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The Political Economy of Inward FDI: Opposition to Chinese Mergers and Acquisitions

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Abstract

A great deal of political economy scholarship has focused on how countries can attract foreign direct investment (FDI), and the effects of FDI on growth and political stability. A related topic that has received almost no attention, however, is that of divergent political reactions to inflows of FDI in the countries receiving investments. This is an oversight, because inward FDI flows are not equally welcomed by the host country and, in fact, often encounter strong political opposition. We study this phenomenon by examining political opposition to attempts by Chinese companies at mergers and acquisitions (M&As) with US firms. This is especially important given rapidly expanding Chinese M&A activity. We hypothesise that although most legal barriers to foreign M&As are based on national security considerations, objections on these grounds are often vehicles through which to channel other grievances, and that economic distress and reciprocity are also key drivers of political opposition. To test this theory, we constructed an original dataset of 569 transactions that occurred between 1999 and 2014 involving Chinese acquirers and American targets. We find that there is more likely to be opposition to Chinese M&A attempts in security sensitive industries, economically distressed industries, and sectors in which US companies faced restrictions in China's M&A markets.

Introduction

In 2005, a series of attempts by Chinese firms to acquire American companies made national headlines. In May of 2005, Chinese software giant Lenovo Group Ltd successfully acquired the personal computing division of IBM Corporation for \$1.75 billion. Although the sale was a voluntary market transaction that did not appear to violate any US laws, the purchase nevertheless triggered a backlash from Congress and the Pentagon over the transaction's national security implications.¹ At the time this acquisition was completed, the House of Representatives had already begun scrutinizing a concurrent \$18.47 billion bid by the government-run China National Offshore Oil Corporation to purchase Unocal Corporation, the United States' ninth largest oil exploration corporation—a deal that would ultimately also lead to widespread criticism. Then in June of 2005, Qingdao Haier Group—China's largest state-owned refrigerator manufacturer—raised many eyebrows in Congress when it offered \$1.28 billion for Iowa-based appliance maker the Maytag Corporation, outbidding New York-based Ripplewood Holding's previous offer of \$1.13 billion.²

These examples highlight the political dimensions of an important but understudied dimension of international political economy: mergers and acquisitions (M&As). These are a form of foreign direct investment (FDI) in which companies either combine operations (a merger), or where one company acquires a minority/majority equity stake in another company (an acquisition).³ Although M&As constitute one of the primary mechanisms through which FDIs are made, IPE scholars have written almost nothing about these transactions. Instead, researchers studying investment flows have largely focused on such topics as whether government policies increase FDI flows, or the impact of FDI flows on growth and stability. What this line of research has largely ignored is that political leaders, especially in developed countries like the United States, do not equally welcome all inward FDI flows. As the opposition to these high profile M&A attempts illustrate, inward FDI flows may encounter strong domestic opposition. Not yet understood, however, is what factors determine whether politicians will greet M&A attempts from foreign firms either with open arms (or at worst indifference) or with hostile opposition.

In this project, we develop and test a theory of what determinants are likely to produce political opposition to foreign firms' M&A attempts. Under the existing US legal framework, the government is only able to block foreign entities from acquiring American firms when the transaction poses a threat to national security.⁴ Although it is likely indeed the case that members of Congress and the executive branch will react negatively to proposed M&As when the firms involved are in security sensitive industries, we theorize that other

- 1 Rahul Prabhakar, 'Deal-Breaker: FDI, CFIUS, and Congressional Response to State Ownership of Foreign Firms', *Working Paper*, Harvard University, March 13, 2009, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1420790.
- 2 Jessica Brice and Rob Delaney, 'Hayer, Buyout Firms' Bid for Maytag Tops First Offer', *Bloomberg*, July 21, 2005, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=amvfWt5_l3z8.
- 3 In contrast, greenfield investments involve an investment in a physical facility (i.e., building) in a location where no existing facilities are currently present, <http://www.businessdictionary.com/definition/greenfield-investment.html>.
- 4 David Zaring, 'CFIUS as a Congressional Notification Service', *Southern California Law Review*, Vol. 83, No. 1 (2009/2010), pp. 81–133.

factors are also likely to cause political opposition to such deals. We specifically hypothesize that when the target of a foreign M&A is in an economically distressed industry, or when the target firm is in an industry in which US companies face restrictions from the acquiring firm's government, American officials are likely to voice opposition to the transaction regardless of the national security implications.

We empirically test this theory by examining the factors that have produced political opposition to Chinese firms' attempts at M&As of US firms. In the last 15 years, there has been a dramatic increase in Chinese M&A activity in the United States. In the year 2000 it had an annual value of less than \$1 million,⁵ but in 2013 stood at \$14 billion. This significant increase in investment activity is a clear manifestation of China's expanding economic clout, which is likely to enlarge in tandem with its growing economic importance. An examination of when this growing source of economic integration causes political tensions between China and the United States is therefore necessary to understand how the relationship between these two economic powers is likely to evolve.

To undertake that project, we have built an original dataset of 569 transitions announced between 1999 and 2014 in which a China-based firm attempted to acquire a company operating or headquartered in the United States. For each of these transitions, we surveyed a variety of sources—including executive branch press releases, statements in the Congressional Record, and local newspaper stories—to determine whether an attempted acquisition produced political opposition. We then estimate a series of regression models to explore the factors that predict whether a given transaction is likely to generate backlash. We find that US political actors are most likely to oppose Chinese M&As in security sensitive industries, and also transactions in economically distressed industries. We further find that opposition to Chinese inward M&A investments is more likely in sectors where US companies faced similar investment restrictions in China. These findings suggest that Chinese M&As of US-based firms often generate opposition even when the transaction does not run afoul of existing legal restrictions on foreign acquisition of American companies.⁶

Our project makes several important contributions to the IPE literature. First, as China's economic clout and focus on outward investment increase, the M&A activities of Chinese firms are likely to continue to produce political backlash within the United States. Our project gives insight into the factors that have produced such backlash over the last 15 years, and helps to explain when political actors are likely to oppose Chinese attempts to acquire American companies going forward. This type of conflict could affect the overall tenor of relations between China and the United States. Given that this relationship is becoming one of the most important for global stability, it is important to understand the causes of friction within it. Second, although existing laws only give the US government the power to block foreign firms' M&A attempts if a proposed transaction creates a national security risk, commentators have speculated that American officials often couch their objections to M&As in national security terms, even though the opposition is driven

5 These data are from the China Investment Monitor (available at <http://rhg.com/interactive/china-investment-monitor>) and Dexter Roberts, 'Chinese Investment in U.S. Doubles to \$14 Billion in 2013', *Bloomberg Businessweek*, January 8, 2014, <http://www.businessweek.com/articles/2014-01-08/chinese-investment-into-u-dot-s-dot-doubles-to-14-billion-in-2013>.

6 Part 3 provides a discussion of the legal framework that regulates foreign acquisitions of American companies.

by other factors.⁷ Our project provides empirical evidence to support this claim by demonstrating that, even when controlling for national security sensitivity, proposed acquisitions of American firms are likely to generate political opposition when the target firm is either in an economically depressed industry or one in which the capital-exporting state has blocked investment by American firms. This suggests that domestic politics may affect the international relations between China and the United States, and also highlights reciprocity in international politics. Tit-for-tat relations have long been studied in the field, and often claimed as a source of stability and cooperation.⁸ Finally, the political economy literature has almost entirely overlooked the reactions in developed countries to investment flows from developing countries. Our project demonstrates that there are valuable insights to be gained from researching this topic, and that the importance of studying these phenomena will increase as capital flows from the developing to the developed world continue to grow.

The structure of this article is as follows. Part 2 reviews existing literature on foreign companies' M&As from both a political economy perspective and a legal and institutional perspective, and generates hypotheses on when foreign M&As are likely to produce political opposition. Part 3 provides background on the legal framework that governs foreign M&As in the United States as well as historical and institutional background on Chinese outward investment policy. This helps to document the ways in which China's rise in the world economy has unfolded. Part 4 describes our research design and the original dataset that was built for this project. Part 5 presents our empirical results and considers limitations to the inferences that can be drawn from our project. Part 6 concludes by discussing our findings and proposing future research that could build on this project.

Literature and Theoretical Foundations

Why would a country resist inward merger and acquisition activity? Or, more broadly, why would a potential host country oppose direct foreign investment? Much research on this question has focused on developing countries' reactions to capital inflows from companies in the developed world. In this literature, concern over power relations and dependency has been foremost.⁹ The questions raised have centred on whether such investment

- 7 Paul Connell and Tian Huang, 'An Empirical Analysis of CFIUS: Examining Foreign Investment Regulation in the United States', *Yale Journal of International Law*, Vol. 39, No. 1 (2013), pp. 131–63.
- 8 Robert M. Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Deborah Welch Larson, 'The Psychology of Reciprocity in International Relations', *Negotiation Journal*, Vol. 4, No. 3 (1988), pp. 281–301; Robert O. Keohane, 'Reciprocity in International Relations', *International Organization*, Vol. 40, No. 1 (1986), pp. 1–27; David M. Kreps, Paul Milgrom, John Roberts and Robert Wilson, 'Rational Cooperation in the Finitely Repeated Prisoners' Dilemma', *Journal of Economic Theory*, Vol. 27, No. 2 (1982), pp. 245–52.
- 9 F. Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979); Robert R. Kaufman, Harry I. Chernotsky and Daniel S. Geller, 'A Preliminary Test of the Theory of Dependency', *Comparative Politics*, Vol. 7, No. 3 (1975), pp. 303–30; Theodore H. Moran, 'Multinational Corporations and Dependency: A Dialogue for Dependents and Non-Dependents', *International Organization*, Vol. 32, No. 1 (1978), pp. 79–100; Tony Smith, 'The Underdevelopment of Development Literature: The Case of Dependency Theory', *World Politics*, Vol. 31, No. 2 (1979), pp. 247–88; James A.

promotes development or just greater dependency on rich countries and their firms.¹⁰ Another strand of the literature has focused on other important economic questions like what factors enable countries to receive FDI,¹¹ the effects of FDI on growth and stability,¹² and economic and distributional consequences of FDI.¹³ Within this literature, political scientists have often focused on the role of political institutions, such as a country's degree of

Caporaso, 'Dependency Theory: Continuities and Discontinuities in Development Studies', *International Organization*, Vol. 34, No. 4 (1980), pp. 605–28; James A. Caporaso, 'Dependence, Dependency, and Power in the Global System: A Structural and Behavioral Analysis', *International Organization*, Vol. 32, No. 1 (1978), pp. 13–43; Peter B. Evans, *Dependent Development: the Alliance of Multinational, State, and Local Capital in Brazil* (Princeton: Princeton University Press, 1979); Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995); Robert W. Jackman, 'Dependence on Foreign Investment and Economic Growth in the Third World', *World Politics*, Vol. 34, No. 2 (1982), pp. 175–96.

