

The Politics of Chinese Investment in the US

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Executive summary

This chapter identifies the political dynamics motivating support for, and opposition to, foreign direct investment (FDI) in the United States originating in China. First, we map the landscape of stakeholders involved in policy decisions over FDI, their preferences and relative power. Next, we describe which demands from these groups are more likely to become politically salient, which requires an analysis on the institutional environment that affects how those decisions are made.

We argue that demand and supply-side conditions in economic policy-making at the federal and local levels drive responses to investment initiatives by Chinese firms. On the demand side, we identify the major stakeholders, which include business and labor organizations, think tanks and the mass public. On the supply side, we explore how political institutions affect the disposition of politicians to privilege some groups at the expense of others. Hence, we also analyze the disposition toward China held by the President and by Congress members.

In the United States, the President is elected by the Electoral College and answers for the state of the national economy. Thus, his/her constituency of supporters is broader than that of any particular member of Congress whose primary responsibility is to their electoral districts. The White House has generally been supportive of free trade and of closer economic relations with China, but in recent years it has also been cross-pressured by concerns over national security and human rights. Within the Executive, the Committee on Foreign Investment in the United States (CFIUS) makes recommendations to the President on the advisability of specific investments. The composition of CFIUS ensures that several different agencies are positioned to weigh in on the national security dimension of foreign investment.

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Members of Congress, on the other hand, are elected in single-member districts, and therefore place more weight on delivering benefits to their constituents in their districts. It is critical to identify the preferences of constituents in particular legislative districts to determine their stance on the issue. For example, members from high-tech industrial districts are likely to be especially strong supporters of closer economic ties with China (e.g., Washington state, the research triangle in North Carolina), while members from districts whose industries compete with Chinese firms directly or indirectly may be less supportive. It is also important to determine whether representatives reside in safe or marginal seats. Long-serving members of Congress facing little electoral threat are likely to be especially influential. Lastly, Congress members create and participate in informal groups aimed at advancing their political agenda on specific issues, bolstering their reputation as trustworthy coalition partners and signaling to their constituents.

We identify two key political groups in Congress, namely the *Congressional China Caucus (CCC)* and the *US-China Working Group (USCWG)*. These groups have diverging political agendas and different motivations: Caucus members place emphasis on strategic and political concerns associated with China's emergence as a global power. Members of the Working Group, on the other hand, underscore the economic opportunities that could result from engaging China. Membership in these associations is a good predictor of the vote casted in two legislative initiatives associated with US-Chinese relations: the first one is a vote on a House resolution expressing the opposition to CNOOC's attempt to acquire Unocal; the second is a vote on a motion that sought to authorize the President to adopt measures to deter arms transfers by foreign countries to China.

Our statistical analyses of the determinants of voting in Congress suggests that the disposition of House members is affected by the intensity of economic links to China at the electoral district level. For example, complementary economic ties with China seem to predispose Congress members more favorably toward China: representatives from states with more employment in finance and professional activities, or those from districts that export to China tend to adopt a relatively pro-China stance. Representatives from states whose firms compete with Chinese imports or have large manufacturing sectors tend to cast anti-China votes on the key legislative issues identified for our analysis.

We also analyze how the strategies by Chinese investors at the local level could help assuage the concerns of different stakeholders, and hence reduce the sensitivity towards their activity. Our analyses of the successful case of Laiwu's purchase of the Eveleth Mine in Minnesota and of the mixed fate of the Wainxang Group's acquisition of several autoparts makers in the Midwest suggest that the motivation and form of entry by Chinese firms are likely to affect the disposition of economic and political actors toward Chinese investment at the local level. Local factors can help mitigate negative sentiments associated with national security,

strategic and other ideological concerns. Engaging local players has also helped Chinese firms draw the attention of elected officials at the state and federal levels.

Reassuring elected officials at the different decision-making levels and lining them up on their side is key for Chinese firms that aim at reducing local opposition. This is important as recent public opinion polls continue to express generally negative attitudes toward economic cooperation with China due to concerns about employment and wages, and a general concern with the rise of China as a strategic competitor.

