (Grant, 2012: 12).
To further understand the Chinese FDI in Canada, one must study in detail the distribution of Chinese FDI in the major sectors. To begin with, one would find understanding the broader levels of FDI distribution in Canada useful as such knowledge would allow one to make comparisons between China’s FDI distribution and that of the world. Figure 7 provides an excellent picture of the world’s FDI sectorial distribution in Canada between 2006 and 2011. According to the figure, world FDI inflow has been growing each year in Canada but most prominently in the energy and metallic minerals industry, and the finance and insurance industry.

(Figure 7) Foreign Direct Investment Inflow in Canada from the World 2006 - 2011
(Millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>All industries</td>
<td>437,171</td>
<td>512,266</td>
<td>550,539</td>
<td>572,842</td>
<td>585,107</td>
<td>607,497</td>
</tr>
<tr>
<td>Wood and paper industry</td>
<td>15,371</td>
<td>15,387</td>
<td>9,775</td>
<td>13,395</td>
<td>9,361</td>
<td>9,727</td>
</tr>
<tr>
<td>Energy and metallic minerals industry</td>
<td>120,513</td>
<td>168,562</td>
<td>196,147</td>
<td>190,747</td>
<td>200,724</td>
<td>209,239</td>
</tr>
<tr>
<td>Energy</td>
<td>82,214</td>
<td>107,889</td>
<td>131,033</td>
<td>131,347</td>
<td>143,043</td>
<td>148,309</td>
</tr>
<tr>
<td>Metallic minerals and metal products</td>
<td>38,299</td>
<td>60,672</td>
<td>65,114</td>
<td>59,400</td>
<td>57,681</td>
<td>60,930</td>
</tr>
<tr>
<td>Machinery and transportation equipment industry</td>
<td>51,164</td>
<td>54,620</td>
<td>50,902</td>
<td>49,853</td>
<td>51,239</td>
<td>55,609</td>
</tr>
<tr>
<td>Machinery and equipment (except electronics)</td>
<td>19,104</td>
<td>20,129</td>
<td>18,599</td>
<td>18,644</td>
<td>18,927</td>
<td>19,521</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>32,060</td>
<td>34,491</td>
<td>32,304</td>
<td>31,209</td>
<td>32,312</td>
<td>36,088</td>
</tr>
<tr>
<td>Finance and insurance industry</td>
<td>89,708</td>
<td>102,306</td>
<td>119,281</td>
<td>134,897</td>
<td>150,138</td>
<td>149,360</td>
</tr>
<tr>
<td>Services and retailing industry</td>
<td>41,925</td>
<td>48,508</td>
<td>49,417</td>
<td>50,188</td>
<td>53,879</td>
<td>55,053</td>
</tr>
<tr>
<td>All other industries</td>
<td>118,490</td>
<td>122,883</td>
<td>125,017</td>
<td>133,761</td>
<td>119,765</td>
<td>128,510</td>
</tr>
<tr>
<td>Food, beverage and tobacco</td>
<td>28,731</td>
<td>29,079</td>
<td>32,125</td>
<td>33,222</td>
<td>30,498</td>
<td>33,795</td>
</tr>
<tr>
<td>Chemicals, chemical products and textiles</td>
<td>41,462</td>
<td>45,224</td>
<td>40,651</td>
<td>46,391</td>
<td>37,062</td>
<td>41,018</td>
</tr>
<tr>
<td>Electrical and electronic products</td>
<td>28,454</td>
<td>27,543</td>
<td>28,152</td>
<td>30,938</td>
<td>31,824</td>
<td>32,256</td>
</tr>
<tr>
<td>Construction and related activities</td>
<td>13,265</td>
<td>13,082</td>
<td>15,870</td>
<td>16,950</td>
<td>14,839</td>
<td>15,297</td>
</tr>
<tr>
<td>Communications</td>
<td>6,578</td>
<td>7,955</td>
<td>8,219</td>
<td>6,260</td>
<td>5,542</td>
<td>6,144</td>
</tr>
</tbody>
</table>

The energy and metallic minerals industry in 2006 received $120,513 in FDI, and in 2011, it received a total of $209,239. The percentage of growth between 2006 and 2011 is approximately 73%, with an annual growth rate of 12%. For the finance and insurance industry,
in 2006, the sector received $89,708 in FDI, and in 2011, it received $149,360. The percentage of growth is approximately 66%, with an annual growth rate of 11%. Indeed, these numbers show that the world as a whole has been heavily investing in the two sectors, and more broadly, when taking into account of the data on the figure, one can infer that Canada is an attractive destination for global FDI. This conclusion brings about an important question, how large are the two sectors, and most importantly, which are the sectors that receive the greatest amount of global FDI?

(Figure 8) FDI Inflow In Canada from the World in 2011 Arranged by Sectors

(Statistics Canada –Table 376-0038)

Figure 8 was created from the data from Figure 7, using 2011, the most recent year with available data to show the size of each sector. Most interestingly, the sectors which experienced the greatest amount of growth are also the very same sectors which received the greatest amounts of global FDI in comparison to all the major sectors. The energy and metallic minerals industry received 34% of the total FDI inflow, while the finance and insurance industry received 25% of
the total FDI inflow. How does Chinese FDI in Canada compare with that of the world? Data on the sectorial distribution of Chinese FDI in Canada is difficult to obtain as “Statistics Canada maintains confidentiality protocols for data collection from firms that limit publication of any China data (before 2008) and sector distribution (post-2008)” (Grant, 2012: 12). According to Grant, in his discussions with Statistics Canada, he had found that approximately half of the current Chinese investments are in the resource sector (Ibid: 12).

In order to overcome the problem of Statistic Canada’s confidentiality protocols, data must be collected and compiled independently. Figure 9 is created by tallying the data from the monthly reports of The Asian Pacific Foundation’s (APF) Investment Monitor beginning from January 2008, the foundation’s first available report. It is important to note that only select investments are recorded in the foundation’s reports as they are based on the daily-listings of transactions from the foundation’s Canada-Asia News Service. As such only publically reported investments from Asian and Canadian companies are included in the reports. These conditions limit the scope of the report to only large and notable deals. Although usually, it is more accurate and methodologically sound to show data in USD amounts, the lack of sufficient information on the value of the deals for some of the recorded deals makes displaying and comparing the data in USD difficult.

The categorization of the sectors in figure 9 is based on Statistics Canada’s categorization shown in Figures 7 and 8. However, the categorization will combine the wood and paper industry together with all other industries: as the percentage of wood and paper industry is quite small, it is not significant enough to be in its own category. Furthermore, the service and retailing industry shown in figure 9 encompasses services and retailing related to the development or promotion of information/communication technology as all of the recorded
Chinese investments in this sector are of this nature. Machinery and transportation equipment sector is removed as there are no recorded Chinese investments in this sector. Lastly, all investments compiled only include firms based in mainland China, or subsidiaries of mainland Chinese firms. Firms from the Greater China Region (dazhonghuadiqu-大中华地区) are not included in the figure unless they are mainland firms or subsidiaries of mainland firms.

(Figure 9) Sectorial Distribution of Chinese FDI In Canada From 2008-2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and metallic minerals industry</td>
<td>4</td>
<td>13</td>
<td>7</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Insurance Industry</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Service and Retailing Industry (Information/Communication Technology)</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>All Other Industries</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>14</td>
<td>9</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

(The Asia Pacific Foundation, 2008-2012)
(The Asia Pacific Foundation, 2008-2012)

Figures 9 and 10, show several trends that might be useful to note. First, it appears that in 2008, there isn’t a very significant amount of Chinese FDI in Canada (4 firms). While there is growth in the number of firms investing in Canada since 2009 (13 firms); the rate of growth appears to be insignificant or stagnating: in 2010 (9 firms), 2011 (7 firms), and 2012 (10 firms).

Second, while Grant (2012: 12) suggests that about 50% of the firms are in the resource sector (Energy and metallic minerals industry), the figures indicate that clearly, the overwhelming majority of Chinese investments are in the resource sector. A rudimentary comparison of the total line and the energy and metallic minerals industry line shown in figure 10 is suffice to show how the total line is skewed by the number of firms investing in the energy and metallic minerals industry. The pattern of the total line is hence very much defined by the pattern of the resource
sector line. In other words, the investments in the resource sector hold the greatest significance vis-à-vis the other major sectors.

The service and retail industry which includes firms in information/communication technology received the second largest number of investments. It is interesting to note that in the years before 2010 there were no investments in this sector, but from 2010, there are investments in this sector each year. Lastly, the finance and insurance industry appears to be more sporadic, with only 1 in 2009, 0 in 2010, 2 in 2011, and 1 in 2012. Aside from the resource sector which receives annual investments in all 5 years, other sectors are inconsistent, and do not receive investments each year. Moreover, one must note that even within sectors there appears to be no significant signs of growth in investments aside from the clear sign of growth from 2008 onwards.

(Figure 11) Sectorial Distribution of Chinese FDI in Canada from 2008-2012 as % of Annual Total

(The Asia Pacific Foundation, 2008-2012)
In figure 11, tallying and dividing the total number of firms in each sector by the total number of firms, allows one to find the exact percentage of each sector over the last 5 years. Currently about 80% of Chinese FDI in Canada is in the energy and metallic minerals industry, 8% is in the finance and insurance industry, 10% is in the service and retailing industry, and finally, 2% is in all other industries. A comparison of the percentages of sectorial distribution per annum from 2008 and 2012 demonstrates an interesting phenomenon—Chinese investments diversified from only being in energy and metallic minerals industry in 2008 to include both the finance and insurance industry and the service and retailing industry in 2012. When comparing the data for the year 2011 on figure 11 to the percentage distribution in figure 8, several observations can be made. Chinese FDI is 43% higher than the world in the energy and metallic minerals, 17.32% lower than the rest of the world in the finance and insurance industries, and only approximately 1.3% lower than the world in the services and retailing industry.

To provide more details on the development of figure 9, the following will give a brief overview on the notable recent FDI deals recorded in each sector. One can see from the following figure that, Dalian Turuss Wood Company is the only company from China that invested in the wood and paper industry in Canada, and more interestingly, the only company that invested outside of the three major sectors.

<table>
<thead>
<tr>
<th>(Figure 12) Notable Recent FDI Deals Recorded in Each Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>Energy and Metallic Minerals Industry</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Service and Retailing Industry (Information/Communication technology)</td>
</tr>
<tr>
<td>All other industries</td>
</tr>
</tbody>
</table>

(The Asia Pacific Foundation, 2008-2012)

2.3 Sectorial Distribution of Chinese FDI in the United States

Does the US have a similar pattern as Canada in regards to its FDI inflows? Using data collected from the US Bureau of Economic Analysis, figure 13 is created by selecting countries that vary widely in their FDI in the US. Generally, between 2005 and 2011, the total amount of FDI in the US, taking into account of all countries grew by 55%. The United Kingdom which has the largest level of FDI in the US throughout the 7 years has a 17% share of total FDI in 2011, with a growth rate per annum of 2.72%. This percentage means that from 2005 to 2011, United Kingdom’s FDI in the US grew by a total of 19%. Canada has a medium level of FDI in the US vis-à-vis within the group of selected countries. From 2005-2011, Canadian FDI has grown by 27%, with a growth rate per annum of 3.89%.

How does China compare with Canada and the United Kingdom? Similar to its FDI outflows to Canada, China’s FDI inflows to the US remains very low when compared to most countries. However, Chinese FDI’s rate of growth, similar to its rate of growth of in Canada, is very high (564% between 2005 and 2011). Thus, in the 9 years, Chinese FDI grew by about an
average of 80% per year, while India grew by 25% and Brazil by 16%. Again, when compared to
the FDI of other LDCs, China’s is the fastest growing.

(Figure 13) FDI Inflow in the United States between 2005-2011 (Millions of Dollars)
Historical Cost Basis

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>371,350</td>
<td>414,629</td>
<td>405,543</td>
<td>447,529</td>
<td>414,590</td>
<td>387,163</td>
<td>442,179</td>
</tr>
<tr>
<td>Japan</td>
<td>189,851</td>
<td>204,020</td>
<td>222,695</td>
<td>234,748</td>
<td>238,140</td>
<td>252,077</td>
<td>289,490</td>
</tr>
<tr>
<td>Canada</td>
<td>165,667</td>
<td>165,281</td>
<td>201,924</td>
<td>168,746</td>
<td>188,943</td>
<td>188,350</td>
<td>210,864</td>
</tr>
<tr>
<td>France</td>
<td>114,260</td>
<td>147,799</td>
<td>141,487</td>
<td>141,922</td>
<td>158,924</td>
<td>174,698</td>
<td>198,741</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,051</td>
<td>1,054</td>
<td>2,091</td>
<td>16</td>
<td>-1,430</td>
<td>1,378</td>
<td>5,038</td>
</tr>
<tr>
<td>India</td>
<td>1,497</td>
<td>1,438</td>
<td>1,671</td>
<td>2,820</td>
<td>2,555</td>
<td>4,110</td>
<td>4,888</td>
</tr>
<tr>
<td>China</td>
<td>574</td>
<td>785</td>
<td>584</td>
<td>1,105</td>
<td>1,624</td>
<td>3,245</td>
<td>3,815</td>
</tr>
<tr>
<td>All Countries</td>
<td>1,634,121</td>
<td>1,840,463</td>
<td>1,993,156</td>
<td>2,046,662</td>
<td>2,069,438</td>
<td>2,264,385</td>
<td>2,547,828</td>
</tr>
</tbody>
</table>

(U.S. Bureau of Economic Analysis, 2012)

(Figure 14) FDI Inflow in the United States between 2005-2011
(Millions of Dollars) Historical Cost Basis

(U.S. Bureau of Economic Analysis, 2012)
What are the most attractive sectors for investment? The following figure is compiled using the total assets of majority-owned U.S. affiliates. The original data has been modified in order to include the energy sector which was created by combining the data on the sub-industries of petroleum and coal products, mining, and utilities. Appropriate calculations were done to insure that assets of all industries sum up to the total asset. Hence, as a result, a percentage value of each industry can be determined.

(Figure 15) Selected Data of Majority-Owned U.S. Affiliates by Industry of Affiliate as % of total, 2010, based on industry assets

(U.S. Bureau of Economic Analysis, 2012)

As shown on figure 15, the finance and insurance sector by far has the greatest percentage (69%) of the total, followed by manufacturing which accounts for 11%. The energy sector in the US is not very high with only 5% of the total. Compared to figure 8, one can see that the percentage of investments in the energy sector in Canada (34%) is almost 7 times that of the US’. While the percentage of investments in the finance and insurance industry in the US is about 2.8 times that of Canada’s (25%). This preliminary comparison demonstrates an important
point. While Canada and the US are very similar cases, their respective sectorial distribution of FDI have notably different attributes. On a global scale, one can note that aggregate levels sectorial distribution of FDI in the US is highly concentrated in one dominant sector, encompassing a majority of total investments. While Canada’s sectorial distribution of FDI is much more diversified than the US.

Does a similar pattern one saw in global investment figures hold true for Chinese investments? Fortunately, there is an abundance of data on Chinese FDI in the US to evaluate this question. The following is a figure created by compiling the data from the Rhodium Group’s (RHG) China investment monitor. RHG “gathers information on investment activities using a bottom-up approach to overcome some of the difficulties associated with the traditional process of collecting FDI data” (Rhodium Group, 2013). News monitoring and evaluation for the monitor were accomplished by RHG using news services such as Bloomberg, Nexis, Zoominfo and Google (Ibid). In addition, a refinement of raw data is done by setting a “minimum investment threshold value of $1 million which excludes small-scale deals such as family restaurants or smaller businesses from the database” (Ibid). Although there is data on the value of Chinese investments in USD in each sector, in order to more accurately compare investments in Canada and the US, number of firms will be used as the standard of measurement.
(Figure 16) Number of Chinese FDI In the United States between 2004 and 2012, categorized by Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>9yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; Food</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Automotive &amp; Aviation</td>
<td>5</td>
<td>9</td>
<td>3</td>
<td>11</td>
<td>4</td>
<td>8</td>
<td>10</td>
<td>14</td>
<td>7</td>
<td>71</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>Consumer Products &amp; Services</td>
<td>5</td>
<td>8</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>13</td>
<td>9</td>
<td>13</td>
<td>3</td>
<td>68</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>3</td>
<td>14</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>69</td>
</tr>
<tr>
<td>Entertain. &amp; Real Estate</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Finance &amp; Bus. Services</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>44</td>
</tr>
<tr>
<td>Health &amp; Biotech</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>8</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>3</td>
<td>37</td>
</tr>
<tr>
<td>Ind. &amp; Electronic Equip</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>12</td>
<td>6</td>
<td>15</td>
<td>14</td>
<td>12</td>
<td>12</td>
<td>88</td>
</tr>
<tr>
<td>Information Technology</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>13</td>
<td>10</td>
<td>19</td>
<td>21</td>
<td>6</td>
<td>94</td>
</tr>
<tr>
<td>Transport &amp; Construction</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32</td>
<td>35</td>
<td>28</td>
<td>60</td>
<td>54</td>
<td>77</td>
<td>104</td>
<td>110</td>
<td>62</td>
<td>562</td>
</tr>
</tbody>
</table>

(Rhodium Group, 2012)

Since the methodology of the RHG and the APF for compiling data is different, it is difficult to determine to an exact degree whether there is more Chinese FDI in a certain sector in the US than one such sector in Canada. Nonetheless, one can clearly observe that the diversification of Chinese FDI sectorial distribution in the US is greater than the diversification in Canada, which is concentrated solely into a few major sectors. Although there are some sectors which received more Chinese FDI than others, the concentration of Chinese FDI is not as drastic as in Canada. This trend is quite different from the comparison of world FDI concentration of Canada and the US—as demonstrated previously to be more concentrated in US
while more diversified in Canada. Overall, there has been a dramatic increase in the number of investments per year since 2008; however, the decline in 2012 brings doubts on whether an upward trend exists. Looking at a number of sectors such as the energy, and information technology sectors, one also can see on figure 17 that there has been decline in investments since 2011, while the trend has been positive before 2011.