- 10 G. K. Helleiner, 'Transnational Corporations and Direct Foreign Investment' in Hollis Burnley Chenery and T. N. Srinivasan, eds., *Handbook of Development Economics* (Amsterdam: Elsevier Science, 1989), pp. 1441–80.
- 11 Sonal S. Pandya, 'Labor Markets and the Demand for Foreign Direct Investment', *International Organization*, Vol. 64, No. 3 (2010), pp. 389–409; John H. Dunning, *Governments, Globalization, and International Business* (Oxford: Oxford University Press, 1997); Richard E. Caves, 'International Corporations: The Industrial Economics of Foreign Investment', *Economica*, Vol. 38, No. 149 (1971), pp. 1–27; Friedrich Schneider and Bruno S. Frey, 'Economic and Political Determinants of Foreign Direct Investment', *World Development*, Vol. 13, No. 2 (1985), pp. 161–75; Mira Wilkins, *The History of Foreign Investment in the United States* (Cambridge: Harvard University Press, 2004); Tim Büthe and Helen V. Milner, 'The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?', *American Journal of Political Science*, Vol. 52, No. 4 (2008), pp. 741–62.
- 12 Jackman, 'Dependence on Foreign Investment and Economic Growth in the Third World'; Volker Bornschier, Christopher Chase-Dunn and Richard Rubinson, 'Cross-National Evidence of the Effects of Foreign Investment and Aid on Economic Growth and Inequality: A Survey of Findings and a Reanalysis', *American Journal of Sociology*, Vol. 84, No. 3 (1978), pp. 651–83; Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States* (Washington, DC: Institute for International Economics, 1995); Brian J. Aitken and Ann E. Harrison, 'Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela', *American Economic Review*, Vol. 89, No. 3 (1999), pp. 605–18; Theodore H. Moran, Edward M. Graham, and Magnus Blomström, *Does Foreign Direct Investment Promote Development?* (Washington, DC: Institute for International Economics, Centre for Global Development, 2005); James R. Markusen, 'Multinationals, Multi-Plant Economies, and the Gains from Trade', *Journal of International Economics*, Vol. 16, No. 3–4 (1984), pp. 205–26; Robert C. Feenstra and Gordon Hanson, 'Foreign Direct Investment and Relative Wages: Evidence from Mexico's Maquiladoras', *Journal of International Economics*, Vol. 42, No. 3&4 (1997), pp. 371–94.
- 13 Pablo M. Pinto and Santiago M. Pinto, 'The Politics of Investment Partisanship: And the Sectoral Allocation of Foreign Direct Investment', *Economics & Politics*, Vol. 20, No. 2 (2008), pp. 216–54.

democratization, in FDI flows.¹⁴ For example, one recent paper that closely tracks our empirical interest is by Pandya.¹⁵ In a cross-national analysis of FDI restrictions, Pandya finds that democracies have fewer restrictions on FDI flows and that labour organizations see their political fortunes increase with less restrictive inward FDI flows.¹⁶ Yet, as the examples in our introduction demonstrate, we know that democracies like the United States do not always welcome inward FDI, and so our article helps to understand variations in support for inward FDI, here in the form of M&A attempts. Furthermore, less research has looked at the reactions of relatively rich countries to foreign investments by firms from developing ones.¹⁷

Rather than focusing on the influence that broad institutions have on inward FDI flows in a cross-national setting, we explore the variation in political reactions to inflows of foreign investment within a particular set of political and economic institutions. Given that previous work shows that democracies have more liberal FDI policies than do non-democracies, we focus on a democratic country: the United States. This is a tough case for restrictions, both because democracies generally have fewer restrictions on inward FDI flows¹⁸ and because the United States specifically has been uniquely open to foreign investment.¹⁹ Although American policy largely has been friendly to inward FDI flows, not all attempts by foreign entities have been well received. Instead, political opposition over the last 40 years to controversial attempts by foreign firms to acquire American companies has led to legislation and executive orders that have created a legal framework through which an executive branch body—the Committee on Foreign Investment in the United States (CFIUS)—reviews proposed transactions and reports to Congress.²⁰ Our project aims to explain the variation in political responses to transactions reviewed through this process. By isolating the role of institutions in this way we try to reveal the determinants of whether or not political actors choose to express protectionist sentiments in response to foreign M&A attempts.

We also focus on the China because of its increasingly important role in the world economy, though of course future work could expand beyond this case.²¹ The literature on

14 Quan Li and Adam Resnick, 'Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment to Developing Countries', *International Organization*, Vol. 57, No. 1 (2003), pp. 175–211.

15 It should be noted that Pandya's analysis does not include the United States.

16 Sonal S. Pandya, 'Democratization and FDI Liberalization, 1970-2000', *International Studies Quarterly*, Vol. 58, No. 3 (2014), pp. 475–88; Stephen S. Golub, 'Measures of Restrictions on Inward Foreign Direct Investment for OECD Countries', *OECD Economic Studies*, Vol. 36, No. 1 (2003), pp. 85–116.

17 One exception is recent research by Meunier, Burgoon and Jacoby on political fears in Europe caused by the recent surge of investments from China. See Sophie Meunier, Brian Burgoon and Wade Jacoby, 'The Politics of Hosting Chinese Direct Investment in Europe', *Asia-Europe Journal*, Vol. 12, No. 1 (2014), pp. 109–26.

18 Pandya, 'Democratization and FDI Liberalization, 1970-2000'.

19 C. S. Eliot Kang, 'U.S. Politics and Greater Regulation of Inward Foreign Direct Investment', *International Organization*, Vol. 51, No. 2 (1997), pp. 301–33.

20 Zaring, 'CFIUS as a Congressional Notification Service'.

21 A notable example of M&A protests in the United States that did not involve Chinese companies is the Dubai Port World attempted purchase of six ports in the United States in 2006.

Chinese acquisitions focuses largely on the motives and behaviour of Chinese firms, including investments to gain strategic assets and competitive advantages,²² brand recognition, and technology diffusion.²³ These supply side forces are important, but in this article we focus on determinants of demand. In focusing on the demand side, we try to explain what M&As are protested, and which are not. We explore three factors that have the potential to produce opposition to M&A attempts by foreign firms: national security sensitivity, economic distress, and reciprocity.

National Security Sensitivity

In the second half of the 20th century, states negotiated a dense web of international economic agreements that removed domestic legal barriers to foreign trade and investment. Through these agreements, however, states have consistently reserved the right to restrict otherwise permitted economic activity should it pose a threat to national security. In fact, the United States has ensured that the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the Bilateral Investment Treaties (BITs) that America has signed all have explicit provisions that allow it to restrict transactions that would pose threats to national security.²⁴ Moreover, as previously noted, the only legal basis on which the Federal Government can block an attempt by a foreign entity to conduct an M&A with an American firm is that of a transaction that poses a threat to national security. It is consequently clear that attempts to acquire target firms in industries sensitive to national security are likely to engender political leaders' opposition.

The scope of the 'national security' exception, however, has never been precisely defined, and is subject to different interpretations even within Congress.²⁵ Instead of a precise definition, the current law regulating foreign investment in the United States defines national security sensitive industries as including those that implicate 'critical infrastructure', 'critical technology', 'critical resources', and the presence of any other factors the executive branch deems appropriate.²⁶ As some commentators have argued, this broad definition of national security—and the ambiguity that results from it—has left political actors with the ability to block proposed transactions in the name of national security, even if the link between the target firm and any tangible threat is obscure.²⁷ As a result, it is likely that other factors drive political actors to express opposition to proposed transactions.

22 Huaichuan Rui and George S. Yip, 'Foreign Acquisitions by Chinese Firms: A Strategic Intent Perspective', *Journal of World Business*, Vol. 43, No. 2 (2008), pp. 213–26.

23 Margot Schüller and Anke Turner, 'Global Ambitions: Chinese Companies Spread their Wings', *Journal of Current Chinese Affairs*, Vol. 34, No. 4 (2005), pp. 3–14.

24 Zaring, 'CFIUS as a Congressional Notification Service'.

25 Prabhakar, 'Deal-Breaker'; Mark E. Plotkin and David N. Fagan, 'The Revised National Security Review Process for FDI in the US', *Columbia FDI Perspectives* No. 2, Vale Columbia Center on Sustainable International Investment, January 7, 2009, <http://hdl.handle.net/10022/AC:P:8776>.

26 The current legal framework regulating foreign investments in the United States will be discussed in Part 3. See James K. Jackson, 'The Committee on Foreign Investment in the United States', *CRS Report*, No. RL33388, Congressional Research Service, February 4, 2010, p. 18.

27 Connell and Huang, 'An Empirical Analysis of CFIUS'.

Economic Distress

Another clear motivation for political leaders' likely opposition to foreign M&As is the desire to protect local economic interests that M&A activity might hurt. Crystal advanced this view in stating that, 'to the extent foreign companies are able to exploit their firm-specific advantages within the host country—domestic capital specific to these affected sectors should react in a similar (negative) way to IFDI and favour more restrictive or discriminatory policies'.²⁸ Firms in distressed industries—such as those that have experienced recent downturns or that are doing substantially worse than the rest of the economy²⁹—may try to block foreign acquisitions in their industry through either lobbying congressmen or having industry associations pressure the Federal Government.³⁰ As described below, we tap distress by measuring abnormal rates of unemployment within the firm's sector. Since economic interests are of primary concern to elected officials due to political pressures, we would generally expect greater opposition to FDI in an area of 'economic distress'.³¹ This was certainly the case during the 1980s, when Congress began to grant the executive branch additional authority to block foreign M&As in response to the perception that Japanese firms were deliberately targeting vulnerable US firms.³²

In fact, the economic distress of a given industry is likely to be of greater concern with respect to foreign M&As than to greenfield investments, because 'M&As in industrial countries result in significant employment reductions in the acquired firm'.³³ This is driven by the fact that the acquirer of a firm in an industry where there is high unemployment usually eliminates jobs in the process of creating 'synergies' between the aggregated businesses. Therefore, one would expect more political opposition to foreign acquisitions of US firms in industries that are economically distressed, even if the targeted firms are not in industries that implicate national security concerns.

Reciprocity

Poor reciprocal access to foreign markets is also a potential factor that influences government officials' decisions to oppose foreign acquisitions of US firms. Although executive branch officials have denied that reciprocity would influence policy-makers' treatment of FDI inflows from China,³⁴ Crystal nevertheless emphasizes reciprocity as a major issue

28 Jonathan Crystal, *Unwanted Company: Foreign Investment in American Industries* (Ithaca: Cornell University Press, 2003), p. 17.

29 For examples of the negative effects on firms being in distressed industries, see Viral V. Acharya, Sreedhar T. Bharath and Anand Srinivasan, 'Does Industry-wide Distress Affect Defaulted Firms? Evidence from Creditor Recoveries', *Journal of Financial Economics*, Vol. 85, No. 3 (2007), pp. 787–821.

30 US Department of Commerce Representatives, Office of China Economic Area, Personal Interview, Washington, DC, December 18, 2009.

31 Robert E. Baldwin, 'The Political Economy of Trade Policy', *Journal of Economic Perspectives*, Vol. 3, No. 4 (1989), pp. 119–35.

³² Kang, 'U.S. Politics and Greater Regulation of Inward Foreign Direct Investment'.

33 Sanjaya Lall, 'Implications of Cross-Border Mergers and Acquisitions by TNCs in Developing Countries: A Beginner's Guide', *QEH Working Paper Series*, No. 88, Oxford University, June 2002, http://www.wirtschaftssprachen.univie.ac.at/fileadmin/user_upload/wirtschaftssprachen/Englisch/Fitzsimons/Text4.pdf, p. 8.

