



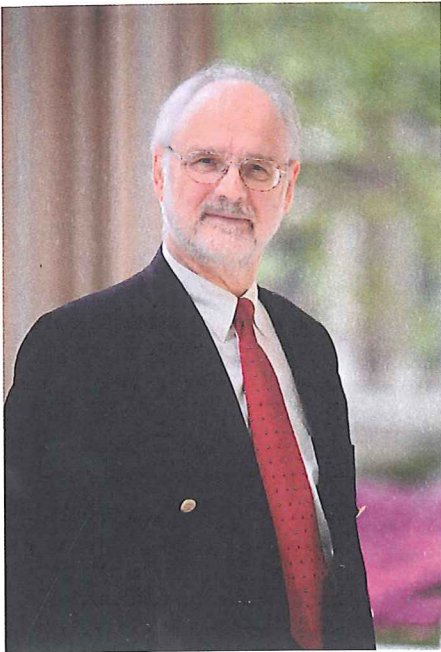
中国企业在美国

CHINESE ENTERPRISES IN THE UNITED STATES 2013





PROSPERING IN THE UNITED STATES



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Are the United States (US) ready for foreign direct investment (FDI) – and especially mergers and acquisitions (M&As) – from China? This question needs to be asked because some indications suggest that there are difficulties to accept “the new kids on the block” – multinational enterprises (MNEs) based in China and investing in the US. And this investment, while still small, is bound to rise. After all, the US is the single biggest and most attractive market in the world, and most firms think they need to establish themselves in that country, to include it in their portfolios of locational assets.

The short answer to that question is “yes.” The US has one of the most open investment frameworks in the world, and its states and many municipalities actively seek to attract FDI. The long answer is still “yes,” but with a number of qualifications, as there are all sorts of tricky and difficult issues that need to be taken into account, including how to enter the US market in a manner that does not lead to significant resistance, how to navigate the regulatory framework, how to operate in the country’s highly competitive, sophisticated and litigious market, and how to prosper in this market. This contribution deals with the last of these challenges, namely some of the things that Chinese firms can do to be successful in the US.

The answer to this challenge has many facets – and it can draw on the experience of firms from Japan that were in a situation similar to that of Chinese firms today when they entered the US in the 1980s.

During the 1980s, the macroclimate of US–Japanese relations was characterized by trade frictions,

exchange rate controversies, concerns about the nature of the Japanese economy (“Japan Inc.”), fears about Japan’s economic ascendance, and cultural misconceptions. The media and politicians had a field day in Japan-bashing. In spite of this climate, Japanese FDI in the US rose from less than \$1 billion annually during the 1970s, to a peak of nearly \$20 billion in 1988–90. It received special attention and faced resistance, exacerbated at times by the relative inexperience of Japanese firms: they (like their Chinese counterparts today) had just embarked on an accelerated internationalization process through FDI and hence had not yet accumulated the experience that comes with operating abroad for decades. During the second half of the 1980s, in particular, when M&As became the principal mode of entry for Japanese firms, a number of high-profile acquisitions received considerable publicity. One attempted acquisition – Fujitsu’s bid for Fairchild Semiconductor (already foreign owned) – contributed to the adoption of the Exon–Florio Amendment, which is the original statute governing the national security review process by the Committee on Foreign Investment in the United States (CFIUS). Moreover, a number of Japanese affiliates in the US faced legal difficulties in the employment area, with one suit reaching the Supreme Court. All in all, Japanese FDI in the US had a rough time.

The parallels in the macroclimate between the US and Japan then and the US and China now are indeed striking. Some of the reactions to Chinese FDI in the US are also strikingly similar, even as far as the reaction by media and politicians is concerned, and the



strengthening of CFIUS through the Foreign Investment and National Security Act. Yet, in the case of Japanese FDI in the US, the controversies died down during the 1990s. Today, Japanese firms are firmly implanted in the US; they have become an integral and valuable part of the country's economic and social fabric, and Japan remains an important source of FDI.

What can we learn from the Japanese experience and, broader, how can Chinese foreign affiliates in the US prosper in the market of that country? The basic answer is clear: Chinese firms – like those from other countries before them – need to become insiders in the US, and they need to build up a positive company brand name. Various strategies can be pursued to that effect.

Where Chinese firms have a choice between entering the US market through M&As or greenfield investments, the safer route (politically speaking) is the latter. And even in the case of M&As, follow-on greenfield investments can be important to increase the acceptability of a given investment. Greenfield investments are universally welcome as they create new production capacities and employment, and they are not subject to a potential CFIUS review. For Chinese firms exporting to the US, perhaps the best way is to establish assembly facilities and eventually move on to full local production (reducing the trade deficit in the process). A number of Japanese firms successfully followed this path, especially in the automotive industry.

In the case of M&As, there is a need for careful preparation, if possible avoiding high-profile takeovers, especially hostile ones. Part of such a strategy is to examine carefully who is affected by a planned acquisition and to understand the interests of the principal stakeholders

involved. Stakeholder management and learning how to navigate the political process and institutional system in Washington, DC, are very important, either individually or together with other non-US MNEs; discrete lobbying may be an important part of this process. The objective needs to be to reduce, to the greatest extent possible, negative publicity and hence to avoid starting out on the wrong foot. If this cannot be done, an attempted acquisition may not come to fruition.

Once established, foreign affiliates need to observe local laws and regulations scrupulously – this goes without saying. This requires a thorough understanding of the country's regulatory framework and its functioning. Compliance training and working with local partners who understand US regulations can be important here.

More than that, foreign affiliates need to integrate themselves as tightly as possible in the communities in which they are established. This means, among other things, growing roots by creating backward linkages with local enterprises, giving them a stake in the well-being of the affiliate. It also means recruiting high-level US citizens for management positions, the board of directors and especially positions in an affiliate that involve an interface with public and private US organizations. Finally, integration involves cultivating the local community, which, in turn, has its own links to the state and federal governments. All politics (including in Washington, DC) is, in the end, local. Organizations that foster communications among business people have a role to play as well; the US-China Business Council is important in this regard, and eventually its degree of embeddedness may be as deep as that of

the US-Japan Business Council.

Another important means to advance integration is corporate social responsibility (CSR). It is a concept that has great saliency in the US – firms are expected to pay full heed to it, at the local, state and federal levels. Japanese firms became fully cognizant of the importance of CSR as part of their efforts to become accepted and integrated. Donations to local charities have a role to play here, as has the establishment of foundations in support of education and the endowment of chairs at major universities.

Pursuing these strategies allows foreign affiliates to create a dense network of economic, social and cultural interactions and ties that embed them and their reputation in their communities and, eventually, make them insiders with a good corporate brand name. Naturally, this requires considerable learning on the part of the managers of foreign affiliates and their parent firms. Building that human capacity is one of the key challenges facing Chinese MNEs. This begins with training when it comes to M&As (and seeking advice where this is needed), learning the ropes of the political system, knowing how to become a good corporate citizen, and demonstrating the contribution that foreign affiliates make to the local and national economy.

It also requires that the Government of China encourage foreign affiliates of Chinese firms to become insiders in the US and acquire a good corporate brand name. And it requires that the media, the public and the political establishment in the US recognize the value of Chinese FDI and respect the principle of non-discrimination in the treatment of such investment. A bilateral investment treaty can help in this respect.