(Figure 17) Number of Chinese Investments in The United States between 2004-2012, with Selected Sectors Displayed

There are several interesting differences one may note by comparing Chinese FDI sectorial distribution in US to that of the world. First one may note from figure 15 that while the energy sector is only 5%, figure 15, which is a total of the 9 years show Chinese FDI to be 12%,
higher than the world percentage. Furthermore, the finance industry is shown to be 8% on figure 18, much lower than the world percentage of 69%. Since the methodology of sectorial categorization for the two figures are different, and that figure 15 is only the 2010 data, the significance and the accuracy of comparing the two figures may be quite low. However, one can reduce this disparity by only using the 2010 statistics of figure 16 to compare with figure 15. In 2010, the percentage of Chinese FDI in the energy sector is 19.2%, almost 4 times the world percentage for that year, while the percentage in the finance sector is about 5%, which is quite comparable to the 9 year aggregate percentage. Thus, it is safe to conclude that Chinese FDI is more prevalent in the energy sector but far less prevalent in the finance sector when compared to the world percentage.

(Figure 18) % of Total Chinese FDI in the United States between 2004-2012, Categorized by Sectors

(Agriculture & Food 17%  3%  13%
Automotive & Aviation 16%  4%  12%
Basic Materials 7%  2%  6%
Consumer Products & Services 8%  12%
Energy 12%
Entertain. & Real Estate  6%
Finance & Bus. Services  13%
Health & Biotech  12%
Ind. & Electronic Equip  7%
Information Technology  16%
Transport & Construction  2%)

(Rhodium Group, 2012)
By taking a percentage of only the last 5 years, one can better compare the American and Canadian statistics. The energy sector (15%) shown on figure 19 is the second largest in the last 5 years while in Canada it is (80%), a drastic difference between the two respective levels exist. In terms of the finance industry, both countries are quite comparable at around 8%. The US leads Canada in investments in information technology and services with a combined percentage of 28%, while Canada has only 9.8%. Again, it is important to note that the methodology is different for the two foundations’ data collection; hence this comparison may not be entirely accurate. Nonetheless, due to the lack of data today, this comparison is still significant in offering a more clear understanding of the sectorial distribution of Chinese FDI in the two respective countries.
(Figure 20) % of Total Chinese FDI Canada between 2008-2012, Categorized by Sectors

- Energy and metallic minerals industry: 80%
- Finance and insurance industry: 10%
- Service and Retailing Industry (Information/Communication Technology): 2%
- All other industries: 8%

(The Asia Pacific Foundation, 2008-2012)

(Figure 21) Number of Sectors With Chinese FDI 2008-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>2009</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>2011</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>2012</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

(The Asia Pacific Foundation, 2008-2012; Rhodium Group, 2012)
Before concluding this section, it is important to once again emphasize and compare the differences in the concentration of Chinese FDI in Canada and the US. The above chart shows the change in Chinese FDI concentration in the number of sectors in the years examined. Since the method of sectorial categorization for the APF and RHG is also different, the above may not be the most accurate comparison. From this figure, one can see that both countries have Chinese investments in a greater number of sectors over the years. The US began with Chinese investments in 10 sectors in 2008, and in 2012 had 12 sectors with Chinese FDI, while Canada has 1 sector in 2008, and 3 in 2012.

The disparity between Canada and the US in the level of concentration infers an interesting question. Does a high level of concentration in certain sectors convey the presence of a threat for Chinese FDI or does it convey the lack of such a threat? Depending on the host country, a more suitable method would be to determine the ratio of Chinese firms to Canadian or American firms in the sector. The reason is because a higher number of Chinese firms to domestic firms within a particular sector would mean a higher level of Chinese control over the sector—which consequently would mean a higher level of threat (Moran, 2012: 6). However, an even more interesting question remains. Perhaps because the host country has perceived Chinese FDI to have so little threat that it has allowed the concentration of Chinese FDI to naturally form.

2.4 Conclusion

There are several key observations made in this chapter. Chinese FDI has been on the rise globally. Most of Chinese investments are in the services industries, with a larger portion vis-a-vis the world in the primary industries. In North America, Chinese FDI has also been growing at
a rapid pace but in both countries Chinese FDI makes up only a very small amount of total FDI. In Canada, Chinese FDI is concentrated in only a few sectors with most investments in the energy sector, while in the US Chinese FDI is more dispersed. The information technology and energy sectors are the largest recipients in the last 5 years. Although the US and Canada have many similar features, differences in overall sectorial distribution and concentration of FDI seems to suggest that there are different evaluation standards between the two countries.
CHAPTER 3: REGULATORY PROCESS AND FRAMEWORKS

This chapter will introduce the process and frameworks for evaluating FDI in Canada and the US in attempt to give readers a clear understanding of how FDI is normally evaluated in the two countries. Furthermore, the chapter will present a brief analysis on recent regulatory developments in both countries. Most importantly, through this rigorous investigation into each country’s regulatory frameworks, this chapter seeks to discover if one country’s review process is more biased against Chinese investments than the other. Knowing this information will be important when examining the evidence and theoretical explanations regarding the inflow of Chinese FDI presented in later chapters. This chapter will be divided into two parts. The first part of this chapter will cover the process and frameworks of evaluating FDI in Canada. Part two will cover the process and frameworks in the US.

3.1 Process and Frameworks in Canada

3.11 Investment Canada Act

In Canada, the evaluation of FDI is determined by the Investment Canada Act (ICA), established in 1985 under the Mulroney government after the disbandment of the Foreign Investment Review Agency. The following is an introductory excerpt from the ICA, explaining the Act’s purpose:

“Recognizing that increased capital and technology benefits Canada, and recognizing the importance of protecting national security, the purposes of this Act are to provide for the review of significant investments in Canada by non-Canadians in a manner that encourages investment, economic growth and employment opportunities in Canada and
to provide for the review of investments in Canada by non-Canadians that could be injurious to national security” (Investment Canada Act, 2013: 6).

Under the ICA, in most cases FDI over a minimum threshold are automatically reviewed by members of the federal government to assess whether the investment will procure a net benefit to Canada (Ibid, 19). The threshold for non-World Trade Organization (WTO) members as of 2013 is 5 million while WTO members such as China has a threshold 344 million ("Thresholds for review," 2013). This number indicates that only very large investments from China will ever be evaluated and politicized. Furthermore, one should note that although on paper the Act appears to have a very clear set of objectives—many experts deem it to be both convoluted and outdated. These criticisms were most notably expressed in Steven Globerman’s evaluation report of the ICA commissioned by the Federal Government. In his evaluation, Globerman pointed out that, although individual criteria are set to test whether the FDI in question will be a net benefit to Canada, there are no weights for each individual criterion to indicate their relative importance (2008: 18-20). Among other criticisms, he notes issues with the ICA’s transparency as well as the historic consistency of evaluating FDI (Ibid).

The actual process of review FDI is divided into three separate scenarios, depending on the nature and plans of the FDI. The following figure will give a brief overview of how the review process will differ in each of the scenarios. It is important to recognize that not all investments require a minimum threshold for review. The Minister of Finance, as widely believed to the primary decision maker in most cases, has less power to influence the review process in select cases when cultural and national security concerns are tied to the FDI under review.
There are only three instances so far when the ICA was used to block investments. First, in May 2008, the Conservative government used the ICA to block the takeover of MacDonald, Dettwiler and Associates Ltd., an aerospace company (Collins, 2011: 153). In November 2010, the acquisition of Potash Corporation of Saskatchewan Inc. by the Australian mining company BHP Billiton Ltd was blocked (Ibid: 153). And most recently, in October 2010, the Petronas takeover of Progress Energy Resources was also blocked (Rocha & Grudgings, 2012).

3.12 Bill C-60

On April 29th, under the backdrop of the CNOOC (China National Offshore Oil Corporation)-Nexen deal as well as the Petronas-Progress Energy deal, Finance Minister, Jim Flaherty introduced the Economic Action Plan 2013 Act (Bill C-60) (Woods, 2013). If passed,
Bill C-60 would amend the ICA in a number of ways. This event was unsurprising as since 2007 onwards, in response to the perpetual increase of global SOE investments, the Federal Government has already been discussing and “outlining key considerations” for which the Minister of Industry should account for when reviewing investments from foreign SOEs ("Statement regarding investment," 2012).

There are several key changes which Bill C-60 would implement if passed. The Minister of Industry would have the power to define whether an otherwise Canadian-controlled entity is being controlled by an SOE or not, and whether the entity in question is indeed an SOE or not (Lally, Glossop, Franklyn & Anderson, 2013:3-4). Although Bill-C 60 was intended to make the ICA clearer, by granting the Minster power to define what constitutes an SOE, the Minister will essentially make such judgments anchored on a set of immeasurable values (Hasselback, 2013). But more interestingly, Bill-C 60 will raise the minimum threshold for the review of FDI starting at $600million to $1billion and will most likely extend the required for time for national security review (Lally, Glossop, Franklyn & Anderson, 2013:2). The reforms seem to suggest that the Canadian government wishes to facilitate the growth of FDI but at the same time, take the necessary steps to set up measures to redress national security risks associated with the growing influx of FDI.

Despite that many problems still exist with Bill-60 and the ICA; it is indisputable that Canada is continuously building a solid regulatory foundation in order to welcome more FDI in the future. Attempts to raise the minimum levels of the FDI threshold required for automatic review through the Bill-60 as well as the transparency measures the Bill attempts to implement are clear indications of this goal. But more importantly, even without the introduction of Bill-60, the minimum threshold for review has already been rising throughout the years. In 2008, the
threshold was only 295 million ("Compete to win," 2008: 28). Furthermore, the ICA has always been quite friendly to investors. According to 2008 figures, of the more than 1500 non-culture investment reviews since 1985, only one has been rejected (Ibid: 28). And of 98 cultural reviews only 3 has been rejected so far (Ibid: 29). Although perception still exists that Canada is restrictive of FDI inflows, the reality is far from this perception (Ibid: 29). For one to say with much certainty that Chinese FDI would be rejected solely based on the evaluation standards of the ICA would therefore be indubitably absurd.

3.13 Sino-Canadian Foreign Investment Promotion and Protection Agreement

On September 8th of last year, Prime Minster Stephen Harper signed a Foreign Investment Promotion and Protection Agreement (FIPA) with China in Vladivostok, Russia. The FIPA is a bi-lateral treaty which legally binds host governments to a set of obligations regarding their respective treatment on foreign investments and investors ("Canada’s fipa program," 2013). In essence, the host governments must insure “non-discriminatory treatments, expropriation, transfer of funds, transparency, due process and dispute settlement” (Ibid). According to the Department of Foreign Affairs, Trade and Development Canada, it is precisely the reciprocal nature of this treaty which reinforces Canada as a “stable and predictable destination for foreign investments” while at the same time, increases the volume of bi-lateral investment amongst signatory states (Ibid). The Harper Administration has been intensely criticized by political opponents as well as other non-governmental organizations for signing the agreement. Currently, the Sino-Canadian FIPA has not been officially ratified yet—as such, there is still a window of opportunity for those not in favour of the agreement to put an end to it.
At forefront of the anti-FIPA wave are the New Democrat Party (NDP) and the Green Party. Thomas Mulcair, the leader of the NDP has in the past, spoken out on many occasions against the FIPA. He believes that the FIPA will give “Communist China”, the powers to sue the Canadian government if the communist nation believes that its rights of expansion are infringed upon—which concurrently would also give China powers to challenge Canada’s economic and environmental regulations in court (Logan, 2013). Furthermore, Mulcair warns that, “Taken together, what FIPA and the CNOOC bid do is remove Alberta’s ability to independently control its own natural resource policy while ceding enormous control of our natural resources to a foreign power “(Ibid). On a similar note, Elizabeth May, the Green Party leader has even recently rallied party members to raise $150,000 to fund the Hupacasath First Nation’s lawsuit to end FIPA ("Stand up to,” 2013). This strategy appears to be a desperate move to stop the FIPA after an NDP motion on April 22nd to scrap the agreement failed with a vote of 170 to 88 against (Siekierski, 2013). Interestingly, both the Conservatives and Liberals voted no against the Green Party and NDP (Ibid).

The concept of having immediate danger tied to the Sino-Canadian FIPA is an interestingly but somewhat unrealistic or even delusional concept. Canada has signed FIPA treaties with 21 countries in the past, among them are countries which are—like China—also somewhat undemocratic according to Western standards. The Soviet Union FIPA signed in 1991, the Egypt FIPA signed in 1997, and the Venezuela FIPA signed in 1998, are a few examples. ("Foreign investment promotion," 2013). There does not seem to be any major issues concerning national security regarding each country’s respective FDI in Canada since signing the FIPA. Why then would the Sino-Canadian FIPA be the anomaly which breaks this pattern?
3.2 Process and Frameworks in the United States

3.21 Exon-Florio Amendment and CFIUS

The regulatory frameworks for evaluating incoming FDI in the US appears slightly more complicated than that of Canada’s because regulations are present both at the federal and the state level. For the purpose of comparison, this section will be mainly devoted to federal level regulations. Section 721 in the Defense Production Act of 1950 is considered to be the chief statute which governs the regulation of several types of FDI in the US (Fagan, 2009:10). Section 721 is known as the Exon-Florio Amendment after the original amendment to the Defense Production Act—passed in 1988 amid concerns over the large influx of Japanese FDI (Ibid: 10). In theory, Exon-Florio grants considerable authority to the President to investigate and review incoming foreign investments.

“In the words of the Amendment, the president may block an acquisition if ‘there is credible evidence that leads the president to believe that foreign interest exercising control might take action that threatens to impair the national security, and if other laws except for the IEEPA (International Emergency Economic powers act) ‘ do not in the President’s judgement provide adequate and appropriate authority for the President to protect the national security in the matter before the president’”(Graham & Marchick, 2006: 34).

In practice, however, the President’s role as the principle reviewer and decision maker of FDI is often times delegated to CFIUS (Committee on Foreign Investments in the United States) (Ibid: 34). Since the Foreign Investment & National Security Act (FINSA) of 2007 was passed, the CFIUS does not require an executive order from the president to perform section 721, and
can thus evaluate FDI autonomously ("Cfius reform: The," 2008). Among other changes to the CFIUS, the FINSA expanded the number of CFIUS members, attempted to ensure additional accountability and clarity in the senior levels, and expanded the illustrative list of national security factors (Ibid).

The CFIUS is an interagency committee comprised of the heads of 9 different departments and offices chaired by the Secretary of the Treasury ("Composition of cfius," 2010). There are 5 other offices which normally observe but may be called upon to participate in CFIUS activities in certain circumstances (Ibid). One may believe that there is a higher purpose to why the Treasury is designated as chair. Since it is the agency which oversees investment and capital flows, the Treasury’s chair status implies that the US is open to investments from around the world (Letteri, 2013:1). The following figure is a list comprised of all participants in the CFIUS.

(Figure 23) CFIUS Participants

<table>
<thead>
<tr>
<th>Members</th>
<th>Observers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Department of the Treasury (chair)</td>
<td>1. Office of Management &amp; Budget</td>
</tr>
<tr>
<td>2. Department of Justice</td>
<td>2. Council of Economic Advisors</td>
</tr>
<tr>
<td>6. Department of State</td>
<td></td>
</tr>
<tr>
<td>7. Department of Energy</td>
<td></td>
</tr>
<tr>
<td>8. Office of the U.S. Trade Representative</td>
<td></td>
</tr>
<tr>
<td>9. Office of Science &amp; Technology Policy</td>
<td></td>
</tr>
</tbody>
</table>

("Composition of cfius," 2010)
3.22 Overview of the CFIUS Review Process

(Figure 24) CFIUS Review Process Flowchart

(Agreement Reached During 30-day initial Review)

If national security problems exist, can they be mitigated?

Yes, negotiate security agreement, if necessary

No Agreement Reached During 30-day initial Review (withdraw and refile, or proceed to investigation)

45-day CFIUS Investigation

Agreement Reached

No Agreement Reached

Withdraw and Refile

Continue Process without Refile

CFIUS Approval

(Agreement Reached During 30-day initial Review)

No, inform parties involved

Continue Process

Withdraw CFIUS notice if filed; abandon transaction

Report to the President. The President will make a decision after 15 days and then report to Congress

(Graham & Marchick, 2006: 36).

A key aspect of the Committee is that it makes decisions based on the consensus of its members (Daly & Reynolds, 2009). Moreover, the multiple agencies involved in the review process often times have their own agenda and interests. As such, their respective assessments of any particular case may be different from one another (Fagan, 2009:11). In some situations, with
regard to the nature of the transaction, certain Committee members would have a higher level of involvement than others (Greenfield & Lange, 2006:11). The Department of Justice in the past has been more involved in telecommunication acquisitions which were believed to have potential implications for law enforcement’s capability to use wiretapping (Ibid: 11). Despite CFIUS’s image of uniformity, an entrenched tension exists between agencies. The Department of the Treasury seeks to promote investment and trade policies, and agencies such as the Department of Defense aim to enhance homeland security, intelligence capabilities, and law enforcement (Graham & Marchick, 2006: 35).

