China's Global Business Footprint Shrinks

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Key Points

- China's investment and construction around the world plunged in the first half of 2019 and is unlikely to return to 2016–17 levels in the foreseeable future. The principal cause is fewer large transactions by state-owned enterprises. These firms rely on foreign currency provided by Beijing for global activities, and hard currency may be rationed indefinitely.
- There are brighter spots. The raw number of investments held up better than transaction size. The private share of China's global investment climbed, and the greenfield share rose sharply. Investment in the Belt and Road Initiative outperformed that in traditionally favored rich economies such as Australia.
- Chinese investment in the US has been minor in size for two years. Policymakers should shift focus from screening to unwanted activity by Chinese firms, including intellectual property theft and other criminal acts. Enforcement targeting specific firms is superior to tariffs but should go beyond largely empty steps taken to date.

China's global investment and construction have shown a clear change over the past nine months: The country's state-controlled giants are engaging in fewer transactions, especially large transactions. They are still slowly moving auto and steel capacity outside China, but the eye-catching sums spent by the likes of Ping An in acquiring a stake in HSBC have disappeared. They are still building new expressways and cement plants in developing economies, but less frequently and on a smaller scale.

One explanation is greater foreign hostility toward Chinese investment, starting with but not limited to the US.[1] However, this does not account for the recent absence of large construction projects in the much-hyped Belt and Road Initiative, which is utterly dominated by state-owned enterprises (SOEs). Instead, the principal explanation is that fear of balance of payments and exchange rate weakness has caused rationing of the hard currency used to make investments and finance construction. Until this situation changes—and there is no sign it will—China's global business footprint cannot again approach its 2016 peak.

The China Global Investment Tracker (CGIT) from the American Enterprise Institute is the only fully public record of outbound investment and construction worldwide.[2] All 3,500 transactions are profiled in a public data set. In the first half of 2019, investment fell just over 50 percent compared to the first half of 2018. The 2019 results to date are similar to 2011, when Chinese investment was far from a global issue and considerably more welcome.

The plunge in verifiable investment overwhelms other developments. For the US, the pace of Chinese spending goes back even further, to 2008's almost invisible $5 billion range. Globally, the proportion of greenfield investment reached a new high, primarily due to the absence of large acquisitions by SOEs that have characterized the previous five years. For the same reason, the share of spending due to private Chinese companies also rose. Historically, investment in Belt and Road (BRI) countries is minor compared to investment in rich countries but held up better, easing only modestly versus the first half of 2018.

Investment is often conflated with the construction of coal plants, rail lines, and so forth. Investment involves ownership and an indefinite presence in a host country. Construction may be long term, but it is temporary, as is supporting loan finance. China's average construction deal is smaller than its average investment, but it has recorded more $100 million–plus construction contracts than investments since 2005. Construction, not investment, leads the BRI. Since its inauguration in 2013, and using the largest possible set of members,[3] BRI construction exceeds $400 billion.[4]

> Declining Chinese investment globally reinforces a continuous drop in the US since 2016 and the need for American policymakers to shift attention.

Construction contracts are reported with a lag, so results from the first half of the year are incomplete. Even so, the pace has unmistakably eased from the previous three years, and the first estimate of transaction value is far lower than last year at this time. With the prospective shortage of hard currency, BRI construction in particular may have gotten too big for its own good; new BRI projects dropped sharply in the first half of 2019.

Declining Chinese investment globally reinforces a continuous drop in the US since 2016 and the need for American policymakers to shift attention. The People's Republic of China's (PRC) globalization efforts are being exaggerated in terms of the amount of money involved and Beijing's ability to allocate more resources. What has not declined are the threat to the rule of law, especially regarding intellectual property (IP); the extent of Chinese subsidies; and the Communist Party's human rights violations. Changing policies to address these problems will better safeguard America's security, prosperity, and leadership role.

CGIT vs. MOFCOM

The CGIT contains documented investment and construction transactions worth $100 million (rounded) or more, starting in 2005 and updated every six months. It features well over 1,500 investments worth nearly $1.2 trillion.

Investment is measured as gross capital outlay. Depreciation is not estimated. Outright disinvestment soared in 2017, as private Chinese firms faced pressure to sell assets. But the total remains under $100 billion, and divestment started to fade in the second half of 2018.

The construction data include more than 1,600 projects worth another $800 billion. There are also closing on 300 "troubled" transactions valued at almost $400 billion, where investment or construction was impaired or failed after a commercial agreement was finalized.