34 US Department of Treasury Representatives. Telephone Interview, January 28, 2010.

when assessing inward investment, arguing that ‘the extent to which producers have an incentive to use domestic barriers as a bargaining tool to improve foreign market access’ is paramount.³⁵ In fact, during the 1980s there was an effort in Congress to ban foreign investments in the United States unless American citizens were granted reciprocal access to the foreign investors’ domestic market.³⁶ Although the Reagan administration blocked this proposal out of concerns that it would spark reprisals from other countries, it nonetheless demonstrates that public officials have indeed been concerned about whether or not American investors receive equal treatment.

Moreover, China has raised objections to American efforts to screen foreign investments,³⁷ having in 2011 created a ‘National Security Review’ (NSR) process that mirrors the American system.³⁸ The NSR, created by the Chinese Ministry of Commerce, requires foreign companies to report investments in and acquisitions of Chinese enterprises. Since access to Chinese markets is a crucial part of US–China economic policy,³⁹ it would be reasonable to expect more ‘reciprocal’ opposition to Chinese acquisitions within industries that face restrictions on investing in China.

More broadly, reciprocity is an extremely important study concept for scholars of international relations and international political economy. Earlier theoretical work examined how punishment strategies could be used to support cooperation.⁴⁰ Subsequent empirical work has examined the role of reciprocity in a broad variety of domains, including security,⁴¹ and on issues like global warming.⁴² We add to this important literature by thinking about reciprocity between two large economies in the area of FDI.

Other Factors

Aside from these three political economy factors—security, economic distress, and reciprocity—two others that make US politicians more likely to oppose foreign entities’ M&A

35 Crystal, *Unwanted Company*, p. 12.

36 Kang, ‘U.S. Politics and Greater Regulation of Inward Foreign Direct Investment’.

37 Zaring, ‘CFIUS as a Congressional Notification Service’.

38 Lucas Xu, Hannah C. L. Ha, Timothy J. Keeler and Michael A. Wallin, ‘China’s New M&A Review Rules: A Comparison with the US’, *Practical Law*, March 1, 2011, <http://us.practical-law.com/6-505-9049>.

39 US Department of Commerce Representatives, Personal Interview. Washington, DC, December 18, 2009.

40 Axelrod, *The Evolution of Cooperation*; Larson, ‘The Psychology of Reciprocity in International Relations’; Keohane, ‘Reciprocity in International Relations’; Kreps, Milgrom, Roberts and Wilson, ‘Rational Cooperation in the Finitely Repeated Prisoners’ Dilemma’.

41 Joshua S. Goldstein and Jon C. Pevehouse, ‘Reciprocity, Bullying, and International Cooperation: Time-series Analysis of the Bosnia Conflict’, *American Political Science Review*, Vol. 91, No. 3 (1997), pp. 515–29; Joshua S. Goldstein, Jon C. Pevehouse, Deborah J. Gerner and Shibley Telhami, ‘Reciprocity, Triangularity, and Cooperation in the Middle East, 1979–97’, *Journal of Conflict Resolution*, Vol. 45, No. 5 (2001), pp. 594–620; Andrew M. Linke, Frank D. W. Witmer, and John O’Loughlin, ‘Space-Time Granger Analysis of the War in Iraq: A Study of Coalition and Insurgent Action-Reaction’, *International Interactions*, Vol. 38, No. 4 (2012), pp. 402–25.

42 Dustin Tingley and Michael Tomz, ‘Conditional Cooperation and Climate Change’, *Comparative Political Studies*, Vol. 47, No. 3 (2013), pp. 344–68.

attempts will be important to control for in our multivariate analyses. First, politicians are more likely to express opposition to state-owned enterprises attempting to acquire American companies. State ownership of the foreign firm—epically by the Chinese government—is likely to increase fears that acquisition of an American target will create risks to both national security and economic competitiveness,⁴³ and the transaction is thus likely to receive greater scrutiny. Second, US politicians tend to express greater opposition to foreign acquisitions when the target firm has high brand recognition. Transactions that involve well-known firms are more likely to draw widespread public attention, and thus increase the likelihood that political leaders will feel compelled to express populist sentiments that the firm should be under the control of Americans.

Background on US/China M&As

This part provides background in two parts on the M&As that our project analyses. First, we outline the legal framework that governs foreign M&As in the United States. Second, we briefly discuss the development of Chinese outward investment policy since the 1980s that has resulted in a dramatic increase in Chinese M&A activity in the United States.

United State's Legal Restrictions on Foreign M&As

Although the United States is arguably the most open country in the world to inward foreign investment,⁴⁴ there are legal restrictions in place that regulate attempts by foreign entities to acquire American firms. In fact, there is a government body responsible for regulating foreign entities' attempts to conduct M&As with US firms: the CFIUS.

President Ford established the CFIUS in 1975 after the energy crisis of 1972 to 1975.⁴⁵ There was concern at the time that OPEC members would use the surpluses gained in the recent oil embargo on the United States to buy up American firms and assets. In response, the Ford administration created the CFIUS as an independent federal agency to monitor acquisitions in the United States. The treasury secretary was named chairman of this inter-agency committee that carried the responsibility of monitoring the 'impact of foreign investment in the United States. . .for coordinating the implementation of United States policy in such investment'.⁴⁶ Given this vague mandate, it is perhaps unsurprising that the CFIUS did little to restrict foreign investment in the United States for the next decade.

During the 1980s, as Japan's economy had been forecast to exceed that of the United States within a few decades, the growing number of Japanese companies purchasing large US brands began to draw the attention of certain members of Congress.⁴⁷ Although a number of M&As conducted by Japanese firms elicited criticism from American officials, it was

43 Paul R. Krugman, 'Competitiveness: A Dangerous Obsession', *Foreign Affairs*, Vol. 73, No. 2 (1994), pp. 28–44.

44 Kang, 'U.S. Politics and Greater Regulation of Inward Foreign Direct Investment'.

45 Zaring, 'CFIUS as a Congressional Notification Service'.

46 Housing Committee on Banking, and Urban Affairs, 'A Review of the CFIUS Process for Implementing the Exon-Florio Amendment', October 20, 2005, p. 140.

47 Curtis J. Milhaupt, 'Is the US Ready for FDI from China? Lessons from Japan's Experience in the 1980s', in Karl P. Sauvant, ed., *Investing in the United States: Is the US Ready for FDI from China?* (Cheltenham: Edward Elgar, 2009), pp. 185–208.

electronics giant Fujitsu's attempted \$225 million acquisition of Fairchild Semiconductor in 1987 that prompted Congress to expand the executive branch's authority to regulate foreign M&As.⁴⁸ Even though Fairchild Semiconductor was in fact a subsidiary of the French firm Schlumberger, members of Congress argued that the transaction could lead to 'industrial espionage', and eventually forced Fujitsu to withdraw its transaction.⁴⁹ By this time, some Congress members had begun to suspect that the CFIUS was not fulfilling its mandate, and the controversy gave rise to the passage of the 1988 Exon-Florio provision.⁵⁰

The Exon-Florio provision gave the president the authority to block proposed or pending foreign M&As when there was 'credible evidence' that a transaction would 'impair' national security. Although Congress granted this power to the president directly, President Reagan issued an executive order that delegated the authority to review and block mergers to the CFIUS. The order transformed the CFIUS from an administrative body that merely 'review[ed] and analyse[d] data' into a significant authority that could advise the president and block certain transactions.⁵¹ What is perhaps most notable about this reform, however, is that although many of the transactions that gave rise to Congress granting the president additional authority to block foreign M&As of American companies did not pose national security threats,⁵² this reform only allowed transactions that imposed risks to national security to be blocked.

Although the Exon-Florio amendment provided the president with greater power—that was delegated to the CFIUS—to block foreign attempts to acquire American firms, in practice the CFIUS only took steps to block a handful of transactions. This led to Congress passing legislation in 1992 that amended the Exon-Florio statute.⁵³ Known as the Byrd Amendment, this legislation required the executive branch to initiate more investigations, and also increased the CFIUS obligation to report transactions to Congress. Fifteen years later, members of Congress again expressed displeasure that the CFIUS was not blocking more transactions. This led to the passage of the Foreign Investment and National Security Act of 2007 (FINSAs). The FINSAs codified the role of the CFIUS (which had previously only been created by executive order), provided more detailed instructions on when to conduct investigations, granted the CFIUS power to impose sanctions on foreign companies, and increased CFIUS congressional reporting requirements.⁵⁴ Yet despite these congressional actions to force the executive branch to increase its scrutiny of foreign transactions, the CFIUS still has a great deal of discretion in determining how to regulate foreign investment.⁵⁵

48 Zaring, 'CFIUS as a Congressional Notification Service'.

49 Milhaupt, 'Is the US Ready for FDI from China? '.

50 Jackson, 'The Committee on Foreign Investment in the United States'.

51 *Ibid.*

52 When discussing the Fairchild-Fujitsu controversy, Kang notes that the it was 'questionable' whether the product posed national security threats and that '[t]he real driving force behind the Controversy, then, was the political advantage many elected policymakers perceived in meeting the Japanese economic challenge'. See Kang, 'U.S. Politics and Greater Regulation of Inward Foreign Direct Investment', pp. 321–22.

53 Zaring, 'CFIUS as a Congressional Notification Service'; Jackson, 'The Committee on Foreign Investment in the United States'.

54 *Ibid.*

55 Zaring, 'CFIUS as a Congressional Notification Service'.

Under the existing legal framework that this series of executive orders and congressional actions created, foreign entities hoping to acquire American firms are required to submit their proposed transactions to the CFIUS for evaluation. This evaluation lasts a maximum of 30 days, and if the CFIUS chooses to do so, it can launch a 45-day investigation during this window. After an investigation, the CFIUS must make a recommendation to the president to either block the transaction or permit it to go forward. The CFIUS is also required to report regularly to Congress, whose members often voice opposition to proposed transactions. Although the legal basis for opposition must be that the transaction threatens national security, commentators have noted that both executive branch officials and members of Congress are likely to claim that transactions threaten national security when they are actually motivated by other concerns.⁵⁶

Growth of Chinese Outward Investment and Attempted M&As

After the communist revolution in China of 1949, the country was largely closed to foreign investment, and nor did it take many steps to invest capital abroad. In the 1980s, under the leadership of Deng Xiaoping and a new reform-minded 11th Central Committee, China began transitioning to a state-led market-based economy. This process was known as Reform and Opening Up.⁵⁷ This policy change had significant impact on China's investment activity. FDI into China increased dramatically from virtually nil in 1979 to \$4 billion in 1992 and to \$84 billion in 2012.⁵⁸ Simultaneously, Chinese state-owned enterprises began to make investments outside the country (although in the early 1990s most investment projects were small, on average less than US\$ 1 million each).⁵⁹

Although this process started in the 1980s, the size and scope of China's outward investments began to increase dramatically just before the start of the 21st century. In 1999, the Chinese government formally announced the 'Going Global' campaign to encourage domestic firms to make investments overseas. Immediately after announcing this new investment policy, the Chinese government initiated a series of reforms that made it easier for Chinese firms to invest abroad. In 1999, the State Administration of Foreign Exchange (SAFE) decentralized the right to approve access to foreign currencies by companies making investments abroad, thereby relaxing certain foreign currency controls.⁶⁰ At the same time, the National Development and Reform Commission (NDRC) granted direct and indirect subsidies to industries deemed crucial to China's national economy (provided primarily in the form of direct and preferential bank loans from Chinese state-owned banks).⁶¹ The Chinese government also established the State-Owned Asset Supervision Administration

56 Connell and Huang, 'An Empirical Analysis of CFIUS'.

57 One of the first investment-oriented reforms of 'Reform and Opening Up' was the 1979 'Law on Joint Ventures using Chinese and Foreign Investment'. The implementation of this law allowed foreign companies to operate in the mainland while taking equity ownership stakes in their projects with Chinese state-owned enterprises—hence a 'joint' venture. See People's Republic of China, 'The Law of the People's Republic of China on Joint Venture Using Chinese and Foreign Investment' (Beijing: Fifth National People's Congress, 1979).