Unlike the Canadian regulatory system which uses a monetary threshold to determine which FDI will undergo review, the CFIUS review process does not have a monetary threshold. The CFIUS by statute has the authority to review voluntary filings by businesses on either side of the transaction, or through the initiation of the Committee (Fagan, 2009:10). According to regulations, CFIUS historically has also allowed any Committee member to issue their own notice to the Committee, to request the review of a transaction of their choice (Ibid: 10). This type of duality in the review process seems very discouraging to voluntary filings but that is often not the case. Traditionally, voluntary filings which has been notified and approved by CFIUS would not be investigated again in the future (Greenfield & Lange, 2006: 11). Therefore, both parties involved in the transaction have an incentive to file a voluntary notice in order to prevent future investigations if either party believes the transaction would have effects on national security. Interestingly, despite having powers to file their own notices on transactions, the CFIUS members have seldom ever exercised their authority (Ibid: 13).

Figure 24 describes the process of a typical CFIUS review. The CFIUS operates on a stationary deadline (Daly & Reynolds, 2009). Typically, the Treasury is known to assign a lead
agency to the case in the initial 30-days of the review process (Ibid). The initial review is followed by a 45 day-investigation, and then potentially a 15-day presidential review (Ibid). Although presidential review is an option in the review process, the President in most circumstances is not called upon to make an executive decision. In fact, the President has only made two executive decisions.

In 1990, George H.W. Bush blocked Chinese SOE, China National Aero-Technology Import & Export’s attempt to invest in Mamco Manufacturing, an aerospace parts manufacturer based in Seattle (Fagan, Plotkin, Larson, Elzenstat, Chambers & Sharma, 2012). In 2012, Ralls Corporation, a company owned by two Chinese nationals and with ties to China’s Sany Group, was denied by Obama from acquiring four wind farms in Oregon which were located close to the restrictive airspace of a Naval Weapons Systems Training Facility (Ibid). Interestingly, the only two presidential orders to block FDIs are targeted at Chinese companies. The conclusion seems to suggest that the regulatory system in the US is indeed biased against Chinese FDI.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Notices</th>
<th>Notices Withdrawn During Review</th>
<th>Number of Investigations</th>
<th>Notices Withdrawn after Investigation</th>
<th>Presidential Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>65</td>
<td>5</td>
<td>25</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>93</td>
<td>6</td>
<td>35</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>111</td>
<td>1</td>
<td>40</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>269</td>
<td>12</td>
<td>100</td>
<td>13</td>
<td>0</td>
</tr>
</tbody>
</table>

("Annual report to," 2012:3)
If one observes the number of transactions which has been reviewed by CFIUS in the last 3 years—as shown on figure 25—one can see that most of the transactions were approved. Out of 269 notices between 2009 and 2011, only 25 of which were withdrawn through the CFIUS review process. This number (9.3% of total covered transactions) does not indicate by any means that the CFIUS is very preventative of investments. The majority of notices covered for review do not come from China. As shown in figure 26, the United Kingdom has a total of 68 transactions covered in the review process between 2009 and 2011, followed by Canada, and France. The numbers seems somewhat proportional with each country’s respective FDI inflow cost level as shown in figure 13. Despite this, there appears to be a bias in the CFIUS review process against Chinese investments. According to figure 13—between 2009 and 2011—the cost basis of Japanese ($779,707M), and Indian ($11,553M) investments are both higher than that of Chinese ($8,684M) investments. Surprisingly, more reviews are covered by the CFIUS on China’s transactions than that of Japan’s and India’s.

In most cases, once CFIUS has approved of a transaction the decision is final. However, the decisions made by CFIUS can be overturned by Congress using some creative methods. Perhaps the most widely known example is the Dubai Ports World, a United Arab Emirates based company’s attempt at acquiring 6 major American ports in 2006 (Sud, 2013:1308). At the
time both the CIFUS and President George W. Bush has already given approval to the deal (Ibid: 1308-1309). Many members of Congress had their own interpretation of Exon-Florio amendment; they believed CFIUS should “conduct a mandatory 45-day investigation if the foreign firm involved in a transaction is owned or controlled by a foreign government” (Jackson, 2013:6).

In March 8th 2006, The House Appropriations Committee voted 62-2 to block the deal by inserting the amendment into an emergency supplemental funding bill for military actions in Iraq and Afghanistan (Walsh, 2006). Although Bush did promise to use his veto powers to overturn any congressional blocks, Dubai Ports World decided to give up the acquisition due to the immense political pressure (Sanger, 2006). Soon after this event has occurred, the Bush administration and CFIUS devised a new component to the CFIUS review process known as the Special Security Arrangement (SSA) (Jackson, 2013:6-7). Companies which agree to the SSA will essentially allow CFIUS to reopen the review process even after already gaining approval from CFIUS (Ibid:7). This change signals to investors a degree of uncertainty, since no decisions made by CFIUS will ever be final (Ibid: 7).

Moreover, the Congress also has a special committee designated for monitoring Chinese Investments known as the US-China Economic and Security Review Commission (USCSRC). The commission was created in “October 2000 with the legislative mandate to monitor, investigate, and submit to Congress an annual report on the national security implications of the bilateral trade and economic relationship between the US and the People’s Republic of China, and to provide recommendations, where appropriate, to Congress for legislative and administrative action” ("About us," 2013). In the 2012 report, USCSRC recommended to Congress that “when undertaking any bilateral investment treaty negotiation with China, the U.S. administration should insist upon terms that ensure reciprocity and explicitly address the unfair
challenges posed by China’s SOEs in all markets”("2012 report to," 2012: 24). Indeed, it seems that there are members in congress who are somewhat distrustful of Chinese investments and are actively trying to sabotage Chinese acquisitions.

3.3 Conclusion

The most noticeable similarity between the process for evaluating FDI in Canada and the US is that they both possess some level of politicization. In Canada perhaps because the Conservatives are both the majority in the legislature and are the Ministers in charge of the review process, dissenting views from the NDP and the Green Party are less likely to affect the review process. What is true based on the evidence presented in this chapter is that usually in Canada, members in charge of the decision making has no trouble in carrying out the decision. This fact alone means there is much more certainty in the decisions made through the Canadian regulatory process. As there are only three times when the ICA has been used to block investments, it would be difficult for one to say that Canada is biased against foreign investments in general. More importantly, there is no hard evidence signalling that the Canadian regulatory process is biased against Chinese investments as no Chinese investments have been blocked so far.

In the US, perhaps due to the nature of CFIUS being an interagency committee, multiple views affect the consistency of the decisions. This inconsistency is then amplified by the authority of the Congress to intervene and steer decisions accordingly their own political agenda. Again, there may be a lack of evidence so far to support this observation, but the facts presented in this chapter has demonstrated that investing in the US appears much more uncertain than
investing in Canada. The Congress, for example, is able to step in and attempt to sabotage certain investments which it deems threatening to the US.

From the CFIUS charts demonstrating higher value/review ratio for Chinese investments, the precedence of blocking on Chinese FDI, and the Dubai Ports World case, one may argue with some certainty that CFIUS and Congress are somewhat biased against certain foreign investments, such as Chinese investments. With the presence of the USCSRC and their negativity towards Chinese investments this view seems even more realistic. Importantly, one must remember that in most circumstances, the CFIUS review process is quite generous to investments under review. In addition, as the CFIUS review process only covers only a segment of all Chinese investments, a large number of Chinese acquisitions do not undergo this process at all.
CHAPTER 4: THEORY

There does not appear to be a single theory available which can fully explain the acceptance and rejection of FDI in general. As such, this chapter will not be dogmatically championing one school of thought over another. Instead, this chapter will be devoted to creating a composite theoretical framework, consisting of multiple theories to explain this phenomenon. Created from a comparison of evidence from Canada and the US so far, the theory presented in this chapter is designed to be specifically applicable to explaining the trend of Chinese FDI deterrence in North America. Through an eclectic approach which drew inspiration from realist, constructivist pluralist approaches, this chapter will establish that key differences between the evaluation of Chinese FDI in US and Canada rest upon a combination of: the perception of Chinese FDI in relation to China’s relative power, and how decision makers may react in accordance with such societal perception. The theoretical framework constructed here will be used as a guideline to help analyze actual cases of Chinese investments in the proceeding chapters.

4.1 Are Chinese FDIs a Threat?

Various strands of realist theory have been widely used to explain the Sino-American relationship in the past. Generally, rather than agreeing that states aim to increase absolute gains, most realists believe all states share the common goal of maximizing relative power, power anchored on the capability to use force (Toft, 2005:383; Powell, 1991:1304). In the 21st century, China’s rise will inevitably clash with American security interests—and hence, the future of Sino-American relations is intrinsically an antagonistic one, defined by hegemonic competition (Mearsheimer, 2010). More specifically, as the gap in power between China and the US closes,
China will try to become a regional hegemon in the Asia-Pacific region, a position long held by the US (Ibid).

Indeed, the amount of evidence suggesting that both China and the US are actively attempting to increase their relative gains should not be simply ignored. However, a far more complex explanation is required to explain why Chinese FDI in North America is rejected, and often viewed in a negative light. There are two fallacies which discredits a pure realist argument. First, why was Japanese FDI casted in a negative light in the 1980s if Japan has been an American ally? If Japan’s relative power is hinged upon America’s relative power, then it is quite improbable for Japanese FDI to pose a threat. Second, why accept some Chinese FDI but reject others? If China were to gain relative power via its outward FDI then the rational choice would be to reject all Chinese FDI than to reject some.

Japan in the past has always been regarded as an American ally. Scholars such as Victor Cha have suggested that Japan’s relation with the US is very much a patron-client relationship (2000). In fact, Japan is so dependent on American security that it makes comprises to be on friendly terms with South Korea in fear of American abandonment (Ibid). A US withdraw from Okinawa and other military bases would make Japan itself responsible for maintaining defense, forcing the island state to commence rearmament—which, would perpetuate anti-Japan balancing coalitions, and unforeseeable responses from China and other rival powers (Ibid: 272). Japan’s relative power is hence so dependent on America’s that any inclusion of its presence in evaluating its FDI in America is unnecessary.

Despite the fact that Japan’s relative power is almost entirely borrowed from the US, Japanese FDI in the US in the 1980s faced similar problems as Chinese investments today.
Members of Congress and scholars promoted the view that Japanese investments are a threat to the American economy based on the reasoning that Japanese-American trade and investments do not occur on a “level playing field” (Milhaupt, 2008:8). This national sentiment came to be known as “Japan Inc.”. Those who espouse this view believe that the Japanese “had developed a powerful, rapidly growing, purposively managed, and relentlessly self-interested economic juggernaut which was posing a fundamental challenge to U.S. economic supremacy” (Yoshida, 1987: 2).

In one case, Fujitsu, a Japanese computer manufacturer attempted to acquire Fairchild Semiconductor in 1986 (Wallace, 2002:199). The acquisition was met with an entire range of barriers such as anti-trust laws, and investigations under the Defense Industrial Program (Ibid: 200). The reason was because security concerns were raised on the fact that Fairchild was the main supplier of micro-technology such as micro-chips used guide military weapons (Ibid: 200). Eventually, strong opposition from Congress to the bid and the politicization of the takeover pressured Fujitsu to give up the acquisition (Milhaupt, 2008: 9). Soon after, as an impetus derived from the controversy surrounding the case, the US revised the CFIUS review process in 1988 (Ibid: 9). Surprisingly, by the early 1990s, political controversy over Japanese FDI had largely disappeared—and today controversy over Japanese FDI is almost unheard of (Ibid: 14).

Looking at Chinese FDI to the US today, it is without a doubt that China faces similar issues as Japan did in the 1980s. But if the US truly believes that the influx of Chinese FDI will distort the balance of relative power to the favour of the Chinese, then why must the US allow any Chinese FDI at all? As shown by the data presented in the previous chapters, specifically chapter 2, there are Chinese acquisitions in a wide range of sectors. This phenomenon forces one to ask a simple but important question: are Chinese FDIs as dangerous as they are politicized to
be? Certainly it is without a doubt that Beijing is trying to foster the right conditions for domestic companies to expand internationally with the promotion of the “Go Out Policy”, which essentially is a big hint for Chinese companies that their government will aid them in their efforts to expand abroad.

Needless to say, Beijing sees FDI as an excellent way to diversify China’s massive holdings of foreign-exchange reserve, and a good method to gain energy security for the future (Jiang, 2010:14). Nonetheless, one should understand that even if Beijing wants to achieve certain objectives with an increase in FDI outflow, Beijing’s intentions does not automatically equate that Chinese FDIs are threats. In fact, most authors who have commented on the influx of Chinese FDI believe that Chinese acquisitions should not be singled out as they do not pose any additional threat vis-à-vis FDI from other countries.

For example, Daniel Rosen and Thilo Hanemann concluded in their report that, “despite the special economic arguments rose as a result of China’s statist character, the pattern of its FDI in the US to date is “normal,” and predatory or other anti-competitive behavior is better confronted with normal domestic law rather than foreign investment screening regimes that cannot adequately foresee future action” (2011:51). Derek Scissors furthermore agrees by arguing that since the total size of Chinese investments globally is so miniscule, and that in the short term it is unlikely to increase significantly—“it does not pose a major threat to the U.S., either in terms of the purchase of American assets or in terms of the expansion of Chinese influence around the globe” (2011). Although the authors have fundamentally different policy recommendations for the Federal government, they all agree that it would be economically beneficial for the US to receive more Chinese FDI (Rosen & Hanemann, 2011; Scissors, 2011).
The view that Chinese FDI is a net economic benefit is also shared by scholars in Canada. Wenran Jiang has long argued that Chinese FDI in Canada has a positive effect on job creation and economic growth (2012). Jiang believes Chinese FDI is safe because the majority of Chinese investments in Canada follow strict local business regulations, even SOEs. Because they are listed in foreign stock exchanges, they are forced to oblige to international standards (Ibid). This fact sheds some truth to the popular belief that Chinese SOEs are solely the eyes and ears of Communist China. Under the scrutiny of regulatory compliance from the federal and local levels, “it is impossible that any of the Chinese companies, now or in the future, will be able to “take over” any of our industrial sector, let alone “take over” Canada” (Ibid).

4.2 Perception and Hegemonic Rivalry

From the examination in the previous section, one can obviously see that Chinese FDI is definitely not by any means a direct threat to the US. If Chinese FDI is indeed beneficial, and furthermore, does not appear to strengthen China’s relative power more than the US, then why does the US reject Chinese acquisitions? It is possible that a strong presence of superficiality and irrationality is entrenched within the American review system. The deterrence of Chinese FDI may not be based upon actual threats but on the subjective perception that such threats exist. Here, a distinction must be made between the actual threat of Chinese FDI, and the perception that Chinese FDI is a threat. The former can be rationally explained by the notion of gains in relative power, while the latter cannot be justified as under the same notion. To put simply, this section will prove that Sino-American economic contestation is crucial in determining the perception of Chinese FDI. In other words, China’s growing relative power, specifically its
growing economic capabilities will alter how its FDIs are perceived in North America. And that within North American countries, differences in treating Chinese FDI are formed on whether the country in question is competing with China for economic supremacy.

One’s “reality is socially defined by the subjective experience of everyday life, how the world is understood rather than to the objective reality of the natural world” (Andrews, 2012: par 6). Humans through their understandings are reflexively aware of their social reality and capable of influencing their behaviours accordingly to their own social reality (Guzzini, 2000: 149). Knowledge of both the observer and agent, and their respective actions are hence categorized as an inter-subjective phenomenon (Ibid: 149-150). Using this logic, the perception of a rising of China, may have broader consequences than one may have originally thought. Muthiah Alagappa believes that it is precisely the perception of China’s ever growing power which causes states, specifically Asian states to take certain precautions against China (1998). The fear and mistrust of China is derived from the popular notion held by such states that China is becoming more of a competitor both economically and militaristically (Ibid).

The economic dominance of the US today rests upon the “US economy’s importance in global trade, the dollar’s role as a reserve currency and unit of global exchange, and the dominance of American markets and institutions in global finance” (Dymski, 2001: 2). Authors such as Subramanian promotes the view that China’s economy, due to its scale and rapid growth—according to the explanation offered by the theory of gravity and convergence—will eventually put China ahead of the US and even replace it as the center of the global economy (2012). In other words, the growing size and strength of the Chinese economy is a crucial aspect of China’s rise. Combining the elements mentioned: the US being the world’s only hegemon may “feel” or believe to be so threatened by China’s economic rise that taking unnecessary
precautions against Chinese FDI becomes a necessary response, even if the actual threat of Chinese FDI is low or in some cases non-existent.

GDP is one of the most common tools used to evaluate the scale of a country’s economy, and also an accepted indicator of national power. For example, Organski and Kugeler correlated their Power Transition theory by using GNP as the parsimonious indicator of political and economic power (Elman & Elman, 2003: 129). Later studies and replications done to confirm their theory replaced GNP with GDP (Ibid: 129). For the purpose of this thesis, an examination of the GDPs of the US, Japan, and China will allow one to easily determine the size and capability of their respective economies.