The CGIT does not include loans, bond purchases, or trade. Transactions are often disclosed then revised, requiring CGIT revisions. Isolating single-year results can therefore be misleading, especially in developing economies, which may have little in the way of reporting requirements.

The CGIT uses corporate sources, sometimes partner companies but typically PRC participants. Since private investment is holding up and has involved smaller transactions, the CGIT probably missed proportionately more investments worth less than $100 million in the first half of 2019 than in the past and is currently understated in that respect. This cannot account, though, for the extent of the plunge in SOE activity. The most glaring absence is hard-to-miss large transactions, so the CGIT likely reflects substantial drops in investment and construction.

It will surprise no one that the central government instead claims stability, at least in aggregate investment. The Ministry of Commerce (MOFCOM) publishes monthly official data on outbound investment—totals only, not transactions. There is a base series on "equity and other" or "nonfinancial" investments, which moved in similar fashion to the CGIT from 2005 to 2018, except for a single, record-breaking deal. There is also a smaller "financial investment" series, which appears later.[5]

In the past three years, MOFCOM numbers have become difficult to interpret in multiple respects. An ongoing issue is the central government offering different measurements of money flows with similar labels. In 2018 MOFCOM reported outbound investment of $130 billion as a 4 percent increase, just a few months after copublishing a 2017 figure of $158 billion for outbound investment.[6]

Similarly in 2017, Beijing tightened capital controls and initially reported lower spending. The drop was enabled by excluding the $43 billion acquisition of Syngenta. In direct communication, MOFCOM claimed only about $3 billion was financed outside China, vanquishing the country's biggest-ever deal. The final total for 2017 investment, copublished by MOFCOM and other agencies, was no less than $38 billion higher than the original nonfinancial numbers,[7] either belatedly counting the deal or counting a whole lot of something else otherwise undisclosed.

In early 2018, long-standing, fixed over time, and seemingly arbitrary figures for monthly "reinvestment" stopped being published. They may merely have been folded into the remaining series or, better, eliminated outright as a bad practice. If the latter, official investment totals through 2017 are overstated, but any falls thereafter are also overstated.

Along these lines, the MOFCOM column in Table 1 includes the base series and whatever is stuffed into financial investment. It excludes all reinvestment, on the grounds those numbers never made any sense and are now absent. It is therefore lower than what MOFCOM published for 2012–17, but official numbers need correcting, and this change is simple and justified.

Comparing the CGIT to the adjusted MOFCOM data gives similar pictures until 2019. The CGIT peaks in the first half of 2017 instead of the second half of 2016, but on both, China worked up to trying to buy the world then backed away quickly. They also match on spending sliding as 2018 progressed. This year, however, MOFCOM has insisted on a stability not evident in publicly documented transactions, whereas MOFCOM's previous investment levels were evident. There are somewhat contorted methodological possibilities for the sudden change, but a more obvious call is MOFCOM just does not want to acknowledge further weakness.

Beyond annual results, the CGIT has at least two crucial advantages over MOFCOM's series: Individual transactions are available for use, and MOFCOM is required by national policy to treat Hong Kong as an external customs port. Hong Kong is said to receive well over half of Chinese outbound spending. Funds actually flow through Hong Kong to final destinations, but the ministry cannot follow them. Official bilateral figures, such as for India, are thus often much too low. The CGIT