58 Data obtained from UNCTAD database.

59 Schüller and Turner, 'Global Ambitions'.

60 *Ibid.*

61 Li Jia, Ministry of Commerce of the People's Republic of China (MOFCOM). Personal Interview. Shanghai, June 15, 2009.

Commission (SASAC), which directly managed most state-owned enterprises, in order to promote China's foreign investments abroad. Moreover, in 2004 the Chinese government simplified its approval process for outward FDI by enacting *The Verification and Approval of Overseas Investment Projects Tentative Administrative Procedures*.

Taken together, these policies—as well as a number of other reforms—have created strong government support for outward foreign investment by Chinese firms. Despite these reforms, however, Chinese outward FDIs still remain small in absolute terms, the 1.1% of global FDI flows in 2007 having risen to 6.1% by 2012.⁶² The growth in Chinese FDI outflows have nonetheless been dramatic, and China's clear policies facilitating foreign investment—as well as its amassing of foreign exchange reserves—are likely to boost the country's global 'investment footprint' in the future.

In fact, this growth has been dramatic to the extent that in 2013 China went on a 'buying spree', investing \$14 billion in the United States alone.⁶³ Of course, overseas investments over the last 15 years have not been entirely free of controversy within the United States. Our sample shows that 12% of M&A attempts by Chinese firms in the United States have met with political opposition. For example, in 2005 the Chinese National Offshore Oil Corporation was forced to withdraw its \$13 billion bid for Unocal Corporation as a result of strong bipartisan congressional pressure led by such representatives as Nancy Pelosi, who argued that 'communist' ownership of America's ninth largest oil firm posed a national security threat.⁶⁴ At the same time, even though the transaction posed no national security risk to the United States, to avoid a political maelstrom Chinese multinational company the Haier Group withdrew its \$1.3 billion bid to purchase Maytag Corporation.⁶⁵

These two examples do not constitute an exhaustive list of proposed Chinese investments in the United States that have generated political opposition, but are nevertheless representative of a myriad of transitions that have sparked political backlash. Our project seeks to understand the determinants of US political opposition to the whole span of Chinese M&A investments in America since the launching of the 'Going Global' campaign in 1999. The growth of these investments, alongside the much larger levels of greenfield investments, is shown in [Figure 1](#).

62 United Nations Conference on Trade and Development, 'Inward and Outward Foreign Direct Investment Flows, Annual, 1970-2012,' *Foreign Direct Investment Database*, <http://unctad.org/en/pages/Statistics.aspx>.

63 Roberts, 'Chinese Investment in U.S. Doubles to \$14 Billion in 2013'. For additional details, see Thilo Hanemann, 'Chinese FDI in the United States: Q1 2014 Update', *RhG Research Note*, Rhodium Group, May 8, 2014, <http://rhg.com/notes/chinese-fdi-in-the-united-states-q1-2014-update>.

64 Daniel H. Rosen and Thilo Hanemann, 'China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications', *IIE Policy Brief No. PB09-14*, Peterson Institute for International Economics, June 2009, <http://www.iie.com/publications/pb/pb09-14.pdf>.

65 Peter S. Goodman and Ben White, 'Haier Withdraws Maytag Bid: Move is Sign of Caution in China's Pursuit of Foreign Firms', *Washington Post*, July 20, 2005, p. D02.

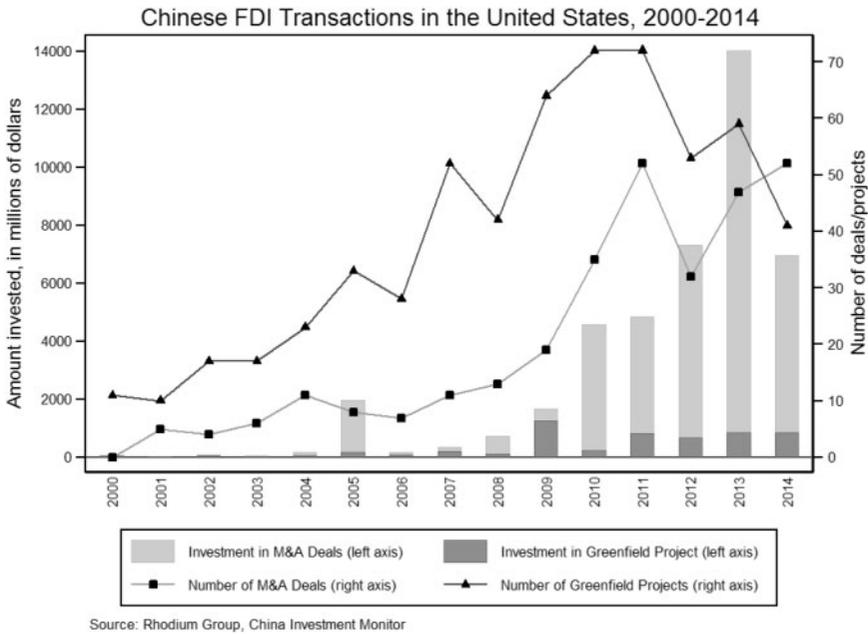


Fig. 1 Evolution of Chinese Greenfield Investments and M&As in the United States.

Research Design and Data

Our study explores the determinants of resistance to inward FDI flows by examining political opposition to Chinese firms' attempted and completed purchases of American companies from 1999 to 2014.⁶⁶ This part presents the original dataset constructed for this project.

Chinese Firms' M&A Attempts of US Firms

To analyse Chinese firms' activities in the US M&A market, we built a dataset of proposed acquisitions primarily using data from the *ThomsonOne Banker* database maintained by Thomson Financial. The *ThomsonOne Banker* database is superior to official and other commercial databases because it holds the greatest number of announced and completed deals.⁶⁷ The deals found using *ThomsonOne* included transactions with both publicly listed

66 Our dataset includes transaction from January 1, 1999 to June 20, 2014.

67 All relevant transactions found in the *SDC Platinum* database, Heritage Foundation database, and Chinese MOFCOM website were already included in the dataset extracted from *ThomsonOne Banker*. Of course, our data still lack those transactions that were not approved by the Chinese Ministry of Commerce, or not brought to them, and were thus 'never initiated'. See Schüller and Turner, 'Global Ambitions'. Because our study focuses only on US domestic opposition to Chinese M&As, we disregard any of these missing transactions that faced Chinese 'political opposition'. Of course a deeper issue is the set of deals that never get initiated because of expected opposition in the United States. Later on we discuss the implications of this sample selection issue.

companies and private companies. This does not include private transactions that are kept confidential within the US Securities and Exchange Commission and the business community.⁶⁸ We would not expect political debates on these transactions even to be possible, nor do we have any feasible way of measuring them. Our criteria for the ‘targets’ and ‘acquirers’ were, respectively, companies operating or headquartered in the United States and companies likewise in China, Hong Kong, or Macau.⁶⁹ From this comprehensive dataset, we filtered out M&A transactions in which the Chinese acquirer is a China-based subsidiary of a non-Chinese company (e.g., KPMG Hong Kong, Shenzhen Pepsi Cola, etc.), or the target is an offshore subsidiary of a US company (e.g., Shanghai General Motors Company Ltd).⁷⁰ There are 566 transactions in our dataset that met these criteria.

Dependent Variable

In order to determine the existence of ‘political opposition’ to each of the 569 transactions, we conducted a comprehensive survey of federal, congressional, and local government resources for discussion which pertain to the Chinese acquisition. We assess federal government opposition by reviewing press releases from the US Treasury Department, Commerce Department, Justice Department, State Department, US Trade Commission, Securities and Exchange Commission, and the US Federal Reserve. For congressional opposition, we review *Congressional Research Services* reports, and Congressional Record and Congressional Hearing statements using the *Lexis-Nexis Congressional Research Digital Collection*, as well as hearing and report statements published by the United States–China Economic and Security Review Commission (USCC).⁷¹ In addition, we also scope out any local government opposition to Chinese acquisition by surveying local newspapers using *WorldBank/NewsBank* news services, although these were very few. We found

- 68 Only publicly listed companies are required to report their M&A activity, including announcements and completions, to the Securities and Exchange Commission.
- 69 While many mainland Chinese private firms have located to Hong Kong for corporate governance reasons, other Hong Kong firms predating the pre-1997 era may arguably be considered ‘non-Chinese’ firms by some scholars. However, we decided to maintain general consistency and regard all firms based in Hong Kong and Macau after their dates of hand-over to the P.R.C. (1997 and 1999 respectively) as ‘Chinese’. For the same reasons, we exclude Taiwanese firms. Below we discuss briefly how our results differ by firms headquartered in mainland China or Hong Kong.
- 70 Our reasons for this exclusion is two-fold: first, the purchase of a US target by an acquirer whose ultimate corporate owners are not Chinese could not be defined by our research as a US asset acquisition by foreign entities of Chinese origin. Second, although a foreign purchase of an American-owned subsidiary operating outside the United States, could technically be deemed as ‘inward foreign direct investment’, the effects of such transactions on U.S. political debate is virtually insignificant for most industries.
- 71 Although the USCC is a non-partisan organization, its commissioners are selected by each of the majority and minority leaders of the Senate, and the Speaker and minority leader of the House of Representatives. Because of its close relationship with Congress and its leading role in influencing congressional policy towards China, we include USCC’s concern with any particular Chinese acquisition as a ‘congressional opposition’.

59 cases of opposition.⁷² We pool all instances of opposition, because although analysing different sources is interesting, the results lead to substantial sparseness.

Our criteria for determining the existence of political opposition to a Chinese acquisition involves an expression of opposition or concern regarding the transaction. For example, the following passage from a statement by Representative McCotter would qualify as opposition to the 2008 Huawei-3Com deal:

Mr. Speaker, the Committee on Foreign Investment in the United States must review and block Bain Capital and Communist China's Huawei Technologies' deal with the 3Com Corporation. If approved, Communist China's Huawei Technologies stake in the 3Com Corporation will gravely compromise our free Republic's national security.⁷³

We also include a few transactions in which opposition was expressed after the acquisition was completed (e.g., the Cornerstone Overseas purchase of Wham-O in 2006) since these instances still illustrate the extent of US political opposition. Excluding these observations does not change our results.⁷⁴ In total we identified 60 instances of opposition.⁷⁵

Independent Variables

The independent variables for this project correspond to the three factors that we hypothesized as driving opposition to inward FDI flows: national security sensitivity, economic distress, and reciprocity.