For most of post-war Japan, the Japanese economy was in a state of growth and industrialization. By the mid-1980s there was a rise in national savings rate, which meant that lower domestic demand and lower GDP growth was bound to take place (Madsen & Katz, 2009: 159). Yet on the contrary, fuelled by the large trade surplus as well as the growing asset bubble, Japan was able to put-off such effects and continue rapid GDP growth throughout the 1980s (Ibid: 159). To other states, and especially the US, Japan’s growing economy created the perception that Japan was a strong economic competitor. And considering that the US was just climbing its way up from a decade of stagflation in the 1970s, the economic success of Japan must have been a hyper-sensitive blow to the American psyche.
Much like views on China today, the 1980s was filled with forecasts of Japan’s eventual overtake of the US; Japan was to become the world’s largest economy (Buerk, 2010). To date, the best representation of both America’s fear and awe of Japan’s success was Ezra Vogel’s highly influential book “Japan as No. 1”. Vogel’s book (1979), which was meant as a “wake up call” for Americans, described the attributes of Japanese success—ranging from culture to government involvement—and suggested that the US should even try to emulate some of these attributes. Perhaps because views of Japan’s eventual economic domination over the US, subjectively, many Americans may have perceived the influx of Japanese FDI as a threat even though that might not necessarily be the case. The obvious result was the negative discourse surrounding the inflow Japanese FDI throughout the 1980s and early 1990s.
When Japan’s asset-bubble bursted in 1991, the Japanese economy was derailed and thrown into a decade of stagnation, commonly known as “Japan’s Lost Decade”. Japan’s economy was no longer strong enough for any sane expert to make any insinuations in respect to Japan’s economic overtake of America. On the other hand, the US in 1991 began a decade boom and unprecedented prosperity, the longest economic expansion ever recorded by the National Bureau of Economic Research, which lasted from 1991 to 2001 (Hall, Feldstein, Bernanke, Frankel, Gorden & Zarnowitz, 2001). Hence, the perception of Japan in the competition for global economic supremacy changed. Japan was no longer viewed as competitor by Americans but simply an observer of American supremacy. As a result, the negative discourse surrounding Japanese FDI began to end and then disappeared altogether.

China today is yesterday’s Japan. After the recent 2007/08 Financial Crisis, the US experienced the longest recession since WWII lasting 18 months until June 2009 (The Business Cycle Dating Committee, 2010). Without a doubt, the US economy took a big hit in the financial sector, and that the road to recovery was projected to be slow (Ibid). In comparison, China during the global recession still experienced GDP growth of 8.5% in 2009 (Zakaria, 2010). Commending Beijing’s decisive policies and massive stimulation spending, Fareed Zakaria declared China the “winner” coming out of the recession (Ibid). Although the Chinese economy is now experiencing a slow down with annual growth rate estimated to by around 7.5% (Chiang &Standing, 2013), given the overall trend of growing Chinese economic power, the US would now be more likely perceive China as the next Japan—a new contender for its global economic supremacy.

Aside from the economic aspect of hegemonic competition—unlike Japan—China is capable of competing with the US on several other fronts as well. Although economic strength
may be one of the most crucial factors in hegemonic competition, other important factors such as militaristic competition should not be ignored. A simple comparison of GDP between countries is not enough to accommodate the multi-dimensional nature of great-power competition. Hence, a more comprehensive indicator of national capability is needed to justify Chinese hegemonic challenge to the US.

A widely accepted indicator of national power which encompasses multiple variables is the Composite Index of National Capability (CINC) created by J. David Singer for his Correlates of War Project. The indicator takes into account of 6 different components: total population, urban population, iron and steel production, energy consumption, military personnel, and military expenditure (Greig & Enterline, 2011). “This measure is generally computed by summing all observations on each of the 6 capability components for a given year, converting each state's absolute component to a share of the international system, and then averaging across the 6 components” (Ibid).

TPR = total population of country
TPR = urban population of country
ISPR = iron and steel production of country
PEC = primary energy consumption
MILEX = military expenditure
MILPER = military personnel

\[
CINC = \frac{TPR + TPR + ISPR + PEC + MILEX + MILPER}{6}
\]
China is shown to have a much higher CINC than the US after 1996; this result is due to China’s large population and growing energy consumption. In military spending, however, the US in 2007 spent $552,568,000, while China in the same year only spent $46,174,000, a mere fraction of American military expenditure (Sarkees & Wayman, 2010). Since issues with the weighting of the components exist, the CINC may not be the best indicator of determining whether a state is the global hegemon. Nevertheless, a comparison of CINC across states can narrow down the options of potential hegemons to only a few. Furthermore, as shown by the decline of Russia’s CINC in the 1990s, and the incline of China’s CINC in the same period, the CINC can act as a good indicator of power transition.
Due to China’s higher CINC as compared to Japan’s, China’s national capability is much higher than Japan’s. This would mean China’s hegemonic challenge to the US is a much more comprehensive and realistic challenge than that of Japan’s “single front” economic challenge. This logic is based on the argument that Japan is incapable of pursing a militaristic challenge with the US due to its status as an American ally—while China is free to do so. As a result of China’s capability to challenge the US on multiple fronts, it is conceivable that China is perceived to be more of a threat than Japan. When China’s economic size was lower than Japan’s in 1990s, China’s higher national capability vis-à-vis Japan may still have caused Chinese FDI to be perceived negatively. For example, despite China being less of an economic competitor to the US vis-à-vis Japan, Chinese SOE, China National Aero-Technology Import & Export’s attempt to invest in Mamco Manufacturing in 1990 was blocked by President Bush (Fagan, Plotkin, Larson, Elzenstat, Chambers & Sharma, 2012).

A series of public opinion polls recently conducted by the Pew Research Center has presented a number of very interesting results regarding the global perception of China and the US. Since the financial crisis, the world’s perception about the economic balance of power has been shifting from viewing the US as the world’s leading economic super power to China (Pew Research Center, 2013). “Looking at the 20 nations surveyed in both 2008 and 2013, the median percentage naming the US as the world’s leading economic power has declined from 47% to 41%, while the median percentage placing China in the top spot has risen from 20% to 34%” (Ibid: 4). This perception aligns very well with the trend of China’s economy performing more successfully than America’s since the global recession.
(Figure 28) World’s leading Economic Power 2013

<table>
<thead>
<tr>
<th></th>
<th>United States %</th>
<th>China %</th>
<th>Japan %</th>
<th>EU %</th>
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<tbody>
<tr>
<td>Germany</td>
<td>19</td>
<td>59</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Canada</td>
<td>28</td>
<td>56</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Britain</td>
<td>33</td>
<td>54</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>United States</td>
<td>39</td>
<td>44</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Russia</td>
<td>28</td>
<td>32</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>China</td>
<td>46</td>
<td>30</td>
<td>1</td>
<td>6</td>
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<tr>
<td>Japan</td>
<td>67</td>
<td>20</td>
<td>4</td>
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</tbody>
</table>

Statistically significant pluralities and majorities are in bold
(Pew Research Center, 2013: 34)

Furthermore, when observing China’s international favourability, the US has a higher percentage of being less favourable towards China when compared with Canada, and the other regions (Pew Research Center, 2013: 25). When looking at the change in favourable% between 2007 and 2013; the US dropped by 5% from 42% while in Canada it dropped by 9%. From 52%. Logically, it may be wrong to simply assume that opinions on China will be uniform across the US. But, as shown by the evidence presented, it is possible that the economic rise of China shifts the overall opinion of China in the country in a negative direction.

(Figure 29) China’s Global Favourability 2013

<table>
<thead>
<tr>
<th></th>
<th>Favourable%</th>
<th>Unfavourable%</th>
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<tbody>
<tr>
<td>Canada</td>
<td>43</td>
<td>45</td>
</tr>
<tr>
<td>United States</td>
<td>37</td>
<td>52</td>
</tr>
<tr>
<td>Africa</td>
<td>72</td>
<td>15</td>
</tr>
<tr>
<td>Latin America</td>
<td>58</td>
<td>22</td>
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<tr>
<td>Asia</td>
<td>58</td>
<td>35</td>
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<tr>
<td>Middle East</td>
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<td>52</td>
</tr>
<tr>
<td>Europe</td>
<td>43</td>
<td>47</td>
</tr>
</tbody>
</table>

Regional Medians
(Pew Research Center, 2013: 25)

With these data in mind, there is possibility that the US is more likely to reject Chinese FDI because Americans feel challenged by the rise of China even if the particular Chinese FDI poses very little or no threat at all. In comparison, because Canada is not a superpower or will ever be in the near future, it is possible that Canadians feel less threatened by the rise of China as
there is no hegemonic competition between the Chinese and Canadians. This view matches well with the evidence—that more Canadians chose to designate China as the next economic hegemon, and felt more favourable towards China than the Americans. Since Canada feels less challenged by a rising China, Canada is less likely to reject Chinese FDI than the US.

Aside from the main evidence presented above, the theory’s logic also lends from a careful analysis of the sectorial distribution of Chinese FDI in chapter 2, and the comparison of institutions in chapter 3. From chapter 2—comparing the sectorial data of Chinese FDI in the US and Canada, one can see that the concentration of Chinese FDI in Canada is more focused in a few sectors, while in the US; Chinese FDI is more spread out between different sectors. As allowing more Chinese FDI to continue flow into certain sectors would possibly mean that the host country is generally at ease with Chinese FDI, this would indicate that perhaps Canadians are less threatened by Chinese FDI than Americans. In addition, from chapter 3, the history of the review process as well as value of Chinese FDI to review ratio both suggest that in the US, Chinese FDI is more likely to be rejected than in Canada.

Again, it is important to reiterate that while China’s growing relative power may be a threat to North America, and that China may be a hegemonic rival to the US—in the realm of FDI, such threats often to not exist. The theoretical framework is simply proposing that actual Chinese threat hinged upon Sino-American hegemonic competition negatively influences the perception of Chinese FDI. Thus, the theory is able to explain that Chinese FDI is more welcomed in Canada than in the US.

4.3 Pluralist Decision Model
Given the relevance of social constructivism, and that different interests exist amongst the members of the CFIUS and Congress, a pluralist decision model is ideal for explaining the review process. “While relatively few deals have been blocked by a negative CFIUS finding or a recommendation not to apply, almost all major deals were subject to politicization by the media, members of Congress, the security community, domestic industry incumbents, and groups generally critical of China” (Rosen & Hanemann, 2011:62). The pluralist model of policy making assumes that the general public has the capacity to impact foreign policy; the leaders in some cases will follow the will of the public when making policy decisions (Neack, 2003: 104-105). According to Baskin, “the increasing complexity and the quickening pace of change in modern society prompt an increase in both the penetration of society by government and cooperation among individuals in behalf of their shared interest” (1970:73).

The leaders and the masses form a relationship where the leaders advocate for their shared interests; thus the leaders represent the interests of particular groups which they are sometimes themselves a part of. Usually, Pluralists also assume that no single group is the most dominant and that power in the decision making process is fragmented amongst different groups (Dye, Zeigler & Schubert, 2012: 12-14). When interests of different groups clash, bargaining and attempts to reach a compromise usually occur (Ibid: 12-14). Such instances where leaders compete with each other and make compromises to reach certain group objectives are common in the American Congress, where Congressional groups and committees often compete during the policy making process.

In Congress, there are two major groups which have opposing opinions on China, the Congressional China Caucus (CCC) and the US-China Working Group (USCWG). The CCC is concerned with the political and strategic impact that China’s rise will have on America while
the USCWG is more interested in the economic opportunities which the US can gain from building a good relationship with China (Sauvant, 2009: 94). In essence, the USCWG is generally the more pro-China group while the CCC is usually the anti-China group. Aside from groups, Congress is divided into committees that have extraordinary influence in passing legislative inactivates. There are several committees that had asserted themselves on issues concerning Chinese FDI. They include The House Ways and Means Committee, and its subcommittee on trade, the House Armed Services Committee, House Energy and Commerce committee and the Finance Committee in the Senate (Ibid: 97).

In a statistical analysis of voting in Congress, it is shown that the disposition of Congress members are influenced by the level of economic ties their district has to China (Sauvant, 2009: 96). Congress members from districts that have high levels of export to China, and financial activity tend adopt a favourable position towards China (Ibid: 95-96). For example, states on the West Coast such as Washington and California, due to their proximity and closer economic ties to China are more favourable towards China (Ibid: 95-96). On the other hand, members from districts which import from China, military and have manufacturing industries which compete with China tend to be unfavourable towards China (Ibid: 95-96). As one may have guessed, those who support China tends to be a part of the USCWG and committees which tends to be pro-China, while those who feel negative towards China join the CCC and anti-China committees (Ibid: 95-97).

Similarly in Canada, group competition can be observed as well. Rather than having congressional groups and committees, cleavages in Canada are apparent between federal parties. As shown in the previous chapter, the Conservatives and Liberals are more supportive of Sino-Canadian business relations by supporting the FIPA while the Green Party and NDPs are less
supportive. This result is quite unsurprising as each party appeal to their own unique group of constituents. The NDPs have traditionally garnered support from unions and have taken an anti-trade stance on most trade issues (Hughes, 2012). For the NDP, arguing against the FIPA and other trade agreements may be a way or at least be interpreted as a way to protect the job security of the union members. On the other side of the spectrum, the Conservatives are very supportive of trade agreements. They believe that trade helps in “opening new markets for Canadian businesses and creating good new jobs for Canadian workers” (“Trade,” 2013).

Looking at the results of the 2011 Federal Election, most of the votes casted for the Conservatives were from the Western provinces such as British Columbia and Alberta. The NDPs on the other hand, received most of their votes from Eastern Provinces such as Quebec and Newfoundland (“Canada votes 2011,” 2011). The decision of the Conservatives to go forward with the FIPA is unsurprising as Western provinces are more economically linked with China. For example, China is British Columbia’s second-largest trading partner (“Canada-china agreement good,” 2012). British Columbia exported 5.1 billion to China in 2011, a 24% increase since 2010 (Ibid). One should understand that despite such group cleavages exist in Canada as well, Canadians have not rejected any Chinese FDI to date. Whereas in the US, Congress is known to intervene and block Chinese acquisitions—in Canada, the anti-investment parties have not been successful in directly blocking Chinese acquisitions.

4.4 Institutional Differences

Before moving into explaining how institutional differences in Canada and the US may affect the outcome of Chinese FDI evaluation, one must understand how this paper defines
institution. Taking an endogenous perspective widely accepted by Rational Choice Institutionalist (RCI), institution is defined here to be a set rules which are shaped by the preferences and choices of the actors involved (Shepsle, 2005: 2). “They (Institutions) do not compel observance, but rather reflect the willingness of everyone to engage with one another according to particular patterns and procedures. The institutional arrangements are, in this view, focal and may induce coordination around them” (Ibid: 2). Taking into account all actors’ roles, preferences, choices and capabilities: institutions are simply the heuristics which have emerged from the equilibrium of all the factors and choices involved (Ibid: 3; Greif & Laitin, 2004: 634).

Under the structural constraints of institutions, actors are assumed to be making rational decisions aimed at maximizing their utility (Jørgensen, Pollack & Rosamund, 2007:32). In other words, by weighing all alternative choices available to them under a certain set of rules, actors choose the choice which may benefit them the most (Ibid: 32). While policymakers have their own preferences, they also act as agents who are responsible for the interests of their electorates. This relationship, widely espoused by RCI scholars, is known as the Principle-Agent model. “The principle enters into a contractual agreement with a second party, the agent, and delegates to the latter responsibility for carrying out a function or set of tasks on the principal’s behalf” (Kassim & Menon, 2003:122). One must note that the principle does not need to be an individual, it can also be an organization which wishes to delegate tasks to an individual or another organization on its behalf (Ibid: 122).

This section will essentially theorize that due to institutional constraints in Canada, Canadian policymakers do not have many choices for influencing the evaluation of FDI. Often times, alternative options which can influence the denial of certain FDIs do not exist. On the contrary, due to the institutional structure of the US, American policymakers may choose
alternative options to influence the course of the FDI evaluation process. In Canada, the principles are less easily able to influence the acceptance or rejection of Chinese FDI because their agents have a limited set of choices to do so. In the US, the opposite is likely to be true to the wider range of options available to American policymakers.

Since in the Canadian Westminster System—there lacks the institutional structure of checks and balances instilled in the American Presidential System—the majority of Canadian lawmakers often do not have the capability to challenge the decision of the administration to accept Chinese FDI even they wished to do so. The reason being is that the Conservative government have a majority in the House of Commons. Currently in Parliament, Conservatives hold 162 seats, while every other party combined are holding only 142 seats ("Party standings," 2013). This institutional advantage is coupled with the fact that Conservatives are also the ministers in charge of the review process via the ICA.

Challenges in Parliament made by other parties to pass legislations which may lead to the denial of a particular Chinese FDI is not very likely to succeed. A major reason is because both the ruling and opposition parties appoint party whips to insure that on important votes, most of their party members vote accordingly to the interests of the party ("Officers and officials," 2013). In addition, as the opposition party’s shadow cabinet does not have the authority to evaluate incoming FDI, policy makers opposing a certain transaction have no viable institutional means of deterring it. Hence, group interests from individuals and organizations have less capability to influence the outcome of FDI evaluations.

In the US, due to the partitioned nature of Congress and CFIUS, external interests to reject Chinese FDI are more capable of eventually dominating the decision making process.
Despite the fact that CFIUS makes its decisions based on a consensus, different departments have different objectives. The Department of the Treasury has an agenda to enhance investments and trade (Graham & Marchick, 2006: 35). Have such objectives mean that the Secretary of the Treasury is a supporter of most FDI. On the Other hand, the Department of Defense aims to enhance intelligence capabilities, law enforcement, and homeland security (Ibid: 35). Generally, the Secretary of Defense would be unsupportive of FDI which he/she believes would pose a security risk. While the Secretary of the Treasury usually has the most decisional power, in certain circumstances decisional power shifts to other members (Greenfield & Lange, 2006:11). For example, the Department of Justice would usually have more decisional power when CFIUS evaluates FDI in telecommunications (Ibid: 11).