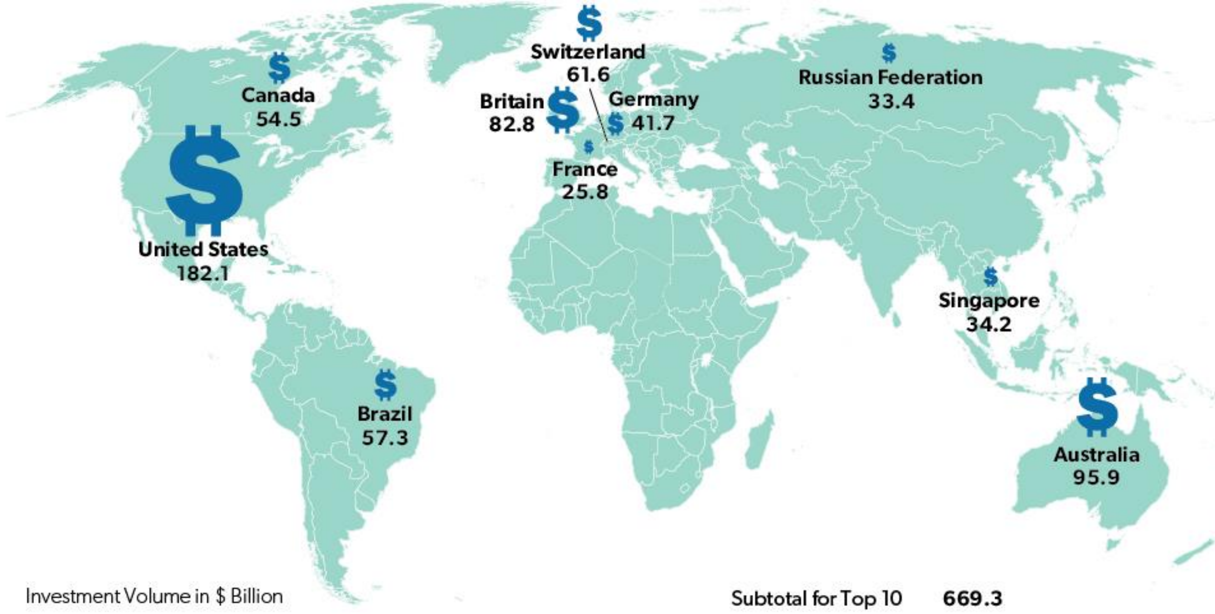
Table 1. Two Views of Chinese Outward Investment ($ Billion)

	CGIT	Ministry of Commerce
2005	10.2	12.3
2006	20.3	21.2
2007	30.1	26.5
2008	56.3	55.9
2009	56.0	56.5
2010	66.4	68.8
2011	69.8	74.7
2012	78.9	73.4*
2013	80.8	90.4
2014	102.7	106.3
2015	118.1	128.9
2016	165.7	178.2
2017	175.9	140.2
2018	112.4	129.8
2019H1	27.5	53.4**
Total	**1,171.1**	**1,216.5**

Note: Numbers may not add due to rounding. The CGIT is revised with each update. *MOFCOM's published reinvestment is excluded from 2012–17. **Extrapolated from official figures for January through May.

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, http://www.aei.org/china-global-investment-tracker; National Bureau of Statistics of the People's Republic of China, State Administration of Foreign Exchange, "2017 Statistical Bulletin of China's Outward Foreign Direct Investment," September 2018; Xinhua, "China's ODI Sees Stable Development in 2018," January 16, 2019, http://www.xinhuanet.com/english/2019-01/16/c_137749000.htm; and Xinhua, "China's Non-Financial ODI down 1 Pct in Jan–May," June 13, 2019, http://www.xinhuanet.com/english/2019-06/13/c_138140294.htm.

Figure 1. Top Recipients of Chinese Investment, 2005–19H1 ($ Billion)



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

follows money to the true recipient, providing far superior bilateral numbers.

Either the role of Hong Kong or political interference undermines government data on the BRI. MOFCOM indicates BRI investment accounts for one-eighth of total investment thus far in 2019 but covers only 51 countries.[8] The original set was 64, and supposedly many more have been added. The number of countries MOFCOM measures bizarrely varies by month, never touching 60. Growth figures appear unevenly. The CGIT counts all countries Beijing says to count—137 at time of writing. That naturally generates a much larger BRI share of total investment, with a modest slide in spending from the first half of 2018 in those countries.