72 We pool all instances of opposition because analysing different sources, although interesting, leads to substantial sparseness with respect to local (non-congressional) opposition. Future research should explore any differences in more qualitative terms.

73 Thaddeus McCotter, 'Communist China and CFIUS: Dropping the Shark', *Congressional Record*, Vol. 153, No. 149 (2007), pp. 11, 226–27.

74 Overall, there are at least two potential criticisms to our approach. First, the produced list of 'politically opposed' transactions might have large variation in their level of 'contentiousness' (US Department of Treasury Representatives. Telephone interview. 28 January 2010). In other words, while many transactions were to some extent 'politically unpopular', not all of them were blocked in the United States or had significantly affected US policy. However, for the purpose of studying the presence of US political attitudes to the rise of Chinese M&A activity in the United States, we deem all instances of contention—including those considered by some scholars or politicians as 'political noise'—to be significant and relevant in our empirical analysis. Second, some information, especially the decisions of CFIUS, cannot be legally disclosed for use in an academic study. In fact, talks with CFIUS representatives reveal that there does exist an informal process in which Treasury Department officials can advise parties on the possibility of CFIUS rejection before the submitting of the application. CFIUS representative from US Treasury Department, Telephone Interview, January 27, 2010.

75 We recognize that there could be instances of 'false-negatives' in our sample—that is, cases where instances of political opposition existed but we could not find any records indicating it. We tried to avoid this through exhaustive searches of a variety of government and media sources, such as NewsBank, Lexis-Nexus, the Congressional Record, etc. Furthermore, we have no reason to suspect that any miscoding would be systematically related to any of our explanatory variables.

National Security Sensitivity

To measure national security sensitivity we create a binary variable (*Security*) where 1 indicates that the US target firm is national security sensitive and 0 otherwise. In order to determine whether a target firm is sensitive with regard to national security, we employ the CFIUS's 'Guidance Concerning the National Security Review',⁷⁶ which delineates the rules for determining a national security threat in a foreign M&A. Using the 'Factors for Consideration' in the report—with insights from talks with CFIUS representatives—we develop a list of instructions for coding the security sensitivity of a US target (see Appendix).⁷⁷ In general, a company is deemed security sensitive if it has military/government contracts, operations related to US national security (i.e., key infrastructure, natural resources, IT, telecom, transportation, major banks), or conducts business in advanced technology subject to US export controls. This definition is broad and includes a range of companies from 'low' sensitivity (i.e., companies operating in security-related industries) to 'high' sensitivity (i.e., companies with direct access to US classified information, weapons, or systems). For example, businesses that meet this description span small miners (e.g., Firstgold) and regional banks (e.g., UCBH) to major oil drillers (e.g., Unocal) and large financial institutions (e.g., Morgan Stanley).

Economic Distress

In order to test the economic distress hypothesis, we use measures of unemployment as a general proxy for the level of economic distress that a target company is facing. We have two justifications for this decision. First, it would not be possible to measure this at the firm level for non-publically traded companies (i.e., we do not observe stock prices, etc.). Second, there are often industry associations in the United States that speak on behalf of the business sectors they are associated with. Therefore, assessing levels of distress based on macro industries will suffice for our analyses.⁷⁸

To create our economic distress variable, we collect aggregate and industry-level unemployment rates from 2000 to 2010 using the Bureau of Labour Statistics datasets from

76 Department of Treasury, 'Guidance Concerning the National Security Review Conducted by the Committee on Foreign Investment in the United States', *Federal Register*, Vol. 73, No. 236 (2008), pp. 74, 567–74, 572.

77 In general, security sensitive items—as defined by the US Federal government—fall under the following categories: (i) requirements for the manufacturing and production of national defence-related goods; (ii) requirements for sources of energy and other critical resources and material; (iii) requirements for critical high technologies; (iv) requirements for national security and government-related transportation; and (v) any other requirements related to 'critical infrastructure' Department of Treasury, 'Guidance Concerning the National Security Review Conducted by the Committee on Foreign Investment in the United States'.

78 We use the Bureau of Labour Statistics' scheme for labelling macro-industries (e.g., Nondurable, Mining, etc.) in the Economic Distress variables. The labels are slightly different from and more varied than the macro-industry labels given by the data set extracted from *ThomsonOne Banker*. We use the *ThomsonOne Banker's* micro-industry labels (e.g., Automotive Parts, Drilling Equipment, etc.) to incorporate the BLS macro-industry labels for each transaction.

the Global Insight database.⁷⁹ Some studies use a measure of change in unemployment rates to determine trends across time.⁸⁰ However, such a variable does not take into account the performance of the overall economy. Obviously, an industry experiencing an unemployment rate higher than the US average (e.g., manufacturing) is likely to be regarded by politicians as more distressed than an industry performing better than the overall economy (e.g., financial sector), in terms of unemployment. Thus, we construct a variable to measure ‘abnormal unemployment’ (which we label as *Economic Distress*), which measures the net unemployment rate that an industry is facing measured against the average unemployment rate for the entire US economy in that year.⁸¹ A positive value for *Economic Distress* would indicate that an industry is performing worse than the entire economy. Of course, the failure of *Economic Distress* to control for variation in unemployment rate across time for a given industry may prevent us from measuring ‘intra-industry’ trends in economic distress. Our results are robust to alternative measurement strategies such as using the year-to-year percentage change in unemployment within the macro-industry.

Reciprocity

In order to test the reciprocity hypothesis, we extract a dataset of American firms’ activity in the Chinese M&A market from 1998 to 2014 using the *ThomsonOne Banker* database. We include all transactions involving acquirers based in the United States and targets based in China. Using similar criteria for exclusion as that in the Chinese dataset, we create a final dataset of several thousand transactions.

Like the Chinese dataset, each transaction included the official deal status of the US company’s acquisition bid (i.e., completed, pending, withdrawn, etc.). Unfortunately, neither *ThomsonOne* nor other commercial databases hold detailed information on the reasons for the failure of transactions given ‘withdrawn’ status. Soliciting such information from Chinese government sources and newspapers would be equally difficult. For example, many of these decisions would involve Chinese government-level decisions that are not currently available to us as researchers. Using the available data from *ThomsonOne Banker*,

79 The *Bureau of Labor Statistics* database did not have pre-2000 industry-level unemployment rate data; for our 1999 transactions, we use 2000 data. For each industry and year, we also use each industry’s January unemployment rate figure in order to maintain consistency. The data we use for the average unemployment rate for the entire US economy also uses January unemployment figures.

80 This could be percentage change in the unemployment rate in a macro-industry since the previous year, ‘% Change in Unemployment’. For any given industry this would be ‘% Change in Unemployment’ = $(\text{Unemployment Rate, Year } T - \text{Unemployment Rate, Year } T-1) / (\text{Unemployment Rate, Year } T-1)$. This measure will isolate industries that have experienced more job loss over the previous year, and thus more economic distress. Using such a measure generally gives similar results to those we report below. Martin J. Conyon, Sourafel Girma, Steve Thompson and Peter W. Wright, ‘The Impact of Mergers and Acquisitions on Company Employment in the United States’, *European Economic Review*, Vol. 46, No. 1 (2002), pp. 31–49.

81 For any given year ‘t’, ‘Abnormal Unemployment_{industry x}’ = ‘Unemployment Rate_{industry x}’ – ‘Unemployment Rate_{average}’.

we constructed a measure of completion rate of US deals (*Reciprocity*),⁸² which calculates the percentage of deals with ‘completed’ status for a given macro-industry in a given year.⁸³ We expect a greater probability of US political opposition to a particular acquisition of a US target by a Chinese acquirer if domestic firms in the US target’s industry have faced high barriers to M&A completion in China in the previous year.⁸⁴

Control Variables

Along with our main independent variables, we assess two control variables that may be significant factors in influencing incentives to oppose Chinese M&A activity.

Ownership Type of Acquirer

Numerous scholars have cited state ownership of multinational corporations as a crucial factor in politicians’ opposition to inward FDI.⁸⁵ We follow Carlsten Holz in defining a Chinese company as a ‘state-owned [and/or] state-controlled enterprise’ if the ‘state share is relatively large compared to the shares of other ownership categories’.⁸⁶ In order to maintain uniformity and comprehensiveness of classification, we follow Delios *et al* and other corporate governance scholars in focusing on the ‘ultimate owner’ of a Chinese company as its ‘ownership type’.⁸⁷ As the ultimate owner is effectively the last shareholder of a management chain, the Chinese government, as its ultimate owner, could theoretically exert influence over the control of a firm.⁸⁸ Therefore, we create the control variable (*GovtOwned*)

- 82 For any given industry ‘x’ and year ‘t’: ‘Completion Rate of US deals’ = ‘Number of completed deals’/‘Number of total announced deals’.
- 83 For the reciprocity variables, we employ *ThomsonOne Banker’s* scheme for labelling macro-industries.
- 84 We also collected data on the failure rate of US deals ‘withdrawn’ for a given macro-industry in a given year and failure count of US deals, which calculates the total number of deals with status ‘withdrawn’ for a given macro-industry in a given year. These measures are correlated and we get similar results with these alternative measures.
- 85 Prabhakar, ‘Deal-Breaker’; Krugman, ‘Competitiveness’; Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001).
- 86 Carlsten Holz, ‘Note on the Definition of “State-owned and State-controlled Enterprises”’, Hong Kong University of Science and Technology, September 29, 2003, <http://ihome.ust.hk/~socholz/SOE-definition.htm>.
- 87 Andrew Delios, Zhijian Wu and Nan Zhou, ‘A New Perspective on Ownership Identities in China’s Listed Companies’, *Management and Organization Review*, Vol. 2, No. 3 (2006), pp. 319–43.
- 88 In order to determine the ‘ultimate ownership’ of the Chinese acquirers’ shares for all transactions, we consolidate primary and secondary data from three different sources. Ownership data for most Chinese companies listed on the Shanghai Stock Exchange and Shenzhen Exchange is found using the *Chinese Stock Market Aggregate Resource Database (CSMAR)*. However, many times, the principal listed shareholder of a company might not be the ‘ultimate owner’ of the company, since the listed shareholder might in fact be controlled by another larger organization. Therefore, we conduct additional searches on the listed shareholders of a company using our *CSMAR* datasets until we find the final owner, and cross-check our results using the dataset constructed by and used by Delios,

for each transaction, with a 1 indicating a ‘state-owned’ acquirer (i.e., ultimate owner is a government-affiliated institution) and 0 indicating a ‘private-owned’ acquirer (i.e., private individual or institution). We were unable to code this variable dispositively for a relatively small number of firms. We, however, suspect that they are not government owned, and hence created a second variable, *GovtOwned2*, where we set these observations at 0.