Moreover, one must note that unlike Canadian Ministers, the appointments of American Department Secretaries are not entirely based on party affiliation. The President of the US appoints many senior officials in the judicial and the executive branch of government based on the advice of the Senate (Carey, 2012:1-2). Since the President and the Senate shares this power of appointment, compromises are sometimes made between the President and the Senate on the nominees (Ibid). Furthermore, due to the system of checks and balances between the Senate, the House of Representatives, and the President, a more complex range of factors are considered when appointing officials in the US. For example, although Democrats currently comprise the majority in the Senate, in the House of Representatives, Republicans are the majority. As a result, Obama, despite being a Democrat may have made a compromise earlier this year by appointing Chuck Hagel, a Republican, to the office of Secretary of Defense. In essence, the diversity of officials amongst CFIUS members insures that diversity of group interests are taken into account when FDIs are evaluated.
Other than CFIUS, congressional committees and groups have considerable influence in the evaluation of FDI. The reason being is that congressional committees are at the center of the American lawmaking process—“party leaders or presidents rarely eclipse their policymaking power” (Groseclose & King, 2000). The operation and structure of the committees in the House and the Senate are very similar; they both have permanent standing committees which have legislative jurisdiction ("Committee faqs," 2013; "About the senate," 2002). Legislative jurisdiction gives standing committees the power to “consider bills and issues and recommend measures for consideration by the House” (“Committee faqs,” 2013). While similarly in the senate, “A committee’s influence extends to its enactment of bills into law. A committee that considers a measure will manage the full Senate’s deliberation on it” ("About the senate," 2002). Therefore, the committees are easily capable of blocking certain FDIs by introducing legislations in Congress. The most well-known example is the Dubai Ports World case, where The House Appropriations Committee voted to block the deal by inserting an amendment into an emergency supplemental funding bill for military actions in Iraq and Afghanistan (Walsh, 2006).

The composition of the standing committees in the House and the Senate are both respectively based on the ratio of partisan composition in the House and the Senate ("Committee faqs," 2013; "About the senate," 2002). Currently, the majority of committee members in the House are Republicans, while the majority of committee members in the Senate are Democrats. This institutional construct will allow group interests to be more represented: Republican interests on FDI could be represented in the committees of the House while Democrat interest could be represented in the Senate. All in all, the intuitional construct of the CFIUS and the congressional committees allows a multitude of group interests to influence the FDI evaluation process in the US.
The endogenous conceptualization of institution is also capable of partially explaining the change in American attitudes towards Japanese and Chinese FDI. The reason is that although institutions may reinforce itself, exogenous circumstances in the environment can cause institutions to change and react to the environment (Weingast, 1996). In other words, “although sometimes decisive individuals or coalitions are not prepared to change the way business is conducted”, they will change when critical circumstances arises (Shepsle, 2005: 3). Using this logic, it is conceivable that in the US, the institution oriented itself accordingly to the rise and decline of Japan. When Japan was capable of challenging the US economically, the institutional norms or equilibrium at the time would disfavour Japan’s FDI. China’s rise similarly, would also influence the American institution to orient itself negatively towards Chinese FDI. As this hypothesis requires further examination and evidence, it is difficult to validate this causal relationship at the moment.

4.5 Political and Ideological Preferences of Policy Makers

Although China and the US are attempting to build a constructive relationship, there has always been a mutual strategic distrust between the two powers (Wang & Lieberthal: 2012). According the authors, this mutual distrust arises from a difference in political traditions and culture, a lack of appreciation for each other’s policy process, and a perception in the narrowing of power between the two countries (Ibid: 5-6). As the gap in power between China and the US closes, it is possible that political, cultural as well as ideological preferences of individual policy makers will play larger role in the evaluation of Chinese FDI. In other words, the perception of China as a hegemonic challenger increases the significance of American policy makers’
ideological and political preferences in the evaluation of Chinese FDI. In addition, due to the intuitional structure of US, such preferences should be able to more easily affect the FDI evaluation process in the US than in Canada.

In terms of differences in political systems, one can argue that China’s authoritarian, one party dictatorship perpetuates distrust in the US. American leaders believe that democracies are inherently more trustworthy and legitimate than Authoritarian systems as Authoritarian systems are less stable. (Wang & Lieberthal: 24). From the outside, the Chinese system is perceived to be intentionally concealing its core political process—for example, the appointment of its political leaders and its civil military interactions (Ibid: 24) Due to the lack of transparency in China’s authoritarian system, American policy makers are unable to accurately judge the motives and intentions of Chinese policies (Ibid: 24). As a result, China’s rise coupled with its authoritarian system negatively affect China’s image and can also negatively affect the image of Chinese FDI amongst American leaders.

Differences in political tradition and culture also unfavourably influence the perception of China amongst American policy makers. Due to the culture of Liberalism in North America, and its role in defining American national identity, “decrying a ‘China threat’ and the evils of communism becomes a way of defining what it means to be a freedom-loving twenty-first century American” (Gries, 2009: 225). In order to appeal to their electorates, this shared national sentiment has been used and espoused by politicians across the political spectrum (Ibid: 225-226). When speaking about China, Democrats such as President Barrack Obama, Hilary Clinton, and Nancy Pelosi have all adhered to the narrative of protecting individual liberty against an authoritarian state (Ibid: 226). Republicans, such as Christian Conservative Congressman
Christopher Smith—aside from also adhering to this general narrative—also decry China for its lack of religious freedoms (Ibid: 226).

In addition, the ideological preferences of policy makers may also be a factor in their decisions to reject or accept Chinese FDI. In the US, generally, Republicans are more likely to view Chinese FDI negatively than Democrats. In a recent 2013 survey of Republican and Democrat attitudes towards foreign countries, 52% of Democrats are found to be favourable towards China, while only 32% of Republicans are favourable towards China (Newport & Himelfarb, 2013). Of course, one should note that as the Republican Party is quite fragmented, not all Republicans are unfavourable towards China. Republicans espousing a more Libertarian view would be likely to view Chinese FDI more positively.

In Canada, ideological cleavages of policy makers are also found. In Canada, “leftists and rightists organize their opinions about the world in different ways” (Cochrane, 2010). In a survey of party preferences, members of the Canadian Alliance (merged into the Conservative Party of Canada in 2003) are 7 times more likely to support the opinion that job creation should be left to the private sector than members of the NDP (73% vs. 8%) (Ibid). The Conservatives—due to ideological orientation towards free market-principles—should be more likely support Chinese FDI. The NDPs due to their socialist and pro-union leanings are more likely to oppose Chinese FDI. While members of the Liberal party—generally as centrists between the left and the right would most likely to sometimes oppose, and other times support Chinese FDI. Due to China’s hegemonic competition with the US, ideological justifications for opposing Chinese FDI in the US is expected to be amplified. While in Canada, as no Sino-Canadian competition exists, ideological justifications espoused by leaders to oppose Chinese FDI—while still a recognizable factor—should be less significant in the decision making process.
Assuming that as a democratic country Canada also distrusts China due to a difference in political systems, and that the Canadian political culture is also dominated by the ideals of Liberalism, such factors would also be less significant in Canada for the same reason as above. In addition, since the FDI evaluation process in Canada is not as influenced by external interests as the US due to institutional differences, all of the factors mentioned in this section will also be less significant in Canada vis-à-vis the US.

4.6 FDI in Strategic Sectors

There are several definitions and interpretations in the literature on what strategic sectors really are. According to Soete, the term “strategic” in the context of industrial policy can be defined as a: military one, technological one, trade one and an industrial one (1991: 54). In terms of military strategy, industries which can provide products and technologies to the military have strategic value (Ibid: 54). High-tech industries, such as micro-electronics, which are able to enhance a country’s technological capabilities, have strategic value (Ibid: 55). There is also strategic value in industries which make up a significant portion of the country’s exports, fulfilling its strategic value in trade (Ibid: 55). Lastly, there is strategic value in industries with many forward and backward links in the economy; many citizens of that particular country are either directly or indirectly involved in the industry (Ibid: 56).

In the context of the theoretical framework, if the origin country and the host country are engaged in hegemonic competition, the origin country’s FDI would be considered riskier to the host country than FDIs from other countries. In the energy, resource, and technology sectors are commonly considered to have more strategic value than other sectors. Due to the importance of
these sectors, there is possibility that the perception of threat from a rival country’s FDI in any of these sectors would be amplified on top of the existing risk of inward FDI from a non-rival country in these sectors. Any aspect of the transaction which would bear even a slight chance of risk would soon be perceived as a threat and a reason for dismissing the origin country’s FDI. China’s telecommunications technology provider, Huawei, for example, has been accused many times for spying for the Chinese government, and had several of its acquisitions dismissed by CFIUS (Robertson & Engleman, 2012).

When looking at non-strategic sectors where pre-existing risk is minimal, inward FDI from a rival country would also elevate the perception of risk. The best example would be the still on-going acquisition of Smithfield Foods, a Virginia based pork producer by China’s Shuanghui International Holdings (Clarke, 2013). Unlike investments in the energy or technology sectors which would potentially aid the Chinese military through the transfer of resources and technology, investments in pork production is unlikely to aid China’s military in any way. Normally, such investments should be passed with ease. However in this case, concerns were raised by House Committee on Energy and Commerce about the potential of Shuanghui exporting Smithfield’s production of raw “heparin, a blood-thinner widely used in heart surgery and kidney dialysis that is derived from pig intestines” to China (Ibid).

Hence, Chinese FDIs in the US strategic sectors are often accused of working for the Chinese government in some way or form—ranging from spying to the transfer of products and/or technology. In Canada, since China is not a rival, the capacity for such threats to negatively influence the outcome of Chinese acquisitions should be lower. The reason being is that whether Chinese FDI is in a strategic or non-strategic sector, Chinese FDI will be treated with more normalcy in Canada. Furthermore, it is possible that as group interests are less capable
of penetrating the evaluation process in Canada, Chinese investments in both strategic and non-strategic sectors are less likely to be politicized and rejected. While in the US, as American institutions enable more influence from group interests, Chinese FDI is more likely to be politicized and rejected in both strategic and non-strategic sectors in the US.

4.7 Addressing Counter-Arguments: Culture, Political Systems, Historical Institutionalism, Economic Interdependence

At this point, one may think that differences in culture, and/or political systems—without including the context of hegemonic competition—are alone capable of explaining the evaluation of Chinese FDI in North America. The following will demonstrate that each of the two explanations when alone, are incapable of offering an adequate explanation. Doing so will further validate the logic of the theoretical framework which rests upon the presence of hegemonic competition.

Would cultural differences between China and the US be the key factor in decisions to reject Chinese FDI? Borrowing traits from Samuel Huntington’s “Clash of Civilizations” thesis, it is possible for one to erroneously argue that China’s “Sinic” culture, and America’s “Western” culture are so inherently different that the rejection of Chinese FDI is solely based on mutual cultural cleavages (1997). Using this logic, one can erroneously believe that the rejection of Japanese FDIs in the 1980s can also be explained because Japanese and American culture were also defined as different cultures by Huntington. If one takes a closer look at the volume of FDI inflow, one can see that both India and Brazil (Figure 13), have much higher volumes of inflow than China. Yet, there has not been widespread politicization of Indian and Brazilian FDI in the
This result implies that differences in culture between the origin and host countries alone are not salient in influencing FDI rejections.

Furthermore, from Chapter 3, it was determined that Chinese FDI in fact has a higher volume to CFIUS review ratio than does Indian FDI. What makes Chinese culture so different from Indian culture that there are more FDIs covered as a result? In addition, if indeed culture is central to the evaluation of FDI, then why is Japanese FDI much less politicized today than in the 1980s? What caused the Japanese culture to be more acceptable to the US in the last 20 years? Again, the change in the orientation of Japanese FDI in the US can never be accounted for if culture is used to explain FDI trends. These are merely a few of a myriad of issues which needs to be addressed if a cultural explanation on the matter is used.

(Figure 30) FDI Inflow in The United States between 2005-2012 (Millions of Dollars) Historical Cost Basis

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>574</td>
<td>785</td>
<td>584</td>
<td>1105</td>
<td>1624</td>
<td>3300</td>
<td>3729</td>
<td>5154</td>
</tr>
<tr>
<td>Singapore</td>
<td>3338</td>
<td>6458</td>
<td>12151</td>
<td>25801</td>
<td>20757</td>
<td>21517</td>
<td>24207</td>
<td>26244</td>
</tr>
</tbody>
</table>

(U.S. Bureau of Economic Analysis, 2013)

One may further argue that it is the difference between political systems which determines whether Chinese FDI is accepted. This line of logic can be formulated from the
results of Lieberthal and Wang’s recent report (2012) mentioned earlier in this chapter. China is authoritarian, and the US is a democracy—a democracy would be less likely to accept FDIs from an authoritarian country due to mutual distrust. The politicization of FDI from Japan, a democratic country, in the 1980s alone decreases the validity of this line of logic. But more importantly, if one observes the inflow of FDI from Singapore, an authoritarian country, statistics show that the total value of FDI from Singapore is much higher than the total value from China. In fact, the amount of Singaporean FDI inflow in 2012 is more than 5 times that of China in the same year. Despite this amount, political outrage regarding Singaporean FDI is nothing comparable to that of Chinese FDI in the US. At this point, claims on the grounds of political differences anchored on inherent differences between authoritarian and democratic governments appear quite weak as well.

If one still firmly believes that cultural and political differences are the main causes behind FDI rejections, one only needs to glance at the Canadian statistics. According to Figure 5, total value of Chinese FDI in Canada between 2005-2011 surpasses that of India, and is close to that of Brazil’s. If culture had any impact, then Canada would have politicized FDIs from Brazil, deeming its “Latin American” culture to be too intrusive to Canadian “Western” culture. Why has not such an event occurred? If political differences had an impact, then why has Canada welcomed investments of a higher total value from China than from India, a democratic country? Again, such arguments are effortlessly shown to have many inherent flaws. Any scholar making a case for either of the two arguments needs to first redress these paradoxical conundrums which may only lead to failure.

The Historical Institutionalist (HI) approach may be correct in pointing out that institutional differences between Canada and the US may be a determinant in the evaluation of
Chinese FDI; it does not accommodate the change in FDI attitudes over time. One basic assumption of historical institutionalism is known as path dependency. Most HI scholars believe that, “outcomes at a critical juncture trigger feedback mechanisms that reinforce the recurrence of a particular pattern into the future” (Pierson & Skocpol, 2002:699). Likewise, “once established, patterns of political mobilization, the institutional rules of the game, and even citizens’ basic ways of thinking about the political world will often generate self-reinforcing dynamics” (Ibid: 700). The argument for path dependency falters when the change in which Japanese FDI is treated before the 1990s and after the 1990s is accounted for.

If the HI approach is correct—given the reinforcing nature of previous decisions—then one should currently see the US rejecting Japanese FDI even more so than that of Chinese FDI because the rejection of Japanese FDI had occurred earlier in history. This outcome has never occurred. Therefore, although differences in institutions between Canada and the US may account for the evaluation of Chinese FDI, the HI approach cannot fully account for the change in FDI orientation. While in Canada, although the ICA has been used to block investments from Australia and Malaysia in the resource and energy sectors, Chinese FDI into these sectors has never been formally blocked by the ICA. Again, it would appear that the logic of path dependency is not completely accurate, as one would expect Canada to block Chinese investments as well if a pattern of blocking FDI was existent.

Lastly, an important counter-argument against the theoretical framework is the notion that China and the US are economically inter-dependent; as China’s economy and relative power grows; China will be unlikely to challenge the hegemonic status of the US due to Sino-American economic interdependence. Hence, China is not likely to be a threat, and its economic growth is incapable of negatively influencing American attitudes on Chinese FDI. Although this argument
is correct in recognizing that a close economic relationship exists between the two powers, it fails to truly recognize the nature of Sino-American economic interdependence, and the potential threats derived from the relationship itself.

This inter-dependence between the two powers is commonly known as ‘Chimerica’: “a world economic order that combined Chinese export-led development with US over-consumption on the basis of a financial marriage between the world’s sole superpower and its most likely future rival” (Ferguson & Schularick, 2011:1-2). Although the relationship has been stable for most of the past decade, after 2007-2009 Financial Crisis, the relationship became less capable of reinforcing itself (Ibid: 4-5). While Chinese authorities recognize that the heavily indebted America is less and less capable to act as a consumer of last resort, they still implement competitive currency interventions to devaluate the Yuan against the dollar in order to continue export-led growth (Ibid). China’s interventionist policies pose a threat to the US and the world. “It limits America’s recovery by overvaluing the dollar in key Asian markets and it continues the dangerous reliance of the American economy on cheap money, excessive consumption and imports of savings from the rest of the world” (Ibid: 4).

Aside from the destabilizing effects of Chinese interventionist policies on the US, and potentially the world, China’s holding of American Securities may also give it enough leverage to hurt the American economy in the long-run. In 2012, China was holding “21.9% of total foreign holdings of U.S. Treasury securities, 12.3% of U.S. privately-held Treasury securities, and 7.4% of the total level of U.S. federal debt (privately held and intergovernmental)” (Morrison & Labonte, 2013:13). Currently China’s accumulations of American securities do not pose any significant risk as a large selling of these securities would devaluate the dollar which in
turn will both decrease the value of China’s dollar-denominated assets, and America’s capability to import Chinese goods (Ibid: 13). However in the long-run:

“There is future danger in the possibility that we will run sustained, gigantic deficits. The longer these last, the more likely it is that US treasuries will become relatively less attractive, thereby tipping the balance of influence toward China. The US could come to need Chinese purchases more than the China’s needs American bonds, yet another argument to control the federal budget” (Ibid: 14)

While Sino-American economic-interdependence has benefits for both countries, the continuation of such relations may possibly endanger both countries than one would expect. Hence, it is erroneous for one to argue that China has no capability to threaten the United States. Whether it wants to do so intentionally or unintentionally however is another question for debate.