China's Global Footprint

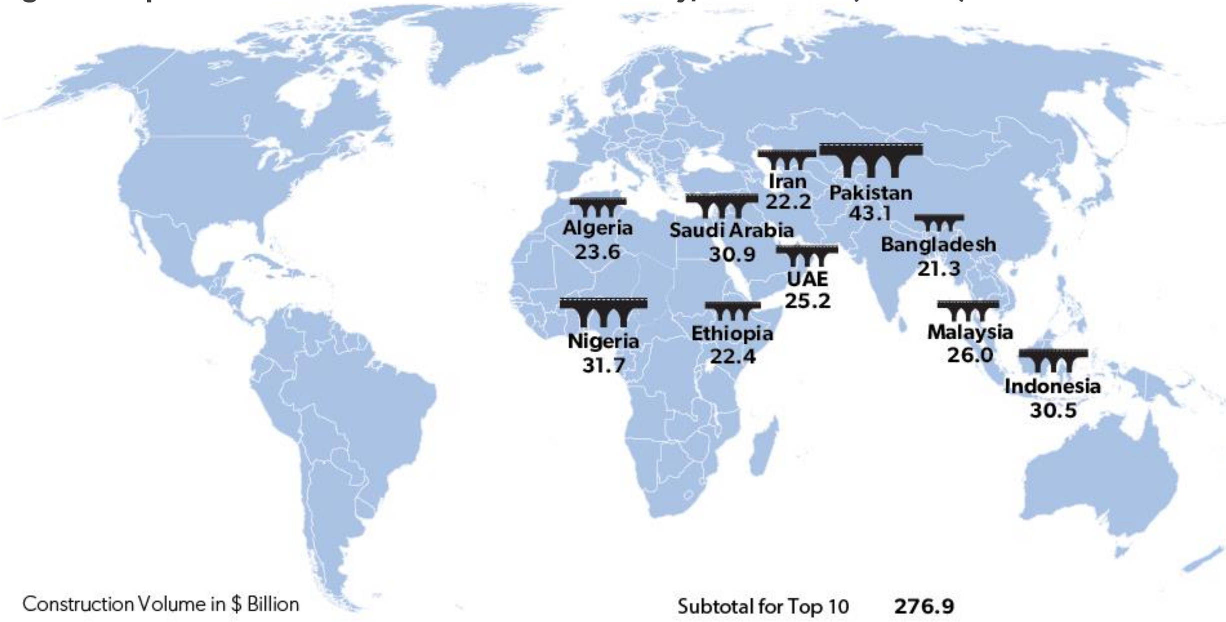
The CGIT's far more accurate bilateral figures make clear Hong Kong does not draw the bulk of PRC investment. Moreover, the top 10 investment recipients feature only two BRI members, and none are in the top seven (Figure 1). While the US easily leads in terms of total investment attracted, the American figure is not impressive after adjusting for population or economic size.

Half-year totals for individual countries are usually misleading. The Russian Federation led in the first half of 2019 thanks to a single large energy investment, but previous such outlays have not always ended well. Still, the historical dominance of rich countries in drawing Chinese capital could be ending. The boom period for the US seems to have passed; it also may have passed for Australia, Switzerland, Canada (earlier), and Germany, due to rising tensions with the PRC and a lack of Chinese funds.

The BRI has thus become more prominent in investment. In addition to less spending elsewhere, more than doubling the number of countries associated with the BRI generates bigger numbers. Of course, new additions may not have or want the same status as original members. Using the full list of 137 countries—deliberately to give the BRI's maximum possible size—drew three-fifths of verifiable Chinese investment in the first half of 2019. This compares to a bit over two-fifths for 2018, though the latter was based on a much larger total.

Investment involves ownership. The PRC may own few assets in a country yet sign contracts worth billions to build rail lines, dams, and more, which are then owned locally. For example, in Pakistan, China has far less in investment than in

Figure 2. Top Countries for Chinese Construction Activity, 2005–19H1 ($ Billion)



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

construction. The CGIT documents over $800 billion in construction, and, due to limited disclosure in 2005–10, this underestimates the PRC's activity. Early years are undercounted, and new projects trickle in slowly. Moreover, construction is concentrated in poorer countries where activity may not be well-documented.

Using the most expansive list of members, the CGIT shows *all* the top 10 construction recipients in the BRI (Figure 2). Since its inauguration, the (maximalist version of the) BRI has captured more than four-fifths of construction volumes. The cumulative BRI construction figure since its 2013 launch is also close to $200 billion larger than for investment. While totals differ, MOFCOM confirms the BRI construction share is far larger than its investment share.[9] Observers of the BRI should stop referring to huge investment sums, as opposed to construction.

A final distinction between investment and construction concerns the firms involved: The private sector has often played an important role in investment, while SOEs such as Three Gorges utterly dominate construction. Profits are rare, and quality can be suspect, but SOEs have an established record in completing projects in difficult settings, supported by huge amounts of concessionary finance from state banks. The US, the EU, Japan, and others will not be able to mobilize a private-sector effort to match BRI construction; taxpayers would have to foot most of any bill.