Size of Target

Other firm-specific attributes—namely, its brand recognition—may influence political actors’ assessment of its acquisition by Chinese firms. We expect Chinese acquisitions of more well-known American companies to be more salient in public discourse, and thus more likely to trigger political debate. We use its size as a proxy, and in particular the ‘Target’s Enterprise Value at Announcement’, since it represents the US market’s determination of the target’s size before its potential purchase.⁸⁹ Nevertheless, most of the private non-listed US firms did not report ‘Target’s Enterprise Value at Announcement’. We therefore decided to assign all of these observations as ‘nano-cap’ size companies.⁹⁰ Because of this incompleteness of our target size data, we construct a binary variable *Large Firm* that proxies the name/brand recognition of the target firm, with a value of 1 indicating an enterprise value of more than \$200 million (small-cap to mega-cap) and thus a more well-known firm.

Empirical Results

Our binary dependent variable indicating political opposition is coded as 1, indicating at least one instance of federal, congressional, and/or local political opposition to a transaction. On the whole, 10% of our sample has a dependent variable of 1. Hence, if we had a baseline model with no explanatory variables, the constant would capture this baseline. Below we present changes in the probability of the dependent variable. This baseline should be kept in mind when interpreting these changes. We estimate a series of standard logit models with robust standard errors. We also estimate models with year fixed effects. Year fixed effects account for any unobserved or unmeasured variables that are constant at the year level. This includes the overall state of US–Chinese relations, the partisan makeup

Wu and Zhou, ‘A New Perspective on Ownership Identities in China’s Listed Companies’. To find ownership information for Chinese acquirers that are listed only on the Hang Seng (Hong Kong stock exchange), we use the *Worldscope* database on *ThomsonOne Banker*, and cross-check our results with the ownership data from a dataset constructed by and used by Stijn Claessens, Simeon Djankov and Larry H. P. Lang, ‘The Separation of Ownership and Control in East Asian Corporations’, *Journal of Financial Economics*, Vol. 58, No. 1–2 (2000), pp. 81–112. For every other public and private company, we cross-checked our results or extracted our data using the company’s *Annual Reports* or SEC filings, searching for the ‘Substantial Shareholders’ or ‘Major Shareholders’ sections.

- 89 ‘Target’s Enterprise Value at Announcement’ is the average of all investment bankers’ and financial analysts’ valuations of the target firm on the announcement day of the transaction. Therefore, the ‘enterprise value’ is the market consensus for this firm’s size.
- 90 Very few large and notable US companies are private and non-listed (e.g., Wegmans, Koch, Cargill, etc.), and no Chinese firms have ever attempted to acquire any of these companies.

Table 1. Determinants of Political Resistance to Chinese Merger and Acquisition Attempts

DV: Political Resistance	m1	m2	m3	m4	m5	m6
Security	0.825** [0.293]	0.966** [0.309]	0.657* [0.300]	0.503 [0.359]	0.599* [0.295]	0.468 [0.355]
Economic distress	0.187* [0.0764]	0.173* [0.0697]	0.235** [0.0906]	0.249** [0.0855]	0.206** [0.0790]	0.227** [0.0757]
Reciprocity	-1.991** [0.598]	-3.000** [1.078]	-2.095** [0.613]	-3.245** [1.077]	-2.028** [0.593]	-3.253** [1.059]
GovtOwned			0.375 [0.292]	0.912* [0.415]		
Large firm			0.883* [0.375]	0.937* [0.425]	0.957** [0.371]	0.947* [0.424]
GovtOwned2					0.494 ⁺ [0.289]	1.020** [0.387]
Observations	566	514	535	486	565	513

Notes: Standard errors in brackets; ⁺ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$. Models m2, m4, and m6 contain year fixed effects. Differing sample sizes are due to missing data for government ownership, or to no variation in dependent variable within a year in models with year fixed effects. All coefficients are from logit model with robust standard errors.

of Congress, the party of the president, or other factors in China, such as changes in the overall FDI regulatory environment, that are constant for the year.⁹¹

The first model, m1, includes our three main explanatory variables. Model m2 adds year fixed effects to this specification. Model m3 adds our control variables, and m4 adds year fixed effects to model m3. Finally, models m5 and m6 modify models m3 and m4 by using the alternative *GovtOwn2* measure. When we include year fixed effects, the sample sizes decrease slightly because in several years there was no variation in the dependent variable (i.e., no protests). Results are presented in Table 1. Additional results using a linear probability model—which does not drop observations due to year fixed effects—are presented in Table 2. As the results in Table 2 show, our results are robust to this alternative specification.

Independent Variables

Security Sensitivity

Our results provide strong evidence in support of the security sensitivity hypothesis. The variable *Security* is in itself positively and significantly related to the probability of triggering political opposition, suggesting that a Chinese acquisition of a potentially security

91 Replacing these fixed effects with substantive variables that do not vary at the year level is an important thing to think about, but leads to a proliferation of such potential variables. Nevertheless, systemic variable such as those contained in the Tsinghua database on US–China relations would be one such source of data (<http://www.imir.tsinghua.edu.cn/publish/iis/7522/index.html>). Thanks to a reviewer we note that over time China has increasingly delegated control from the national to more local level over determining FDI outflow decisions. These dynamics might pose interesting temporal variation that we abstract away from in the current paper.

Table 2. Determinants of Political Resistance to Chinese Merger and Acquisition Attempts

DV: Political Resistance	m1	m2	m3	m4	m5	m6
Security	0.0777* [0.0314]	0.0805* [0.0321]	0.0617+ [0.0322]	0.0473 [0.0334]	0.0536+ [0.0296]	0.0463 [0.0307]
Economic Distress	0.0179* [0.00798]	0.0140+ [0.00769]	0.0220* [0.00894]	0.0201* [0.00886]	0.0191* [0.00799]	0.0170* [0.00763]
Reciprocity	-0.183** [0.0596]	-0.185* [0.0740]	-0.201** [0.0633]	-0.237** [0.0838]	-0.185** [0.0588]	-0.197** [0.0721]
GovtOwned			0.0444 [0.0289]	0.0986* [0.0454]		
Large Firm			0.0965+ [0.0504]	0.0930+ [0.0497]	0.103* [0.0498]	0.0929+ [0.0496]
GovtOwned2					0.0533+ [0.0282]	0.0965** [0.0370]
Observations	566	566	535	535	565	565

Notes: Standard errors in brackets; + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$. Models m2, m4, and m6 contain year fixed effects. All coefficients are from a linear probability model with robust standard errors.

The results presented in Table 1 strongly reject the null hypothesis that political opposition to Chinese acquisitions cannot be explained by a set of political economy factors. Government opposition to a certain transaction can be systematically predicted on the basis of national security sensitivity, economic distress, and reciprocity factors.

sensitive US asset would be seen as a ‘security threat’, and would likely lead to opposition from political actors. This variable is positive and highly significant in all models except models 4 and 6, where the coefficient is close to statistical significance.

The substantive effect of this variable is also important. In Figure 2, we present the predicted probability of resistance when the target firm is not security sensitive (0) and when it is sensitive (1), using model m5 and holding all other variables at their mean. The change in probability is almost 0.06 on the 0 to 1 probability scale. This is substantively important in light of our baseline probability of political protest. Furthermore, in additional models not reported, this effect gets substantially stronger when we allow for an interaction between our measure of Chinese government ownership and our security sensitivity variable. This shows that the security sensitivity of a target is amplified if the acquiring firm is a government-owned rather than private firm.

Economic Distress

Using the abnormal unemployment in the target industry as a proxy for the target industry’s level of *Economic Distress*, we find a strong positive and statistically significant relationship with political opposition. Chinese acquisitions in industries that are underperforming in the US economy would likely trigger opposition. This variable is positive and statistically significant in each model, including those with year fixed effects and additional control variables. Substantively this effect is meaningful. As presented in Figure 3, the probability of resistance at the lowest values of *Economic Distress* is 0.05, but at the highest level of distress it is almost 0.4 in our data. Most of the data, though, is in the region of -1 to 2 (the 25th and 75th percentiles, respectively), over which the changes are more modest: ranging from a 0.08 probability of resistance to 0.14. In short, higher levels of economic distress generally predict greater likelihood of political opposition to a Chinese acquisition.

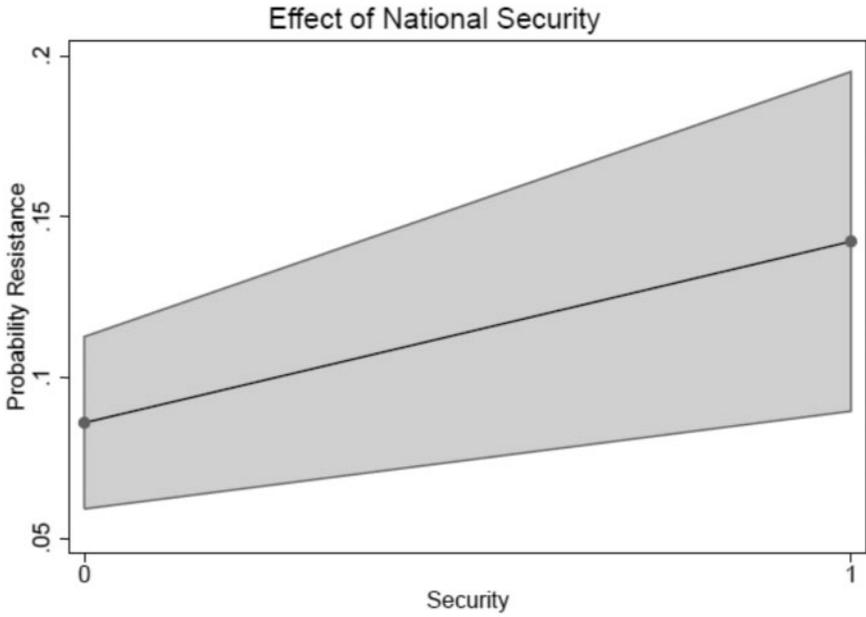


Fig. 2 Effect of *Security* Moving from Sample Minimum to Maximum Holding All Other Variables at Sample Mean.

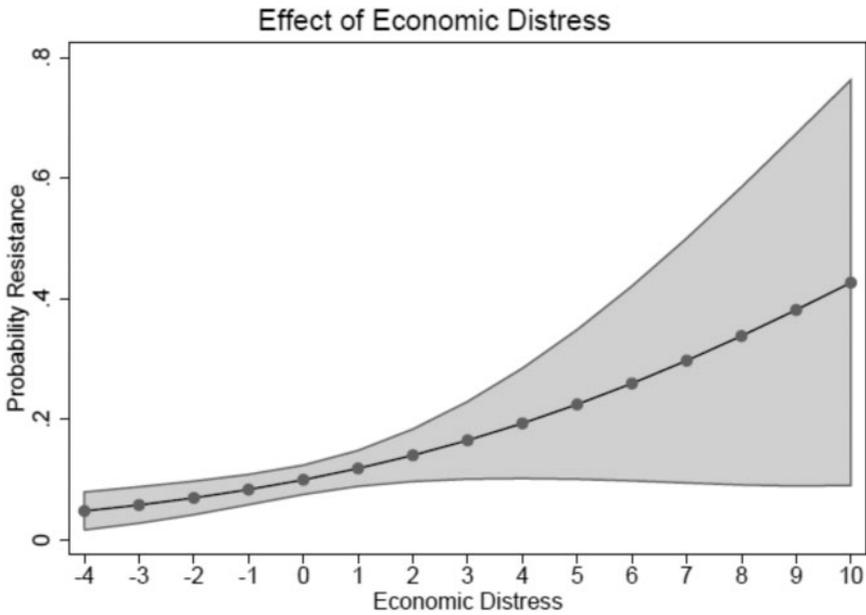


Fig. 3 Effect of *Economic Distress* Moving from Sample Minimum to Maximum Holding All Other Variables at Sample Mean.