4.8 Conclusion

The theoretical framework presented in this chapter is very easy to comprehend. China, like Japan is capable of challenging the US economically. But unlike Japan, due to China’s greater national capability derived from a number of components—most importantly, China’s military capability—China is capable of engaging in a more comprehensive hegemonic challenge with the US. As a result of China’s capacity to challenge the US on multiple fronts, perception of China in the US is generally more negative as compared to Japan.

Whether or not the rise of China actually poses a genuine threat to the US is not the main focus of the theory. The theory presented here is only suggesting that in regards to Chinese
FDI—Chinese investments do not pose any significant threat to American national security. The rejection of these Chinese investments may be based more on the subjective perception that they are a threat than on them being actual threats. In other words, this national sentiment is amplified and shown to be the most prevalent when the host country reviews investments from a hegemonic challenger.

In regards to the decision making process, leaders tend to align themselves accordingly to the interests of their electorates. The influence of groups in the US to sabotage Chinese acquisitions is much stronger than the influence of groups in Canada. Again, this assumption is also based on the identification of whether China is a hegemonic rival to the host country. But more importantly, one must note that institutional differences between Canada and the US increases the tendency for negative perceptions of Chinese FDI to be more represented in the US, than in Canada. This notion is based on the logic that policymakers are more capable of representing the interests of their principles in the US, than in Canada—hence, allowing negative perceptions of Chinese FDI to more easily penetrate the decision making process in the US.
Is the host country engaged with the origin country in hegemonic competition?

Does the arrangement of the host country’s institutional structure allow greater external influence?

Do policy makers in the host country have a distrust of the origin country?

Is the FDI in a strategic sector?

Yes, FDI is more likely to be perceived as a threat

No, FDI is less likely to be perceived as a threat

Public → Policy Makers

Policy Makers → Public

Decision, likely to Reject Chinese FDI because Chinese FDI is Perceived Negatively

Decision, likely to Accept Chinese FDI because Chinese FDI is Perceived more Normally
CHAPTER 5: CASE STUDIES

In the previous chapter, a theoretical framework for explaining FDI was constructed. This chapter will evaluate the framework by using actual cases of Chinese FDI in North America. To do so, cases of Chinese FDI will be selected from both Canada, and the US. They will be discussed in detail and then compared to see if the framework is indeed applicable in explaining their story. There are two specific points to test for when evaluating the framework. First, whether the decision makers are influenced by group interests and second, whether the Chinese FDI in question bears a significant level of real threat. The reason being is that the theoretical framework assumes the threat of Chinese FDI is largely subjective. Policy initiatives to reject FDI with minimal threat in the US would validate the theory, while policy initiatives to reject FDI with minimal threat in Canada make the theory less valid.

To test the first point, instances of disuniformity, and adherence to different group interests amongst leaders capable of influencing the decision making process will be examined. As described in the previous chapter, in a Pluralist Decision Making Model, leaders often contest, bargain, and make comprises on policy decisions. In other words, if the theory is correct, there should be instances where leaders disagree with each other, and/or follow the special interests of certain groups when evaluating Chinese acquisitions. In Canada, contestations and interest adherence between leaders will exist but their ultimate impact on the rejection of Chinese FDIs will be minimal. While in the US, the voice for blocking Chinese FDI should be much more influential on the final decision.
Threat Category I: Denial/Manipulation of Access
FDI gives a foreign-controlled supplier power to delay, deny, or restrict the supply of goods and services critical to the normal functioning of the host country’s economy, including the military industrial defense base.

Threat Category II: Leakage of Sensitive Technology/Know-How
FDI allows a foreign-controlled entity to transfer technology and expertise which can be used in a harmful way by the entity or its government against the host country.

Threat Category III: Infiltration, Espionage, and Disruption
FDI gives the foreign-controlled entity the capacity to infiltrate, spy on, and sabotage the supply of goods and services critical to the normal functioning of the host country’s economy, including the military industrial defense base.

(Moran, 2012:24-30)

The best way to test the second point is by applying Theodore Moran’s Three Threats Framework on the FDI examined. Moran intends his framework to be used by governments as a guideline for evaluating whether inward FDIs pose a real national security threat. According to Moran, “application of this framework in Canada and elsewhere would help to dampen politicization of individual cases, enabling swift and confident approval of those acquisitions from which genuine national security threats are absent” (2012:40). If the FDI fails to meet most of the conditions set by the Three Threats Framework, then the FDI is most likely to possess an insignificant level of threat. “For any of these three threats to be credible, the affected industry would have to be tightly concentrated, with a limited number of close substitutes, and high costs associated with switching to one of those substitutes” (Ibid: 6). With this notion in mind, understanding the supply of a particular firm in comparison to that of other firms will be most critical in assessing whether a foreign takeover of the firm will meet threaten the host country.

(Figure 33) Expected Results From Most Cases

<table>
<thead>
<tr>
<th></th>
<th>Does group interests influence the decision making process?</th>
<th>Was the FDI blocked by the review system?</th>
<th>Was the FDI a Genuine Threat?</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Canada</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
The cases chosen from the US and Canada are some of the most controversial cases of Chinese FDI from the last 10 years. They are chosen to represent how Chinese FDI in different sectors are addressed in the American and Canadian review processes—with emphasis on notable cases in the energy and technology related industries. The reason is that from chapter 1 (Figure 19), the energy and information technology sectors were shown to be the sectors which contain the greatest amounts of Chinese FDI. In addition, they are also most relative to the threats described in Moran’s Three Threats Framework. In Canada, since most Chinese FDIs are in the energy and resource sectors (Figure 11), the majority of notable acquisitions valued above $344 million are also in the energy sector. As only cases above this minimum threshold are reviewed in Canada, cases selected for Canada are unintentionally all in the energy and resource sectors. In addition, as most controversial cases in Canada had high valued transactions; cases involving the largest transaction values so far were chosen.

5.3 Cases from the United States

5.31 China National Offshore Oil Corporation—Unocal, 2005

In 2005, CNOOC, a Chinese SOE attempted acquire Unocal, a California based oil Company for $18.5 billion (White, 2005). Unfortunately for the Chinese Oil giant, political controversy surrounding the takeover and opposition from congress eventually pressured CNOOC to drop the deal (Ibid). “Members of Congress, many of them heavily lobbied by Chevron, lined up to attack CNOOC’s bid. They said that the company benefited from sweetheart financing from the Communist government in Beijing and that the purchase would be a dangerous energy grab by China” (Ibid). Being the only offer still on the table after CNOOC has
withdrew its bid, Chevron was successful in purchasing Unocal for $17.9 billion (Baker, 2005). Frustrated, CNOOC stated, “This political environment has made it very difficult for us to accurately assess our chance of success, creating a level of uncertainty that presents an unacceptable risk to our ability to secure this transaction”, and deemed political opposition “regrettable and unjustified” ("China's cnooc drops," 2005).

Believing that the CNOOC could take action to threaten and impair American national security, the House voted 398-15 on June 30th to pass H. Res. 344: a resolution which forces President Bush to immediately review the deal if Unocal Corporation enters into an agreement, acquisition, merger, or takeover by CNOOC (Barrionuevo, 2005;"H. res. 344," 2005). Essentially, this resolution extended the CFIUS review period beyond the normal time frame by asking the president to intervene. The resolution was introduced by Richard Pombo, a Republican representative of California who has received an estimated amount of $21,500 from Chevron since 1989 (Brier, 2005). Pombo stated on the house floor that “We cannot afford to have a major U.S. energy supplier controlled by the Communist Chinese…If we allow this sale to go forward we are taking a huge risk”(Barrionuevo, 2005). He may have been implying that China will manipulate and cut America’s supply of oil if the deal was successful. Through this congressional vote, one could see that the majority of lawmakers harbored negative attitudes towards this investment at the time.

Weeks before the vote, Richard D'Amato, the chairman of the USCSRC expressed concerns on the congressional hearing regarding the acquisition. He stated, “By any conceivable standard, the U.S. government should see and treat this proposed transaction as a non-commercial transaction with other motivations and purpose” (Bullock & Xiao, 2005). In addition, other voices of opposing came from members of the House Armed Services Committee such as
Duncan Hunter. He expressed that the “infrastructure, drilling rights and exploration capabilities Unocal uses to provide energy on the open market all represent strategic assets that affect U.S. national security” (Ibid).

Nonetheless, amidst the waves of anti-CNOOC sentiment in Congress, there are a few leaders who are in favour of the deal. Jim Moran, a Virginian representative said that blocking the deal could potentially be more dangerous than allowing it (Barrionuevo, 2005). “They are holding a financial guillotine over the neck of our economy, and they will drop that if we do things like this that are not well considered”, he said, and “If we don't let them invest in western firms, what are they going to do? They are going to invest in Iran or Sudan and make those governments much stronger than they are today” (Ibid). Furthermore, Congress was warned by Alan Greenspan, Chairman of the Federal Reserve, and John Snow, Treasury Secretary to not create any trade barriers with China (Guerrera, McNulty & Kirchgaessner, 2005). So far, it is quite obvious that a different perspective on the deal exists in Congress. And that Congress had directly intervened to try making the deal difficult to close.

The important question is now to ask if a genuine threat exists. Using Moran’s Three Threats Framework, the first question to ask is if CNOOC is capable in manipulating the supply of oil against American economic and security interests. Despite the political rhetoric, CNOOC would be incapable of influencing America’s oil supply and consumption in any significant manner. The reason is simple, Unocal’s domestic oil production only accounts for less than 1 percent of America’s total energy consumption (Jiang, 2005). Even if CNOOC chose to manipulate oil production and delivery, CNOOC would only be able to hold less than 1 percent of the American energy supply as hostage—which will likely cause only a minuscule fluctuation in the price of oil. In essence, “the amount of oil produced from Unocal’s reserves would not be
large enough to affect global oil prices or supply conditions” (Hufbauer, Sheth & Wong, 2006: 51). The deal fails to meet Threat I.

Is there a chance that the deal will allow Chinese governments to acquire technology which could be used in a malicious way against the US? Unocal’s oil drilling technology is not very special. CNOOC is easily capable of acquiring Unocal’s oil drilling technology from other sources such as private vendors and contractors (Hufbauer, Sheth & Wong, 2006: 51). There is little difference as to whether CNOOC chooses to access such technology from Unocal or not. There is no evidence to show that CNOOC would use the technology to harm the US. In contrast, with better oil drilling technology and expertise, CNOOC would be able to produce more oil and thus increase the global energy supply (Moran, 2012:33). Hence, there is more benefit from CNOOC using Unocal’s technology than harm. The deal also fails to meet Threat II.

Would CNOOC sabotage the oil they produce or use their oil as a form of surveillance? This course of action seems very unlikely. CNOOC making their petroleum products defective or even harmful to the end-user would undoubtedly face waves of legal challenges, risk getting shut down for violating product safety and quality regulations, and not to mention a considerable devaluation on their stock prices which would trouble their investors. As a business traded on the New York Stock Exchange, sabotaging their products would be quite detrimental to their traded value. As for surveillance, it would be outright impossible for anyone to use petroleum products to spy on someone else. The CNOOC therefore does not meet Threat III requirements very well. This case fits the theoretical framework quite well. First, it demonstrated that interest based cleavages exist in Congress on Chinese FDI. Second, Congress attempted to use legislative means to obstruct the deal. Third, the deal posed minimal threat to American national security interests.
In September, 2007, Huawei, the largest Chinese telecommunications-equipment provider and Bain Capital, an American private equity firm announced that they would together spend $2.2 billion to buy 3Com Corp, a computer-network company based in Marlborough, Massachusetts (Cimilluca, Dean & White, 2007). Bain would be buying about 80% of 3Com while Huawei would buy the rest (Ibid). In the past, due to 3Com’s financial difficulties, it partnered with Huawei in a joint venture known as H3C Technologies, which was 51% owned by Huawei and 49% owned by 3Com (Hochmuth, 2006). Through H3C, 3Com rebranded and sold its ethernet switching and routing technology in China where there has been a growing market for wireless equipment (Barfield, 2011:11). “One commentator has stated that 3Com became primarily a Chinese vendor with an American façade” (Ibid: 11). Eventually in 2006, 3Com bought the rest of H3C from Huawei for $1.26 billion, acquiring control of all assets in mainland China (Ibid: 11).

Interestingly, while 3Com’s complete buyout of H3C was not blocked by the Chinese government; Huawei’s attempt to acquire a mere 16.5% of 3Com was blocked in the US. After CFIUS signaled that the deal was not going to go through, Bain and Huawei immediately dropped the purchase in early 2008 (Quinn, 2008). As with the CNOOC-Unocal deal, the majority of Congress seemed to have strongly opposed this deal as well. Most notably, 8 Republicans led by Ileana Ros-Lehtinen, a Floridian Representative on the House Foreign Affairs committee, argued for and successfully implemented a legislation which would force the Bush administration to reject the deal (Kelly, 2008; "Congress to probe," 2008). In addition, a bi-partisan group of congressmen, led by the chairman of the House Energy and Commerce
Committee, John Dingell started an independent investigation while the deal was under review by CFIUS ("Congress to probe," 2008).

In a letter the group sent to the Treasury Secretary, it stated “Given that 3Com Corporation manufactures communications network components—some of which it supplies to the Pentagon, including firewall technology—this transaction raises significant concerns about its potential effect on the national security of the US” ("Us congress probes," 2008). One of the main reasons why there is much concern over Huawei is because its founder Ren Zhengfei was a former Chinese military officer (Einhorn, 2007). Coupled with the fact that the control of Huawei was privately held in the hands of an exclusive group, Congress feared the possibility of Huawei leaking sensitive technology to the Chinese government (Ibid).

Despite this overwhelming anti-Huawei sentiment, there is evidence pointing to the reality that some congressmen are supportive of this deal. For example, there are members of Congress who have requested the Bush administration to “defend its decision in 2007 to allow certain Chinese companies to import sensitive military technologies without licenses” (Weisman, 2008). More interestingly, there are American leaders who are indirectly or possibly directly involved in the acquisition. Bain Capital for example, was founded and at one time 100% owned by Mitt Romney, who was a presidential candidate in 2008 (Blodget, 2012). Romney had left Bain Capital before the Huawei-3Com deal, but his severance package from the company still allowed him to gain shares of Bain’s profits (Confessore, Drew & Creswell, 2011). Usually, the business model of private equity firms is to make a profit by reselling companies they have bought (Confessore, Drew & Creswell, 2011). So theoretically, if Bain was successful in acquiring 3Com and then resells its shares, it would have made a large profit doing so. Since
Romney held no official post during the time of the deal, it is difficult to say whether he had any influence on the decision.

Perhaps more controversial than Romney’s connection to Bain was Treasury Secretary Henry Paulson’s connection to Goldman Sachs, an investment banking firm. Goldman Sachs was at the time advising 3Com on the deal and interestingly, Paulson’s previous job was Goldman’s chairman and CEO (“The 3com-huawei deal,” 2007). In the past, Paulson had already sold $500 million worth of his Goldman shares before becoming Secretary of the Treasury, but he still recused himself from his position on the CFIUS in order to avoid a conflict of interest problem (Gelsi, 2006; Ibid). Although one cannot know for certain what Romney’s and Paulson’s positions were on the deal, they both were undeniably connected to companies which want to make the deal work.

Would Huawei’s control over the distribution of 3Com’s network products affect the US economy in a significant way? The answer is likely to be no. The reason being is that there are several large companies in the US that produce similar network electronics as 3Com. In the early 2000s, 3Com was facing so much competition from Cisco Systems in the high-end segment of its router business that it mostly abandoned the American market, and decided to sell older products to China through H3C (Barfield, 2011:11). This means that Huawei’s primary market is China rather than the US. Looking at the market share of customer-premises equipment (telephones, switches, routers, residential gateways, set-up boxes, for use with communication service provider) in 2006, 3Com only has a 3% share of the North American market (Krapf, 2007). Furthermore, when Hewlett-Packard announced to acquire 3Com in 2009, 3Com had a 35% market share in China but very little market shares in North America and Europe (Ricadela, 2009). 3Com’s low market share means that its supply of network products can easily be
mitigated by that of larger companies if Huawei chose to cancel distribution to the US after acquiring 3com. Clearly, the deal fails to meet Threat I.

(Figure 34) 2006 Customer-Premises Equipment Market Share

(Krapf, 2007)

Does buying 3Com give Huawei technology and expertise which may be used harmfully against the US? In addition, would Huawei be able to use 3Com to sabotage the America’s supply of consumer-premises equipment, or use 3Com’s products to spy on America? The answer to both of these questions is likely to be no. In the 8-K filing 3Com submitted to the Securities and Exchange Commission, it stated, “Huawei will not have any access to sensitive US-origin technology or US government sales as a result of this transaction” (Duffy, 2007).

There is no direct connection between 3Com and the American government because 3Com only sells to the government through resellers and integrators (Ibid). Moreover, 3Com does not have any products that are designed specifically to be used by the government (Ibid). To put simply, if the American government does not choose to use 3Com’s products in fear of the potential harm such products may bring its networks, all security threats to its networks will be mitigated. Even
if Huawei indeed gained “harmful technologies” from the deal, Huawei will have no way to use them in a harmful manner against the US.