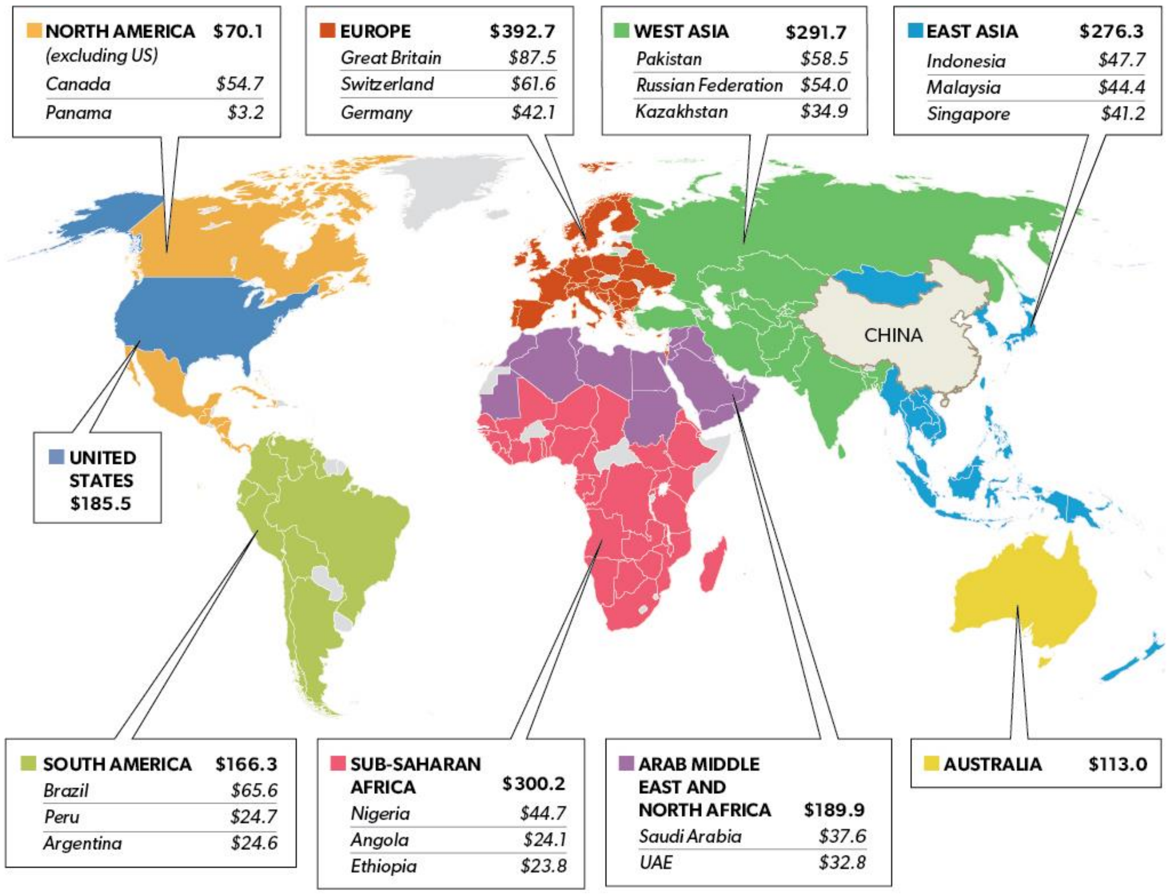
A dollar invested and a dollar received for engineering and construction do not have the same nature or value. For instance, investment provides an indefinite return, while engineering services are time bound. Nevertheless, combining investment and construction illustrates the PRC's footprint. Through one or the other, Chinese enterprises are present in countries where other multinationals fear to tread. The combined figure for investment and construction since 2005 is right at $2 trillion (Figure 3).

Geographic diversification is impressive. Other than the US, no country gets to 6 percent of the total. Each identified region exceeds $150 billion in combined investment and construction, and each inhabited continent exceeds $100 billion.

While countries and regions are the standard way to discuss the PRC's investment and construction, Chinese firms think first about sectors where they have expertise or a need. Table 2 shows that diversification fades when considering sectors. Energy leads investment (for extraction) by a wide margin and comprises two-fifths of construction

Figure 3. China's Worldwide Reach

Since 2005, the combined value of China's global investment and construction is almost $2 trillion. More developed economies have traditionally drawn the bulk of investment, with Europe the leading region and the US the leading country. Developing economies such as Pakistan and Nigeria see the bulk of construction activity.



Note: Figures are in billions of dollars.
Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

(power generation). Oil unsurprisingly sees the largest outlays, while dams are built a bit more often than coal plants. Metals, especially iron and steel, add to the commodities pile.

Transport investment and construction have picked up since the BRI was launched. Roads and rails are more prominent than ports and airports. Property investment excludes personal home purchases in rich countries, as they are less than $100 million each, and is therefore understated.