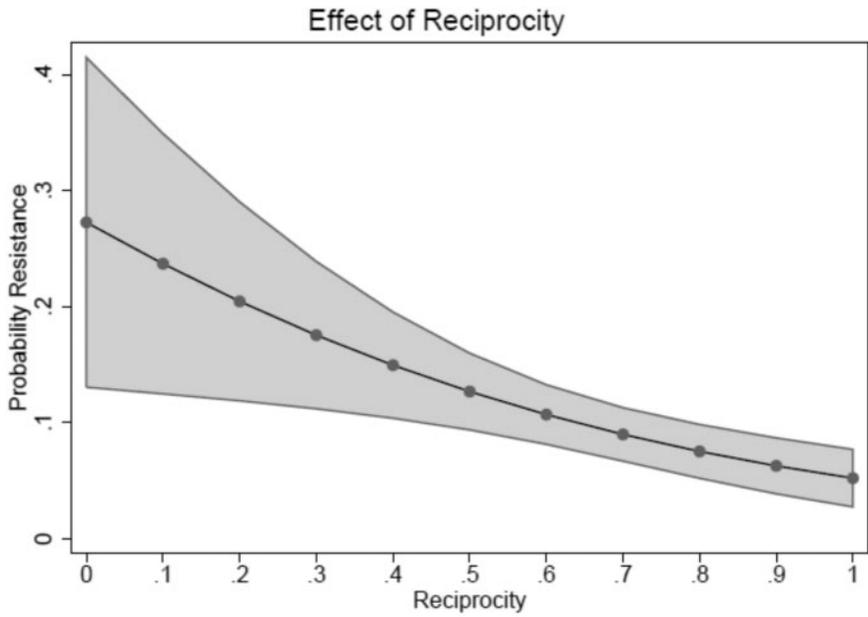


Fig. 4 Effect of *Reciprocity* Moving from Sample Minimum to Maximum Holding All Other Variables at Sample Mean.

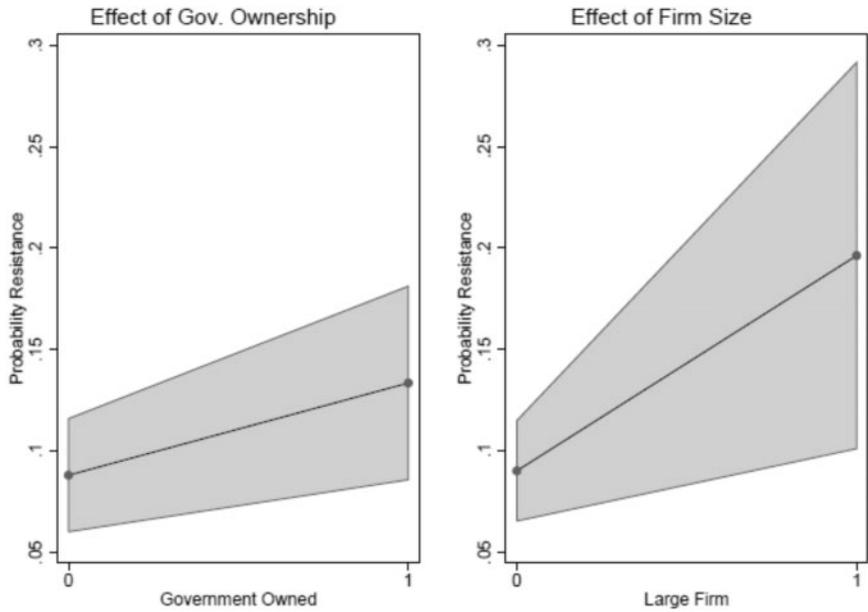


Fig. 5 Effect of *GovtOwned2* and *Firm Size* Moving from Sample Minimum to Maximum Holding All Other Variables at Sample Mean.

Reciprocity

Next we turn to our measure of reciprocity. Is protest more likely when US M&A attempts in China fail within the same industry as that of the American firm targeted by Chinese M&A? Higher values of this variable indicate greater amounts of completed deals, and lower levels indicate less success. In Table 1, this variable is negative and statistically significant in each model. Greater levels of US M&A success within industry in China are correlated with a lower probability of political opposition. This suggests that US political responses are mindful of American successes overseas. If things are going well for US firms in China, there is less need to protest, which could imperil US firms overseas. Of course, as we discuss below, our quantitative research design is unable to identify who the ‘original’ defector is. Our point, though, is that our evidence shows that there is a relationship within macro-industries; Merger and Acquisition success overseas has impact on domestic protest at home.

To illustrate the magnitude of the effect of the *Reciprocity* variable, we again calculate substantive effects using model m5 from Table 1 and present the results in Figure 4. Holding all other factors at their sample mean, changing the *Reciprocity* variable from its sample minimum (0) to its maximum (1) changes the probability of resistance from 0.27 to 0.05, or a change in probability of over 0.2 along the 0 to 1 probability scale. Moving from 0.5 to 0.8 (the 25th and 75th percentiles, respectively) decreases the probability of political opposition by 0.06 probability, or about a third of our baseline probability. Therefore, our results support the reciprocity hypothesis. This potentially suggests that US firms that have experienced greater ‘success’ rates in conducting M&A deals in China—as reflected in the percentage completion rate—would be less likely to oppose Chinese acquisitions in their industries.⁹²

Control Variables

Government Ownership

On its own, ownership of the acquiring firm by the Chinese government was positively related to protest in every model. However, it was only statistically significant in the models with year fixed effects. As earlier discussed, when this variable was interacted with that of *Security* the interaction term was positive and significant. Security considerations are most salient when the Chinese government is linked to the acquisition. This makes intuitive sense, and gives credence to our measures and results; it constitutes evidence in support of

92 However, we are unable to make this specific conclusion, because often the political resistance we code cannot be directly linked to representatives within an industry. However, this conclusion is reasonable if we assume that these firms have the greatest incentive to get political actors to mount a protest. We also investigated models that split apart acquiring firms according to whether they were mainland China- versus Hong Kong-based. We find almost identical results, other than that the *Security* variable is not significant for Hong Kong-based firms. This is an interesting result that may warrant additional research in the future. Additionally, we are not able to include the government ownership variable for the Hong Kong model because no firms in Hong Kong were owned by the government. We thank an anonymous reviewer for raising these points.

Krugman and Prabhakar's hypothesis that state ownership is perceived to threaten national identity.⁹³

Firm Recognition/Size

Using our binary measure of firm size to proxy the public familiarity with the US target, we find that larger firms elicit more political complaints. Across models m3 to m5, this variable is positive and significant. Translated into substantive terms, the change in probability, holding other variables at the mean, is almost 0.1. While it is important to control for this variable (it might, for example, confound one of our key explanatory variables), it has an important impact on the dependent variable.

Inference Concerns

Our research uses observational data that makes it difficult to establish clear causal inferences or to measure our key concepts in ideal ways. We briefly discuss some of these challenges.

As earlier mentioned, we do not control what deals are actually proposed. If Chinese firms, and perhaps the Chinese government, have expectations about what will or will not succeed, then we have a non-random sample from the set of potential M&A attempts. The effect of this concern is ambiguous, though. On the one hand, if our arguments are correct, this may lead to more restraint when a target firm faces economic distress, has national security linkages, or is in an industry with little Chinese reciprocity. In turn, we would expect our coefficients to be biased towards zero. This effect might be most salient for national security considerations; certainly Chinese firms are not going to try to buy Lockheed Martin. This, of course, adds another challenge to comparing the relative importance of our core variables.

Another limitation of our study is that several of our variables are difficult to measure, that of reciprocity the most. In particular, we are less able to establish quantitatively whether American efforts in China are frustrated first, so leading to responses against Chinese attempts, or the other way around. Our reading of several cases suggests the former, but this evidence is not dispositive. Regardless, as in many aspects of international affairs, we believe this variable still taps a diffuse sense of reciprocity at work, as it does not appear to be the case that state decision-making is independent.

Additionally, in several of our empirical models we are able to use year fixed effects. However, we would point out that we do not use sector-fixed effects because this would eliminate two of our key variables—*Economic Distress* and *Reciprocity*—as they are constant within each sector. Firm-level analogues for these measures would hence be difficult to impossible to collect.

Finally, our focus has been on political resistance rather than on the ultimate outcomes. In our data, 22 attempts were withdrawn, of which 11 were tagged with our *Security* variable. However, our research design is ill-equipped to measure these dynamics, as many other variables could affect the final outcome, including broader economic forces like inflation, and local conditions such as privately known profitability considerations, which would be difficult to measure. Furthermore, it was not always possible to observe what

93 Rahul Prabhakar, 'Deal-Breaker'; Krugman, 'Competitiveness: A Dangerous Obsession'.

happened with a deal (whether it was it finally dropped, pending but in a way only known to the investors, etc.). Future work may unpack these outcomes further.

Conclusion

This study focuses on how politicians in a developed country treat inward investments by multinational firms from a developing country—a relatively recent phenomenon that is not yet covered extensively in academic or policy-oriented research. Indeed, the literature on direct foreign investment has focused much more on flows from developed to developing countries; the research that has focused on FDI flows to developed states has not yet explored the variation as regards which inward investments are welcomed and which receive criticism.

Although our study speaks to these larger questions, its scope was limited specifically to Chinese and Hong Kong firms' attempted M&As of US companies between 1999 and the summer of 2014 (the 15-year period after the Chinese government launched the 'Going Global' campaign for Chinese enterprises). This is intentional, given the massive increase in the importance of Chinese FDI in recent years. After analysing political opposition to 569 transactions that met these criteria, we found that US political actors are more likely to protest Chinese inward M&A investments in security sensitive industries, economically-distressed industries, and sectors in which US companies faced restrictions in China's M&A markets.

Of course, there are limitations that can be drawn from our results because of particular challenges to our methodology and the restricted set of transactions that we analysed. Our economic distress and reciprocity variables are certainly not perfect.⁹⁴ Our political opposition measure was coded using a qualitative review of publicly available government sources, a methodology that, due to the confidentiality of CFIUS proceedings, might not have accounted for certain federal opposition. While some federal level policy-makers might also question the use of most Congress-related contention towards Chinese acquisitions as so-called 'political noise', we consider that for the purposes of our research, even these scattered episodes of controversy are crucial evidence of political opposition. After all, our intention was to study the nascent formation of a US policy towards increasing inward M&A investments by Chinese firms ahead of a potential and possibly controversial 'era of Chinese buyouts'—reminiscent of America's experience with Japanese firms during the 1980s. Finally, our research was devoted to a study of political economy—rather than economics—involving Chinese inward FDI. Needless to say, a descriptive analysis of the microeconomic effects of Chinese M&A in the United States would certainly be valuable for future research, and would provide an empirical perspective on the long-term implications of how US politicians respond to Chinese investments.