More importantly, according to the 8-K, since Bain, an American company will control 83.5% of 3Com, “Bain Capital will be able to make all operational decisions for the company, to set budgets, to spend money, to make investments, and to hire and fire personnel. Huawei will not have any control over the operation of the business” (Duffy, 2007). Any malevolent intentions Huawei may have towards US would be too difficult to be carried out under these conditions. When asked about the deal’s security concerns, Xu Zhijun, Huawei’s chief marketing officer said, “If the US government is concerned about Huawei…Cisco is everywhere within China. Who should be more concerned?”(Parker & Taylor, 2008). From the evidence provided, one can see that Huawei does not pose a security threat under both Threat II and III categories. As with the CNOOC case, this case also exhibited evidence of congressional cleavage based on a difference of interests, legislative opposition to reject the deal through CFIUS, as well as the lack of any significant security threat.

At this point, it is important to address the most recent claims of Huawei being a security threat. Michael Hayden, the former head of America’s Central Intelligence Agency recently accused Huawei of spying for the Chinese government. In the interview, he stated that “Huawei shared with the Chinese state intimate and extensive knowledge of the foreign telecommunications systems it is involved with” (Wardell, 2013). His words however, are not very credible. First, Hayden is a corporate director of Motorola Solutions which is currently in a lawsuit with Huawei, its competitor (Ibid). His accusations may simply be Motorola’s strategy of denouncing Huawei’s brand status, perhaps to influence the outcome of the lawsuit in their favour. Second, Hayden has given no details on the evidence of the reports (Ibid). Hence, from
these two points, it is possible to assume that Hayden is acting in the interests of Motorola than on behalf of national security.

From the Chinese side, Huawei has openly declared that they are not involved in spying for Beijing. Eric Xu, Huawei’s deputy chairman refuted Hayden, saying Hayden’s claims are merely “political noise” (Osawa, 2013) Xu said, “On the one hand, Mr. Hayden refuses to reveal a single piece of evidence to support his claim of our wrongdoing, yet on the other hand, he states that it is up to Huawei to prove otherwise” (Ibid). Although one cannot be absolutely certain that Huawei does not engage in spying, such reports from the media should be taken with a grain of salt. From the evidence gathered so far, recent claims appear to fit in with the theoretical framework—suggesting that different group interests play a role influencing the outcome of Chinese FDI evaluations in the US.

5.33 Sany Heavy Industry/Ralls Corp—Oregon Wind Farm Projects, 2012

In October of 2012, Ralls, Sany’s subsidiary in the US filed a lawsuit in a Washington District court against President Barrack Obama and CFIUS chairman, Treasury Secretary Timothy Geithner (Helman, 2012). Sany’s move is very bold as in most cases, companies would immediately withdraw their bids after an executive block. According to Xian Wenbo, Sany Group’s director, “Everybody knows we have received unfair treatment in the US. The order was issued by President Obama. If we don’t sue him, who do we sue?” (Shih, 2012). Obama’s block is also very interesting as this is the second time that an executive order has been issued to block a foreign investment since 1990 when George H.W. Bush rejected China National Aero-Technology Import and Export Corporation acquisition of MAMCO Manufacturing (Pace, 2012). Sany and Ralls argue that the executive block issued by Obama and recommended by CFIUS on
their plans to build 4 wind projects in Oregon was unconstitutional (Ibid). Currently, Sany is one of China’s leading heavy equipment manufacturers, very much like the Caterpillar Inc. in America. Sany hopes to use Ralls’ wind turbine projects as a way for the company to gradually enter the green energy market (Rapoza, 2012).

The trouble for Ralls first started after it purchased land in Oregon for constructing wind projects (Zhang, 2012). A local navy base soon contacted Ralls, asking the company to relocate the construction to another location due to the close proximity of the project to the base (Ibid). The base was known to conduct “training for bombing, electronic combat maneuvers and develop drones” in the area (Hu, 2012). Ralls agreed and then proceeded to file a voluntary CFIUS notice (Zhang, 2012). After Obama was informed by CFIUS, in September he ordered Ralls to divest all of its interests its wind projects in 90 days, and remove all of its installations and property on the site in two weeks (Hu, 2012). In the order issued by Obama, it states, “There is credible evidence that leads me to believe that Ralls …and the Sany Group…and senior executives of the Sany Group, who together own Ralls…, might take action that threatens to impair the national security of the US…”(2012). Interestingly, no further explanation on the “evidence” was given. In the statement by the Treasury after Obama’s order, it cited that the location of the project being too close to the military base was a cause for the block ("Statement from the," 2012).

Why would Obama issue this order? One strong possibility is that he wanted to appeal to voters whom dislike Chinese investments and Chinese economic policies in general during the 2012 presidential campaign. During the campaign season, Mitt Romney fiercely criticized Obama for being too soft on China (Palmer, 2012). The Romney Campaign focused on the problem of China being a “cheater” that manipulates its currency to “steal” American jobs (Ibid).
This message was targeted to citizens in states such as Ohio where many manufacturing jobs were lost (Ibid). Romney stated, “When a country artificially holds down the value of their currency, it means that the products that they sell to us are artificially cheap. And that means that American companies that are making these same products, they go out of business if their Chinese products are so much cheaper than the real costs behind them” (Ibid). Unlike congressional delegates, Obama’s role as President makes him obligated to take into account of the interests of all Americans. In essence, Obama’s block may be an attempt to appeal to voters in swing states such as Ohio whom believed they lost manufacturing jobs to China.

Does the construction of wind-farms give Sany the capability to threaten America’s supply of Energy? The answer is an obvious no. Considering that Sany will be constructing wind-farms which were non-existent in the first place, Sany would be increasing the supply of energy rather than diminishing it. If one simply observes the total consumption of energy (Figure 35), renewable energies consist only of a small percentage of total American energy consumption. Wind energy, moreover, only consists of about 1.2% of total American energy consumption ("U.s. renewable energy," 2012). Considering these statistics, Sany’s wind-projects would only be a fraction of a fraction of energy consumed by the US. Since a large number of alternatives to the supply of energy exists, any damage Sany would even be capable of doing to the American energy supply is insignificant. The deal does not meet Threat I requirements.
Would Sany be capable of transferring technology and expertise to China from this project? Doing so is not possible because Sany is not acquiring American wind-farms but trying to acquire the land and approval from the US to start their own wind projects. It would be quite illogical to imply that Sany would steal their own technology and expertise by operating their own wind farms. Sany therefore also fails to meet Threat II.

The biggest worry CFIUS has appears to be the potential of Sany using one of the Wind-farms close to the Navy base to spy on American military activity. The location of the wind farm itself may meet the requirement for Threat III. However, the location was not an issue either because Sany agreed to move the location of their project 1.5 miles southward after it was contacted by the navy ("The invisible hand," 2012). To CFIUS this new location was still considered too close. CFIUS issued several interim orders over the summer for Sany to halt and withdraw the project (Ibid). Facing political pressure, Sany tried to negotiate the abandonment of the wind project close to the military base without compensation if the company was allowed to keep the other 3 (Ibid). This of course failed. If Sany intended to drop the project close to the
base, then Sany would have had no capability to spy on the base at all. Hence, the deal also does not meet Threat III. Although there does not seem to be strong contestation between leaders in the Sany case, the President’s decision can be attributed to his consideration of group interests rather than to the presence of actual threat. For the most part the case also fits well with the theoretical framework.

5.4 Cases from Canada

5.41 China Minmetals—Noranda, 2004-2005

Perhaps the most controversial case so far of Chinese FDI in Canada is Chinese SOE, Minmetals’ bid in 2004 to acquire Noranda, a Canadian mining company. The proposed bid was estimated to be approximately $7 billion (Keller, 2004:1). Soon after the bid was announced, the deal became very politicized—garnering criticism from across the political spectrum. Critics brought up issues such as “human rights, environmental protection, corporate social responsibility and a more expansive definition of Canada’s national interest” (Ibid: 2). Some scholars believe that the deal primarily failed because of union opposition and that the federal government introduced Bill C-59, an amendment to the ICA, which toughened Canada’s investment screening criteria (Zhang & Chen, 2004: 38). Although one can argue that these two factors played a role in the outcome, the relationship of the two factors and the outcome is undeniably indirect. Unlike the US where CFIUS played a direct role by issuing orders and/or recommendations for the Chinese firm under review to withdraw, Canada has never used the ICA to block Chinese investments.
In fact, by early 2005 the politicization and media debate over the deal had halted (Salzman, 2005). The reason being is that Noranda had decided in March to purchase its competitor Falconbridge Limited, which it had already owned a 59% share of ("Noranda to take," 2005). The value of the new amalgamated company, which was estimated to worth $14 billion, discouraged Minmetals from purchasing Noranda (Ibid). Instead, Minmetals and Noranda in March started talks of a strategic alliance (Ibid). Bill C-59 was introduced in late June, meaning that the changes it made to ICA were never applied in time to review the Minmetals-Noranda deal. The Bill C-59 after introduction also never became law (Bhattacharjee, 2009: 3). Certainly, one may argue that talks of ICA reform was the reason why Noranda chose to ignore Minmetals was because more stringent investment screening measures would potentially reject the deal. Since no direct relation is however present between the ICA and Minmetals’ withdraw, it is unclear whether Canada intended to block the deal or not.

The NDP caucus in October 2004 expressed several concerns regarding the nature of Canada’s review process. They demanded the Liberal government to thoroughly investigate the deal, and supported the creation of a parliamentary review committee to review inward FDI ("Ndp mps call," 2004). Brian Masse a Windsor NDP Member of Parliament (MP) and industry critic stated, “I cannot seriously believe that in the past 19 years, every foreign investment in Canada has been in the net benefit to Canada, as the act states they should be…Human rights, workers’ rights and the overall economic stability of the regions affected must be taken into consideration” (Ibid). The NDP’s position is quite unsurprising as several major labour unions in Canada oppose the deal. In a statement from the Canadian Auto Workers Union on the takeover it stated:
“In effect, Canada is becoming a colony once again, and China is the colonizer. Our economic relationship with China is quickly coming to resemble our relationships with previous colonial powers - first Great Britain, then the US. Overcoming our status as a raw material supplier - a "hewer of wood and a drawer of water" - has been a central economic concern for Canadians since before Confederation …Now, with China becoming a new and dominant force in our economy, the tendency for Canada's economy to revert to that of resource supplier will be doubly strong” ("Statement on the," 2004).

In addition, the National Director of the United Steelworkers Union sent a letter to Prime Minister Paul Martin, expressing concern that the Minmetals had only consulted with the management but not with the Union (Zhang, 2010: 49).

Aside from unions and social democrats, opposition came from members within the Liberal party who thought SOEs should not being purchasing private Canadian firms. David Kilgour, a Liberal MP, said, “That if one commercial company was taking over another, nobody would bat an eyelash…but this is a branch of a government department in China” (Austen, 2004). Roy J. Cullen, another Liberal MP remarked, “What's the business of a government in operating a natural resources company? Is there a net benefit to Canada in this? Personally, I need some convincing” (Ibid).

Despite these attacks on the deal, the Liberal government did not succumb to creating a parliamentary investigative committee to further scrutinize the deal (Ibid). Although politicization exists, the government’s efforts in reaction to directly stop the deal were minimal aside from introducing Bill C-59. According to the Minister of Industry David Emerson, even
Bill C-59 was not introduced due to the increase of Chinese interest in Canadian resource companies (Antkiewicz & Whalley, 2007: 212).

Would Minmetals’ takeover of Noranda meet Threat I? Noranda is the 9th largest producer of copper and the largest producer of zinc in the world (Austen, 2004). To test for Threat I, the supply of the two minerals will be examined. Doing so will shed light on whether a Chinese takeover of Noranda will give the Chinese enough leverage over the supply of Canada’s minerals to hurt the Canadian economy.

As one can see from the figure 36, with only a 2% of total copper production, Noranda’s supply of copper can be easily be substituted by that of larger firms such as Teck Cominco and Vale Inco. If Minmetals’ attempted to curb the supply of copper to Canadians, the effects of such actions will be insignificant—both on the price and supply of copper. What about the supply of zinc? From figure 37, one can see that the amount of copper China produces annually exceeds that of all other countries.

(Figure 36) Total % of Copper In Concentrate Produced by Canadian Mines in 2006

(Coulas, 2008: 16.3)
In 2005, China produced 2,776,000 tonnes of zinc while Canada produced 723,000 tonnes (Panagapko, 2008: 56.22). The magnitude of Chinese zinc production raises an important question, why does China need to take over Noranda in order to manipulate the supply of zinc? In 2006, Canada imported 3,052 tonnes of zinc sulphate from China, which is more than the import of US and the rest of the world combined (Ibid: 56.18). China can simply withhold the global supply of zinc on its own and doing so will be more effective on global supply and price than simply withholding the supply of zinc from a Canadian firm. Looking at domestic zinc consumption in 2006, which takes into account of domestic shipments and imports, Canada uses 191,466 tonnes, a bit less than 1/3 of the total production of 723,000 tonnes (Ibid: 56.1). If Minmetals indeed attempted to curb the supply of zinc, Canada could fulfill the gap in domestic zinc demand simply by exporting less zinc and allocating more towards domestic consumption. Considering the abundance of supply for both zinc and copper even under threat conditions, the deal is unlikely to meet Threat I requirements.
Would Minmetals acquire the technology and expertise to hurt the Canadian economy by acquiring Noranda? The chance of the Chinese SOE doing so is unlikely. Borrowing the logic of the Threat II assessment used from the CNOOC-Unocal deal, with improved mining technology and expertise, Minmetals and China would most likely be able to harvest more minerals both domestically in China and globally. This outcome will result in a larger global supply of minerals—quite the opposite of hurting the Canadian economy, because Canadians will be able to access cheaper and larger quantities of minerals if global supply increases. Furthermore, there are no reports suggesting that Noranda’s mining technology can be applied militaristically by the Chinese. Obviously, the deal does not meet Threat II requirements.

Lastly, would Minmetals be able to use Noranda’s minerals to sabotage or spy on Canada? If Minmetals does seek to sabotage its products, the results will not be very effective. As shown in the Threat I assessment, the supply of zinc and copper can be substituted if Minmetals’ products are defective. If the products were dangerous, Minmetals will most likely be shut down, while other suppliers profit from Minmetals’ loss. In addition, using minerals to spy would be an impossible feat to accomplish—meaning chances of spying are very unlikely. The deal also fails to meet Threat III requirements. This case overall fits the theoretical framework because the deal itself was not directly blocked by the ICA, group interests played a role in shaping Bill C-59 but had no direct influence on stopping the deal, and finally, the FDI itself was not a threat.

5.42 Sinopec—Syncrude Canada, 2010

In April 2010, Sinopec, one of China’s largest oil and gas companies made a $4.65 billion bid to purchase 9.03% of Syncrude, an Alberta based company that produces synthetic crude from oil sands (Koven, 2010). The 9% share was put on sale by ConocoPhillips in the
previous year (Ibid). Interestingly, the Chinese SOE’s $4.65 billion bid was significantly higher than the market value (Ibid). As with the previous case, there was much opposition from parliament towards the deal. Although it was unclear whether the government wanted to block the deal or not in the previous case, this transaction was easily approved under the ICA review process. Members of the Conservative government were very supportive of this deal. On the nature of the review process, Industry Minister Tony Clement said, “I have approved the application by Sinopec ... to acquire control of the ConocoPhillips Partnership because I am satisfied that the investment is likely to be of net benefit to Canada” (Nickel, 2010).

There are some Conservatives such as Calgary MP Rob Anders who were worried that China would manipulate the supply of strategic resources in their own interests—such views however, were not very publicized (Clark, 2010). Opposition, as with the previous case mostly came from the NDP. On the potential that Sinopec would be exporting bitumen to China, NDP Nathan Cullen remarked, “The Prime Minister is breaking his own fundamental promise not to export raw bitumen to countries with lower environmental standards. He is exporting raw resources and Canadian jobs” (McCarthy, 2013). These voices of opposition, as shown by the ICA approval of the deal were ineffective at contesting the outcome.

Would Sinopec’s acquisition allow it to manipulate and hurt the Canada’s supply of crude? First, considering that Sinopec will only be holding a minority stake of 9%, any decision to withhold the distribution of crude to Canadians would have to be approved by the other larger stakeholders. “There are seven other partners in Syncrude who control the remaining 90.97 percent”, Clement stated, “This transaction will not change the level of Canadian control of Syncrude, which will remain at 55.97 per cent” ("Ottawa oks china," 2010). Chances of other
stakeholders agreeing to such this preposterous and financially irrational demand would be very low. This fact alone makes Threat I a near impossibility.

So what if Sinopec was able to channel 9% of Syncrude’s oil to China? 9% of Syncrude’s production would amount to 11.9 million barrels per annum or 32,550 bpd, which only accommodates for 0.4% of China’s daily oil demand (Jiang, 2010: 24). This amount would only fill 6.2% of Enbridge’s notorious 525,000 bpd capacity Northern Gateway pipeline, which still has not been built (Ibid: 24). Undoubtedly, China’s capacity to hurt the Canadian economy by withholding oil is quite insignificant. Furthermore, without cost-effective means such as having a pipeline connecting Alberta to British Columbia so the oil may be shipped to China, China will find “stealing” Canadian oil to be a difficult feat to accomplish (Ibid: 24). Thus, clearly the deal does not meet Threat I requirements.