Among controversial sectors, agriculture investment has outpaced technology, partly due to the US halting technology investments. The once-hot fields of entertainment and tourism have been shut down by Beijing's capital controls. In 2019 to date, energy and transport lead investment, and energy and transport, followed distantly by property, continue to lead construction.

"Going Out" Ends, for Some

These hefty figures cannot hide the recent trend. Because construction contracts appear slowly, final 2019 results will be better than initial results, even given a retreat by SOEs. But construction volume has been falling since 2016. The BRI is now the face of Chinese globalization but has not reversed the tide. In the first half of this year, new projects accumulated at a sedate pace last seen in 2013. This argues against common views that the PRC is seeking to capture the economies of its partners.

Stabilization of construction activity is certainly possible, but re-expansion is unlikely. While the BRI provides a political reason to do more, the economic reasons are eroding. Beijing no longer needs overseas projects to absorb excess labor, as the domestic workforce is stable or shrinking.[10] Investment in rich countries at least offers the potential for high returns. For construction in poorer countries, the prevailing financial feature is subsidies SOEs need to make projects work. They are most vulnerable to hard currency shortage or anticipated shortage.

Table 2. Sector Patterns, 2005–19H1 ($ Billion)

Sector	Investment	Construction	Troubled
Energy and Power	379.0	333.9	136.2
Transport	118.9	250.4	52.6
Metals	141.6	36.0	76.1
Real Estate	100.8	85.2	20.4
Finance	80.5	—	42.8
Agriculture	82.1	17.7	11.0
Technology	62.0	16.3	28.5
Tourism	42.8	9.0	7.4
Entertainment	47.9	2.7	2.4
Logistics	33.1	5.1	1.8
Health	21.2	3.4	0.5
Other	61.2	55.2	7.9
Total	**1,171.1**	**814.8**	**388.9**

Note: In other investment, the lead sector is consumer goods; in other construction, it is utilities.
Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

Investment is struggling more now but has anchors construction lacks. On everyone's numbers, 2018 saw investment drop. In the first half of 2019, the CGIT puts both the number of transactions and volume roughly 50 percent smaller than the first half of 2018. This is exaggerated by downsized individual deals falling below the $100 million threshold, but the true result is at least a one-third spending decline. The magnitude is such that gross investment in the BRI slid even while its share of investment surged. It has been standard to forecast another trillion dollars of Chinese money coming in the next six years. It will be more like nine years.

The cause is SOEs, but more narrowly SOEs' vanishing acquisitions. The PRC's financing for large acquisitions usually intersects with industrial policy targets that are far from win-win. Host countries have finally become suspicious of Beijing's goals, most obviously fearing the next steps in continued technology extraction but now extending into (sometimes exaggerated) fears of induced dependence.[11]

Private Chinese companies may not always be welcomed, but they are plainly tolerated more than SOEs. After a crackdown by Beijing in 2017,[12] prompted by mistakes and misbehavior at a number of firms, the private sector is doing comparatively well (Table 3). And new private investors could emerge to replace those lost in the past few years. Barred from "strategic" sectors at home, they have less reason to try such sensitive investments overseas and can instead focus on untapped and unrestricted areas such as consumer goods.

Table 3. The Private Share of Investment Since 2010 (Percentage)

Year	Share
2010	9.5
2011	11.0
2012	14.1
2013	26.6
2014	29.5
2015	32.6
2016	49.0
2017	31.8
2018	38.4
2019H1	44.1

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

Complementing the outperformance of private investment is the outperformance of greenfield investment. CGIT methodology is cautious with the "greenfield" label. If companies report a Chinese partner has joined an existing project, it is not recorded as "greenfield" even if the project may have existed only on paper. Still, since being reduced to near-irrelevance by the wave of acquisitions in 2016–17, greenfield investment has rebounded sharply in share (Table 4). Mergers and acquisitions bring local fears of relocation of jobs or seizure of technology. Greenfield investment reverses both, offering jobs and possibly new technology. Even suspicious host governments typically welcome it.

More private and greenfield investment thus reduces the incidence of "troubled transactions," which occur when noncommercial factors impair or reverse a finalized commercial agreement. It takes time for commercial agreements to unravel, so the appearance of troubled transactions comes with a lag. Nonetheless, a decline in transaction quantity clearly has brought a rise in transaction quality; Chinese firms have been forced to be more selective, and it is paying off in fewer new failures.