Despite these limitations, our results have important implications for US–China foreign policy, and also highlight potential future avenues of research. Although the results may

94 'Abnormal unemployment' may not account for certain aspects of a target industry's economic health, particularly intra-industry trends and firm-level performance. Likewise, a US industry's M&A completion rate in China did not precisely explain patterns of reciprocity from Chinese political actors. However, given the strong involvement of the Chinese government in its business sector, this measure was the most accurate proxy for reciprocity given data limitations in ascertaining 'political opposition' by Chinese government officials.

have implications for many aspects of US–China relations, we will note three aspects of economic relations between these countries that our results speak to. First, our research most obviously helps to explain which Chinese M&As are most likely to produce political opposition in the future. This information is potentially useful to both industry and government. Of course, it is important to note that just because a Chinese M&A generates political opposition does not necessarily signify that it will not ultimately be successful.⁹⁵ For example, in 2013 a Chinese company bought Smithfield Foods in a deal worth \$7.1 billion. The company is the world’s largest pork producer, and consequently a number of US politicians raised concerns about security and reciprocity. This high-profile deal was successful, however, despite political objections, which may in part be due to Chinese executives’ attempts to respond to aspects of the transaction that were likely to generate opposition.

Second, our research can help to explain some aspects of recent US–China economic relations. For example, in 2011 ‘reverse mergers’ became a highly publicized concern. These deals entailed Chinese companies merging with American-based companies in order to become publically traded. Regulators responded by cracking down on these transactions out of concern that such deals were inherently toxic. Recent research, however, has suggested that the Chinese reverse merger firms may have actually performed better than similarly sized companies.⁹⁶ Our research implies that political opposition may exist even in the absence of legal restrictions on Chinese M&As, which in part helps to explain the finding that Chinese reverse mergers generated negative publicity despite performances on par with, or better than peer firms.

Third, our results have implications for one area of current US–China economic integration: the current negotiations over a US–China Bilateral Investment Treaty.⁹⁷ If completed, the treaty would expand legal protection of and remove existing restrictions on foreign investments in either country. If a BIT is not completed, barriers to FDI flows between these countries could remain substantial. For example, the president of the US–China Business Council recently said, ‘China maintains ownership restrictions on American and other foreign companies in about 100 sectors, including manufacturing, services, energy, and agriculture’.⁹⁸ Following up, *Forbes* magazine asked, ‘What if they could have outright ownership? Or even just a little bit more? It would be a windfall for a number of companies that face tough growth restrictions in one of the world’s most important consumer markets’.⁹⁹ This illustrates the importance of reciprocity and, potentially, how it could be facilitated by international agreements that remove restrictions on inflows of FDI.

95 Gabriel Palma, ‘Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?’, *World Development*, Vol. 6, No. 7–8 (1978), pp. 881–924.

96 Charles M. C. Lee, Kevin K. Li and Ran Zhang, ‘Shell Games: The Long Term Performance of Chinese Reverse Merger Firms’, *Accounting Review*, forthcoming, 2014, <http://dx.doi.org/10.2308/accr-50960>.

97 Jiabao Li and Chen Mu, ‘Baucus: Investment Pact Opens a New Chapter’, *China Daily USA*, June 26, 2014, http://usa.chinadaily.com.cn/2014-06/26/content_17615778.htm.

98 Kenneth Rapoza, ‘U.S. Financial Service Firms Push for Bilateral Treaty with China’, April 5, 2014, <http://www.forbes.com/sites/kenrapoza/2014/04/05/u-s-financial-service-firms-push-for-bilateral-treaty-with-china/>.

99 Rapoza, ‘U.S. Financial Service Firms Push for Bilateral Treaty with China’.

Our study also suggests several avenues of future research. Specifically, future research could consider other types of Chinese inward FDI, like greenfield investments or joint ventures (although, compared to M&As, these cross-border investments have generally been welcomed and triggered relatively little controversy).¹⁰⁰ A more general study of developed countries' treatment of FDI from emerging economies would be extremely valuable. Is US political opposition to Chinese inward M&A unique and dependent on the particular political economy of the United States, or is it generally representative of developed countries' reactions to Chinese investments? Although some research has suggested that the UK may be more supportive of investment liberalization than the United States,¹⁰¹ more research needs to be done to determine whether the factors that drive opposition to investment in the United States are the same in other countries. Finally, richer data including more countries could enable investigation of a more country-level political relations story.¹⁰²

Another interesting next step would be to determine whether or not the patterns of US opposition to Chinese inward M&A were particular to the Chinese character of the acquirer: does the set of political economy variables—economic distress, national security, and reciprocity—also explain US politicians' treatment of inbound investments from other developing countries? Answering these questions will require a new body of research focusing specifically on the rise of FDI from developing nations into mature economies, a peculiar trend that might reflect dynamic shifts in the global financial system.

Finally, future researchers could also add substantial value to research in US–China investment relations by further investigating the treatment of US companies' M&A transactions in China, and perhaps construct a more precise measure of reciprocity to test the robustness of our results. Such studies should also monitor China's application of the Anti-Monopoly Law as well as developments of the National Security Review Mechanism.

More broadly speaking, reciprocity is seen as a powerful means for inducing cooperation and stability into potentially contentious relationships. One question is whether that is true for foreign investment. In our case, it seems that reciprocity may create more tensions, because countries use punishment strategies. An interesting avenue of research would be to see if these foreign investment conflicts carry over to broader political relations, and if so what impact they might have on them.

Acknowledgements

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100 Unlike ThomsonOne Banker's M&A database, there does not exist a large-scale commercial database devoted to individual Greenfield investments or joint ventures in the United States—let alone in China. Thus, a detailed and comprehensive dataset for Greenfield investments would actually be more difficult to construct than for M&A.

101 Nathan M. Jensen and René Lindstädt, 'Globalization with Whom: Context-Dependent Foreign Direct Investment Preferences', *Working Paper*, Washington University, July 19, 2013.

102 Quan Li and Tatiana Vashchilko, 'Dyadic Military Conflict, Security Alliances, and Bilateral FDI Flows', *Journal of International Business Studies*, Vol. 41, No. 5 (2010), pp. 765–82.

Appendix 1

List of instructions for determining the national security sensitivity variable (*Security* = 1).

1. If the target company name falls under any that are 'military contractors' or 'government contractors' (see [http://www.fas.org/man/target company/index.html](http://www.fas.org/man/target%20company/index.html)), code 1.
2. If the macro industry is under 'Wholesale & Retail Trade', code 0.
3. If the macro industry is under 'TRANSPORTATION & UTILITIES', check the mid industry description to see if it falls under 'TRANSPORATATION' or 'UTILITIES'.
 - a. If it is under 'UTILITIES', code 1.
 - b. If it is under 'TRANSPORTATION', check the target company description.
 - i. If the target company deals with 'national transportation', code 1.
 - ii. Otherwise, code 0.
4. If the macro industry is under 'TELECOMMUNICATIONS', code 1.
5. If the macro industry is under 'PUBLIC', check the target company description.
 - a. If the target company deals with federal, congressional, or state government departments, code 1.
 - b. Otherwise, code 0.
6. If the macro industry is under 'PROFESSIONAL & BUSINESS SERVICES', check the mid industry.
 - a. If the target company deals with consulting, code 0.
 - b. Otherwise check the target company description.
 - i. If the target company deals with high-tech or genetic products, code 1.
 - ii. Otherwise, code 0.
7. If the macro industry is under 'PRODUCTION', check the mid industry.
 - a. If the mid industry is 'AEROSPACE & DEFENCE', code 1.
 - b. Otherwise, code 0.
8. If the macro industry is under 'Nondurable', check the mid industry.
 - a. If the mid industry is under 'Energy & Power' or 'Petrochemicals', code 1.
 - b. Otherwise, code 0.
9. If the macro industry is under 'Mining', code 1.
10. If the macro industry is under 'LEISURE & HOSPITALITY SERVICE', code 0.
11. If the macro industry is under 'INFORMATION', check the mid industry.
 - a. If the mid industry is under 'Broadcasting', 'Motion Pictures / Audio Visual', or 'Publishing', code 0.
 - b. If the mid industry is under 'Telecommunications equipment', 'Other telecom' or 'E-Commerce/B2B', code 1.
 - c. If the mid industry is under 'Internet Software & Services', check the target company description
 - i. If the target company deals with intelligence or infrastructure building, code 1.
 - ii. Otherwise, code 0.
 - d. If the mid industry is under 'Software', check the target company description.
 - e. If the mid industry deals with e-commerce, database systems, or infrastructure, code 1.
 - i. Otherwise (health care services, internet gambling, internet finance, etc.), code 0.
 - f. If the mid industry is under 'Wireless', check the target company description.

- i. If the target company provides general telecommunications services, code 1.
 - ii. Otherwise (the target company deals with testing wireless systems), code 0.
12. If the macro industry is under 'FINANCIAL ACTIVITIES', check the target company mid industry;
 - a. If the target company is under 'Alternative Financial Investments', 'Diversified Financials', or 'Non Residential' (Real Estate), code 0.
 - b. Otherwise, check the target company description:
 - i. If the target company is a large and notable national commercial or investment financial institution (i.e., Morgan Stanley, AIG, Blackstone, etc.), code 1.
 - ii. Otherwise, code 0.
13. If the macro industry is under 'EDUCATION & HEALTH SERVICES', code 0.
14. If the industry is under 'DURABLE', check the mid industry.
 - a. If the mid industry is under 'Automobiles and Components', 'Home furnishings', 'Garden Equipment', code 0.
 - b. If the mid industry is under 'Semiconductors', 'Metals & Mining', code 1.
 - c. If the mid industry is under 'Construction Materials', check the target company description.
 - i. If the construction materials deal with primary goods (i.e., powders, etc.), code 1.
 - ii. Otherwise, code 0.
 - d. If the mid industry is under 'Electronics', check the target company description.
 - i. If the target company deals with e-commerce or semiconductors, code 1.
 - ii. Otherwise (i.e., consumer electronics), code 0.
 - e. If the mid industry is under 'Machinery', check the target company description.
 - i. If the target company deals with basic machinery and machine tools, code 1.
 - ii. If the target company deals with energy-related machines, code 1.
 - iii. If the target company deals with water, safety, and sanitary equipment, code 1.
 - iv. Otherwise (electronics, etc.), code 0.
 - f. If the mid industry is under 'Other industrials', check the target company description.
 - i. If the target company deals with e-commerce, semiconductors, basic machinery and machine tools, energy-related machines, water, safety, and sanitary systems, metals and mining, or construction dealing with primary goods, code 1.
 - ii. Otherwise, code 0.
15. If the macro industry is under 'Construction', check the target company description.
 - a. If the target company deals with energy and infrastructure-related construction, code 1.
 - b. Otherwise (i.e., engineering services, consumer products, buildings), code 0.
16. If the macro industry is under 'AGRICULTURE', check the company description.
 - a. If the company deals with national or state-level agricultural products, code 1.
 - b. Otherwise (consumer products, etc.), code 0.