Would China be able to steal drilling technologies and expertise from Canada and use them against Canadians? The drilling technology Syncrude uses are mostly for the special purpose of extracting oil from bitumen sands, a relatively unconventional form of oil. By 2010, Canada had discovered 1.73 trillion barrels of bitumen, about 66% of all bitumen discovered in the world (Attanasi & Meyer, 2010: 124). Partially due to the availability of more accessible forms of oil, Russia and Kazakhstan—where the second and third largest deposits of bitumen are located—do not commercially extract their bitumen deposits (Ibid:124-125). Canada remains the only country in the world which commercially extracts its bitumen deposits (Ibid: 124). If China came into possession Syncrude’s advanced extraction technologies—in the short-term and very possibility in the long-term it would have trouble finding a use for them; other than of course, applying them for use in Canada. The deal hence also failed to meet Threat II.
Finally, since Sinopec holds only a 9% share of Syncrude, and that 9% of Syncrude’s production is quite insignificant, Sinopec does not have the authority to sabotage Syncrude’s oil, nor will doing so instigate much damage to the Canadian economy. The deal, thus also does not clearly meet Threat III requirements. This case proves the theoretical framework because the deal was approved through the ICA, interests within parliament to undermine the deal were not successful, and finally, the deal was not a threat as shown by applying the Three Threats framework.

5.43 CNOOC—Nexen, 2012

The largest Chinese investment so far in Canada has been the CNOOC acquisition of Nexen, a Canadian gas company based in Alberta for 15.1 billion ("Cnooc completes $15.1-billion," 2013). After first announcing the bid in July 2012, the Conservative government approved the deal in December under the ICA, justifying that the deal would bring a “net benefit” to Canada (Ibid). Unlike previous FDIs examined, CNOOC had to gain approval from both Canada under the ICA, and the US through CFIUS. The reason being was because Nexen operates some oil extraction platforms on American territory, in the Gulf of Mexico (Rampton & Haggett, 2013). American legislators approved this deal without many concerns (Ibid). The decision was unsurprising as the majority of Nexen’s assets are in Canada. While in Canada, the deal faced harsh criticisms from parliament.

The NDPs were among the first to cast the deal in a negative light, arguing that the government should not follow free-market principles in regards to the takeover. In September, Nathan Cullen, House Leader for the Official Opposition remarked, “We think this could potentially be very harmful to the Canadian economy and we have a government that seems to
say that ‘Well, laissez-faire is going to take care of this one.’ Well, that’s clearly not the case,” (Fekete, 2012). In addition, Peter Julian, the energy and natural resources critic for the Official Opposition believed that CNOOC was a strategic arm of the Chinese government, and that a host of issues ranging from the lack of environmental regulations, to transparency, and to CNOOC’s human rights violations plague the deal (Galloway & Tait, 2012).

The NDP’s concerns were further amplified by that if the Liberals who believe that the takeover may surmount to waves of Chinese takeovers in the future. Liberal deputy leader Ralph Goodale said, “If Nexen is to be purchased, then what’s next? Is it Talisman, is it Cenovus, and is it Encana? Where do these dominoes begin to fall and where do they stop? They have been absolutely negligent in not engaging Canadians on this file and having the rules set by now…This decision will set the template for a lot more transactions” (Fekete, 2012). Nonetheless, Most Conservatives were very supportive of the deal. Industry Minister Christian Paradis fiercely attacked the NDP for arguing against the transaction:

“The true motivations for the NDP’s actions are clear; frighten off investment and shut down trade. This is not surprising coming from the party that opposed free trade with the United States, our largest trading partner…The NDP’s actions are reckless and irresponsible. By attempting to politicize the review process they are creating the kind of uncertainty that scares off the investment Canadian companies rely on to create jobs, innovate and compete” (Galloway & Tait, 2012).

Prime Minister Stephen Harper also criticized the NDP’s statements. He claimed that the NDP were following their socialist ideology, and that their opposition will have no effect on the transaction (Ibid). In addition, Primer of Alberta, Alison Redford commented that in the past, 78%
of Alberta’s oil patch was owned by foreign investors; it was precisely because of foreign involvement that Alberta was able to become Canada’s economic engine. "It's not something that we are hesitant about," she said regarding FDI, “We think that if you want to play on the international stage and you have the sorts of resources that we have in Canada, it's important for us to be able to build those business partnerships” (Palmer & Ljunggren, 2012).

Despite the eventual success of the deal—under the barrage of criticisms from both the NDPs and the Liberals, the Conservative government, arguably made several compromises. Harper had indicated that the government will curb the trend of foreign SOE takeovers in order to make sure that the Canadian oil industry does not become controlled by foreign governments (Little, 2012). From now on, only under “exceptional circumstances” would SOEs be allowed buy Canadian oil firms (Ibid). However, Harper’s did little to please the opposition. NDP leader Thomas Mulcair was dissatisfied with Harper’s new guidelines. He said that Harper changed the rules of reviewing foreign ownership without providing clear definitions of these rules, nor did he discuss them with Parliament (Ibbitson, 2012). Perhaps the real reason why Harper remained ambiguous on these guidelines was because he wanted to prepare Canada for future FDIs from Chinese SOEs. By using the word “exceptional”, his administration would retain a degree of control when wanting to approve certain investments from Chinese SOEs.

But far more interestingly, the Conservative government chose to reject Malaysian SOE, Petronas’ $5.23 billion bid to purchase Progress Energy, which occurred roughly in the same time frame as the CNOOC-Nexen deal (Mayeda & Quinn, 2012). The deal was very similar to the CNOOC-Nexen deal in many respects. In both cases, foreign SOEs were bidding to takeover Canadian firms in the oil industry. Although the assumption is difficult to prove, the Conservative government may have rejected Petronas in order to guarantee an easier approval of
CNOOC’s much larger 15.1 billion acquisition. The logic is simple, considering the size of China’s economy, Canada can undoubtedly gain more benefits from future Chinese FDIs than from future Malaysian FDIs. In essence, rejecting Petronas silenced voices within the opposition whom may accuse the government of allowing “just any” foreign SOE to takeover Canadian oil companies without undergoing the proper ICA review procedures.

Would CNOOC be capable of manipulating Nexen’s oil supply to seriously damage Canadian economic interests? The answer is likely to be no. In 2012, Suncor produced an average of 499,276 barrels of oil equivalent per day (boe/d), and Canadian Natural Resources produced an average of 451,378 boe/d (”The 100 largest,” 2013). Nexen produced only an average of 163,300 boe/d, approximately at only 30% of each previous firms’ boe/d capacity (Ibid). Furthermore, when observing Nexen’s average boe/d as a percentage of the top 15 Canadian gas and oil producers chosen by average boe/d, Nexen only has a mere 2% share amongst the top 15 (Ibid). If all gas and oil producers were included in the calculation, Nexen would have a less than 2% share of total average boe/d produced by all Canadian firms. Due to the abundance of suppliers, any attempts CNOOC makes to withhold Nexen’s supply of oil from Canadians would be easily mitigated by the supply of other oil producers. This evidence coupled with the logic demonstrated in the previous case that more effective means are necessary for China to transport oil produced in Canada, the deal clearly failed to meet Threat I requirements.
"The 100 largest," 2013

(Figure 38) Top 10 Canadian Gas and Oil Producers of 2012: Average Barrels of Oil Equivalent Per Day

(Figure 39) Nexen's Average Barrels of Oil Equivalent Per Day as % of Top 15 Canadian Oil and Gas Companies of 2012

("The 100 largest," 2013)
Would CNOOC use the technology and expertise it gained to undermine Canadian economic interests? Borrowing the logic from previous cases examined, if the CNOOC gains better drilling and extraction technology, the firm would most likely use such technology can their own extraction facilities. Doing so will most likely increase the global supply of oil, lowering both the price and supply of oil. In effect, this will give Canadians an increased degree of access to oil. Although Nexen possess drilling and extraction facilities in non-oilsand regions, still the majority of Nexen’s assets are in Canada. Using the logic used to evaluate the Sinopec-Syncrude deal, technologies used to extract bitumen from oilsands in the short-term and possibly in the long-term would be quite useless in Chinese hands. The deal thus failed to meet Threat II requirements.

Is there a chance that CNOOC will sabatage Nexen’s products or use Nexen to spy on Canadians? Again, one simply needs to observe the supply of oil to answer this question. Even if CNOOC manged to sabatage all of its petroluem products, Canadians have an abundance of other suppliers to purchase oil from. The damege CNOOC is capable of doing will be miniscule. In terms of survialence, it would be difficult to use petroluem products as a means of spying on Canada. Before being allowed to purchase Nexen, CNOOC agreed to the terms set out by the government that at minimum, Canadians will hold 50% of Nexen’s board and mangement positions (Argitis & Mayeda, 2012). With Canadians co-supervising Nexen’s operations, not only does this decrease the chance of the first two threats, chances of Threat III will be kept in check as well. The CNOOC-Nexen deal also failed to meet Threat III conditions.

This case effectively demonstrated the theory. First, the Canadian lawmakers approved the deal through the ICA. Second, Group contestation mostly between party lines—though
ultimately ineffective at stopping the deal—forced the Conservatives to make some compromises. Third, the deal itself posed no real threats as demonstrated by the Three Threats Framework.

5.5 Conclusion

The conclusion here is obvious. In the US, when deals become politicized, the chances of rejection are high. While in Canada, that line of causality does not exist. Even in the Minmetals-Noranda deal, the most controversial Canadian case examined, the ICA was never used to block the Chinese FDI. In other words, no direct regulatory blocks were ever used by Canada to block Chinese FDI. Conversely, in the US, even in the Huawei-3Com deal when Huawei was purchasing a minority share of 3Com, the deal was directly blocked by CFIUS. Furthermore, when Sany through its American subsidiary Ralls, wanted to construct previously non-existent wind-farms, the deal was also blocked. This comparison effectively demonstrates that different attitudes towards Chinese FDI exist between Canadians and Americans. In essence, Canadians are more likely to accept controversial cases than Americans.

In both Canadian and American cases, it was found that the decisions to block and approve FDIs were mostly influenced by cleavages—based upon group interests—found within Parliament and Congress. One can argue that in order to appeal to voters who have lost manufacturing jobs to China, Obama rejected Sany’s wind projects during the 2012 election campaign. Furthermore, the American cases have shown that representatives sitting on certain committees, or represent certain districts would voice opinions which appeals to their respective committees and districts.
In Canada, it was shown that in most cases, Conservatives are usually supportive of FDIs which aligns well with their interest in promoting market-oriented policies, while the NDPs, with labour unions as their primary voter base, tend to be protectionist, and disapprove of Chinese FDIs. In sum, group interests manifested in policymakers are more influential on the review process in the US than in Canada. This was shown by how the Harper government was able to mitigate the interests of other parties to block Chinese FDI. Moreover, although difficult to say for certain, Canada appears to have more inter-party cleavages than intra-party cleavages than the US.

Finally in all the controversial cases examined in North America, little or no threat was found when the Three Threats Framework was applied in their individual evaluations. In all of the firms examined, an abundance of substitutes are available for the firms’ products. In other words, all firms examined do not meet Threat I requirements. As a concentration of supply is the most important of all considerations, failing to have a concentration of supply significantly diminished the potential threats for all firms. Taken everything into consideration, the cases examined align well with this paper’s theoretical framework.
CHAPTER 6: CONCLUSION

In Chapter 2, through the collection and analysis of data, several important trends were discerned. Globally, Chinese FDI has been increasing rapidly since the mid-2000s. Most of Chinese investments are in the service industries but with more concentration in primary industries than rest of the globe. Looking at North America, although Chinese investments are still quite low, growth of Chinese FDI fits with the global trend of rapidly rising Chinese FDI. However, sectorial concentration of Chinese FDI differs in North America with more Chinese investments in the information technology sector in the US, and the energy and resource sector in both Canada and the US. Likewise, further differences exist between Canada and the US in sectorial distribution—with Canada having a concentration of Chinese FDI in a smaller number of sectors than in the US. Differences between Canada and the US in both distribution and concentration of Chinese FDI suggest that these two countries may have different approaches or perspectives in dealing with Chinese FDI.

Chapter 3 explored and compared the regulatory framework and process for evaluating FDI in Canada and the US. Through a brief glance at the history past evaluations, one can see that despite having very formal regulatory procedures for evaluating FDI, the informal politicization of deals has an effect on the outcome of the review process. In Canada, decisions made by the ICA appear to augment a sense of certainty to the Canadian regulatory environment. Perhaps the decision makers are not swayed by the opposition’s politicizations of certain transactions. As there has been no case of formal blocks of Chinese investments in Canada, one cannot argue with much certainty that Canadians are biased against Chinese investments. While in the US due to occasional interjections from Congress to block investments, the regulatory environment there appears less certain than Canada’s. Moreover, since the US had in the past,
Chapter 4 provided a plausible theoretical framework and several examples to explain the difference between how Canada and the US treat Chinese FDIs, and why such differences exist. The chapter explains that when China grew both militarily and economically, it came to be perceived as a threat and a rival by the US, the world’s only hegemonic power. In the realm of international investments and trade, it is possible that China and America are competing with one another for hegemonic supremacy. However, in the realm of FDIs, Chinese FDI poses little or no actual threat to the US. Nonetheless, due to the negative public perception of China in the US—subjectively derived by the genuine threats of Sino-American competition in other areas, the US would be less likely to accept Chinese FDIs. The rationale being that the policy makers, while having their own individual opinions, often times make decisions in effort to adhere to group interests. Since Canada does not compete with China, Canadians are much more positive towards accepting Chinese FDIs.

Chapter 5 reviewed several cases of controversial Chinese takeovers in both Canada and the US. In the US, when Chinese takeovers were politicized, they were blocked, while in Canada, even when deals were politicized there were no formal blocks issued. In the US, group interests channeled by law-makers and reviewers are strong in influencing the outcome of investments, while in Canada such influences were relatively weak. Finally, in both countries, when applying the Three Threats Framework on the cases, they were all found to have little or no threat. The results of the case study fit well with the theoretical framework introduced in chapter 4.
Using the results found in this study, one can argue with much certainty that the US is more biased towards Chinese FDI than Canada. Of course, one must keep in mind that both Canada and the US both follow free-market principles when evaluating investments. The majority of Chinese FDI in both countries are not blocked, and are encouraged. Regrettably, this study was not able to include a case study of Lenovo’s acquisition of IBM. Lenovo, a Chinese computer manufacturer—despite much congressional opposition and controversy surrounding the deal—was successful in acquiring IBM. Nonetheless, the case studies in chapter 5 effectively contrasted the handling of FDI in Canada and the US. At least enough to demonstrate the US vis-à-vis Canada is much more likely to reject Chinese FDIs than to approve them.

The blend of Realist, Constructivist, Pluralist, and RCI schools of thought in the theoretical framework offers a very unique way for explaining FDI and also a somewhat pessimistic view of Chinese FDI in the US. Although many may criticize this eclectic framework on grounds of naivety, the general reasoning of the framework, I hope, may be of use to someone conducting research on Chinese FDI or FDI in general.

Generally, this theory demonstrates how FDI is treated in two-countries engaged in hegemonic competition—how FDI from the hegemonic challenger is more likely to be rejected by the hegemon than FDI from non-challenger states. In contrast, FDI from the hegemonic challenger will be comparatively espoused in a host-country not vying with the hegemonic challenger for supremacy. In addition through a detailed comparison of US and Canadian institutions, the theory has shown that it is possible for institutional constraints to mitigate the influence of group interests on the FDI evaluation process.
There is an interesting outcome if one thoroughly follows this framework’s reasoning. If China surpasses the US economically, as many scholars today predict, there is the possibility that American FDI in China may be politicized and scrutinized under the Chinese regulatory environment. Whereas, Chinese FDI in the US will be less politicized and undergo normalization, much like Japanese FDI in America today.

6.1 Findings on FDI Determinants

First of all, in the US, when Chinese FDIs have been politicized, chances of CFIUS and/or Congress attempting to block the investment is higher. In Canada, the review system is capable of taking more pressure from the politicization of the deal, and less likely to block the Chinese FDI under review. Second, group interests in all of the cases examined have played either a direct or indirect role in the evaluation process of Chinese FDI. In the US, group interests to reject Chinese FDI have been more successful than Canada’s. This outcome is due to a difference in perspective regarding Chinese FDI within the two countries and the effect of institutional constraints on the evaluation of Chinese FDI. Third, Chinese FDI usually does not possess any genuine threats. By using the “Three Threats Framework” to examine cases of Chinese FDI, it was found that all Chinese FDIs are in sectors in which their products only made up a small fraction of total supply. Lastly, despite the low level of threat associated with Chinese FDI, both the US and Canada at times misjudge the nature of Chinese FDI. In North America, but especially in the US, Chinese FDIs are often misinterpreted and misrepresented—often times leading to their unnecessary rejection.
6.2 Theoretical Contributions

The eclectic model based on the relationship of origin and host country competition offers a new approach to observe and analyse Chinese FDI, and FDI in general. This model intentionally avoided the use of traditional cultural and historical institutionalist approaches in order to explain and accommodate for the changing nature of FDI flows. If the world order were to shift in the future—dethroning the US and crowning China as the globe’s economic hegemon—this model, hopefully, will still be able to explain the FDI flows accordingly to the change in world order. In addition, although FDI is a common subject, the inclusion of constructivism as an analytical approach is slightly uncommon. Although not based entirely on constructivism, this model validates the potential of social constructivism being a legitimate approach in explaining FDI trends.

Moreover, this model opens up new possibilities for future research. For example, would regional competition between a challenger state and a regional hegemon yield similar results? For example, one can use this model to assess Chinese FDI in Japan, or vice versa. Furthermore, one may perhaps use this model to compare Chinese FDI in Australia and the US, or in the United Kingdom and the US. Considering the growth of Chinese FDI in the future, there will undoubtedly be a plethora of ways this model can be applied.


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