Because investment involves indefinite ownership, it faces never-ending danger. Annual losses due to noncommercial impairment are nearly three times higher than fixed-term construction. As a result, the top recipients of PRC spending see the most trouble (Table 5). American objections to technology investment account for high-profile troubled transactions, but there have been a series of problems in finance, as well. Australia is more receptive, but Chinese metals investments there have seen enormous problems. Iran is present on the list due to older events, while Germany and Russia have witnessed more recent setbacks.

The scarceness of impaired transactions in 2019 supports the idea that private and greenfield investments have an easier path. More broadly, Beijing has two options. First, it can genuinely open its own sensitive sectors, embracing the long-shunned principles of reciprocity and competition. That is unlikely, leaving the second, inverted option of better encouraging and supporting activity in sectors where host countries are pleased with Chinese participation. If scarce hard currency is reserved for SOE acquisitions, "going out" will be seen as "grabbing and taking home," and spending totals will not recover.

US Should Look Forward, Not Back

In mid-2016, a flood of Chinese money headed to the US, especially, but also to Europe and some developing economies. Three years later, the flood has become a trickle. Moreover, the odds are high for continued weak PRC investment over the next few years.[13]

Table 4. The Greenfield Share of Investment Since 2010 (Percentage)

Year	Share
2010	27.0
2011	35.1
2012	24.5
2013	30.2
2014	37.7
2015	27.2
2016	10.5
2017	11.9
2018	27.8
2019H1	39.5

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

Table 5. Most Troublesome Countries, 2005–19H1 ($ Billion)

Country	Troubled Transactions
United States	71.7
Australia	59.5
Iran	25.2
Germany	22.3
Russian Federation	14.3
Libya	12.7
Nigeria	11.5
Venezuela	9.8
Subtotal for Top Eight	**227.1**
Total for All Countries	**388.9**

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

To start, the yuan is little used. While China and others tout it as a global currency, the yuan's share in cross-border currency transactions is about 2 percent, slightly lower than in mid-2015. Without Hong Kong, it is barely 0.5 percent. For global reserve holdings, the yuan is about as important as the Canadian dollar.[14]

Further, while the PRC's foreign exchange reserves are still the world's largest, they are under pressure. Reserves hit $3.99 trillion in June 2014, then began falling, standing at $3.10 trillion at the end of May 2019.[15] There is a smaller amount of foreign currency held in the state banking system, which appears to have fallen more steeply. These are what finance China's outbound investment.

China's foreign currency holdings are threatened by a prolonged trade standoff. The PRC's cumulative goods and services surplus with the US from 1999 through 2018 was close to $4.6 trillion, more than its official foreign reserves at their peak. From June 2014 to May 2019, when China's reserves dropped almost $900 billion, it still ran a $1.6 trillion goods and services surplus with the US.[16] Without that, Beijing would have faced a balance of payments crisis.

The US has since hiked from 10 to 25 percent tariffs on $200 billion of Chinese imports, pending exclusions, and a 10 percent tariff on $300 billion more is possible. Nearly across-the-board American tariffs, half 25 percent and half 10 percent, would cost Beijing along the lines of $130 billion in annual exports, if tariffs were sustained and the renminbi kept stable.

The initial decline of SOE global activity in autumn 2018 coincides with the first application of American tariffs, and the further drop this year coincides with tensions before the second application of tariffs. China's tight capital controls applied in late 2016 remain, while it touts preparations for a "long trade war."[17] SOEs have stopped globalizing because Beijing is hoarding foreign currency.

Nor does that look to change much. Sino-American trade peace would require more purchases of American goods and services, drawing down foreign reserves unless Beijing could perfectly substitute American products for current imports. With the labor force shrinking, the PRC's export competitiveness is unlikely to improve. Lack of pro-market reform triggered the start of capital flight in the first half of 2014, and reform efforts remain minor.[18] American policy should address the tightfisted China of today and tomorrow, not the manic China of 2016.

Reforming the Committee on Foreign Investment in the United States (CFIUS) via the Foreign Investment Risk Review Modernization Act (FIRRMA) was necessary in determining how to treat Chinese investors.[19] Changing circumstances means it was also inadequate. CFIUS must of course have the resources to enforce the implementing regulations that designate what products and sectors to protect. But blocking what remains of Chinese investment in these products and sectors still leaves multiple risks.

The CGIT has never shown successful Chinese acquisition of advanced technology in the US. FIRRMA thus emphasizes small-scale acquisitions of emerging technology. However, preventing American firms from selling sensitive technology in the US is worthless if they just do so in other countries. FIRRMA includes export control reform, but there are stark problems with enforcement, most recently concerning American firms shipping components made in other countries to Huawei.[20] Proper export control is merely an aspiration.

American policy should address the tightfisted China of today and tomorrow, not the manic China of 2016.

With exports or otherwise, the necessity of the rule of law has not faded in the slightest. Creating laws and implementing regulations does not matter if the US ultimately fails to punish criminal acts. The most important failure concerns theft and coercion of IP, from which annual American losses run conservatively in the tens of billions of dollars.[21] Cybertheft from now-defunct Nortel to Ericsson has accelerated Chinese telecom development, and the same efforts are now being aimed to computing.[22]

While IP properly wins attention, Chinese companies must violate any American law if the Communist Party instructs. The PRC's side of an antitrust suit already acknowledged such orders in US court.[23] The most prominent present issue along these lines is protecting Americans' personal data. This has been a factor in the multiyear delay faced by China Oceanwide's attempt to buy Genworth, for instance.[24]

When making trade and investment policy, the administration and Congress should also consider the Party's violation of human rights. America cannot stop General Secretary Xi Jinping from harming his own people, but it does not have to be a source of revenue for the state-directed firms used to do so. The situation will likely not improve under Xi, and he could be in power for at least another decade. Will the US be complicit for years to come?[25]

A final issue is market access. The biggest single problem is the regulatory protection, including but not limited to financial subsidies, given to SOEs. The general idea is that China uses a variety of means to sharply inhibit foreign competition in many sectors while pressuring others who practice anything similar.[26] Reciprocity is a founding World Trade Organization principle and entirely reasonable as the basis for American policy actions, if applied judiciously.

These policy challenges mean blocking Chinese investment in the US will achieve little, especially given how low the levels are now. Companies that steal IP or receive stolen or coerced IP are a threat to the economy and, potentially, national security. Tariffs do not single them out; they create incentives for other companies hit with tariffs to start stealing IP. Nor is the Department of Commerce's entities' list sufficient, as it merely limits exports directly from the US. To deter IP theft and coercion, repeat offenders should be forced out of business using financial sanctions, if possible, and certainly banned from any business with American entities.

Chinese firms breaking other laws—for example, sharing personal data—are equally criminal but less threatening. They should be punished commensurate with the violation, up to a full business ban. Human rights violations by Chinese entities, at the Party's command, should be treated as the US treats human rights violations elsewhere, with sanctions matching the (increased) extent of repression. Finally, subsidies are the core of the PRC's economic model and will not be reduced without pressure. The US should evaluate retaliation against Chinese policies that limit market access and warp competition globally—for example, by inhibiting Chinese competition in the US in several (only) sectors.

In all these cases, enforcement is more difficult because the PRC will simply disband and re-create enterprises facing sanctions or barriers.[27] Therefore, it would be a serious error for American policymakers to target only those caught in the act of illegal technology transfer. The Chinese state is behind IP coercion, human rights violations, and subsidies, and arms of the state are legitimate targets, whether they directly participate or not.

The bulk of Chinese investment in the US has been economically beneficial. But the US has failed to act in anything like the needed fashion against recipients of stolen or coerced technology. We have failed to enforce other laws or decide how to respond to the PRC's subsidies. Worsening human rights have produced no response. The challenges for American policy have shifted in the past few years along with China's investment patterns, and new responses are overdue.

About the Author

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Notes

1. Euan Graham, "Responding to China's Not-So-Secret Influence Campaign," *Interpreter*, March 20, 2019, https://www.lowyinstitute.org/the-interpreter/china-not-so-secret-influence-campaign; and Philip Blenkinsop, "With Eyes on China, EU Lawmakers Back Investment Screening," Reuters, February 14, 2019, https://www.reuters.com/article/us-eu-china-investment/with-eyes-on-china-eu-lawmakers-back-investment-screening-idUSKCN1Q31JU.
2. American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker/.
3. This is the largest possible set of members from the official government portal. People's Republic of China, Belt and Road Portal, https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076.
4. China's claimed financing numbers are roughly similar. See Weizhen Tan, "China's Loans to Other Countries Are Causing 'Hidden' Debt. That May Be a Problem," CNBC, June 11, 2019, https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html.
5. See, for example, Xinhua, "China's ODI Sees Stable Development in 2018," January 16, 2019, http://www.xinhuanet.com/english/2019-01/16/c_137749000.htm.

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