In sum, our analysis shows that investment from China in the United States is as much a political as an economic issue. Investments that make economic sense may run into difficulties where they cut against important political and national security interests. Recognizing that “politics matters” is an important step; but it is important to identify which aspects of politics are especially important. First, investors need to find ways to navigate the committee network in Congress and the Executive. Second, they need to recognize that preferences are partly determined by local interests and constituencies. Hence, it is very important to cultivate local interests and engage local politicians. Potential investors need to invest in learning about the political game, be part of that game and monitor key players.

Introduction

Why are economic policies that are widely believed to improve social welfare often not adopted? A consensus reigns among economists that restrictions on the free flow of foreign investment impair social welfare and that economies as a whole would grow larger where those restrictions are lifted. Yet, countries often raise barriers to the free flow of capital and goods to their economic detriment. Chinese investment in the U.S. illustrates this more general puzzle. For example, while Chinese companies have made several high profile investments in the U.S. in recent years (e.g., IBM), other efforts have failed (e.g., Maytag, Unocal). Whether additional barriers will be placed on investment from China in the future is very much an open question.¹

This chapter maps the landscape of stakeholders involved in policy decisions over Chinese foreign direct investment (FDI) in the United States, with the larger goal of identifying the political dynamics motivating support for and opposition to FDI from China. We analyze both the demand and the supply side of this issue. On the demand side, we identify the power and preferences of major stakeholders in decision-making, including business lobbies, labor organizations and the mass public. Which groups are most active and successful in lobbying for and against easier access for Chinese investment? In seeking to justify their positions, do they refer primarily to economic consequences, such as loss/gain of jobs, or prospects for reciprocal investment opportunities in China? Do they invoke national security concerns? Moreover, is there a systematic pattern of support for, and opposition to, Chinese FDI and, mergers and acquisitions (M&As)? Last, is this pattern rooted in sectoral or geographic considerations?

However, identifying individual and group preferences is not enough to explain (and forecast) policy outcomes. Policies are the output of the political process—hence they are shaped by the intersection of demand and supply conditions in policy-making. Political institutions mediate political demands and thereby determine the nature of policy-making in the U.S. Indeed, because political institutions privilege some groups at the expense others, policies are often only a reflection of the power and preferences of different stakeholders in civil society. What are the preferences of political representatives on easing access of FDI from China? How do political institutions aggregate and constrain these preferences? How does policy-making in the U.S. privilege some groups and disadvantage others? What political coalitions are forming on the issue of Chinese FDI? Do we expect legislators in safe seats or marginal seats to be more important on this issue?

In assessing the prospects for FDI from China, we take both the demand and supply sides into account by examining voting patterns in Congress. We find preliminary evidence that both material and non-material factors influence voting behavior in the House of Representatives. For

¹ A *New York Times* Op-ed from August 4, 2005 titled “No way to treat a dragon,” concluded: “The Congressional hysteria over the CNOOC bid demonstrates that only too well. It is a sad example self-interested pandering for votes and contributions – with little regard for the dangerous dynamic it could set in motion.”

example, economic ties with China shape the policy position of Congress members. Representatives from states with more employment in finance and professional activities whose economic links to China have increased in recent years, and those from states with more exports to China, tend to adopt a relatively pro-China stance. Representatives from states whose firms compete with Chinese imports or have large manufacturing sectors tend to cast anti-China votes on key legislative issues identified for our analysis. Representatives with links to the security community and those concerned about China's rise as a military power are associated with a more negative disposition toward China as well.

Moreover, our analysis shows that ideology and the distribution of employment and trade with China are also good predictors of membership in the *US-China Working Group (USCWG)* and in the *Congressional China Caucus (CCC)*, the two groups associated with pro-China and anti-China attitudes in the House.² Our case study analysis also suggests that, at the local level, the motivation and form of entry by Chinese firms seem to affect the disposition of economic and political actors at the local level toward Chinese investment. These factors can mitigate negative sentiments associated with national security, strategic and other ideological concerns. At the national level, however, the public continues to express generally negative attitudes toward economic cooperation with China, due to concerns about the employment and wage effects of trade with China, and a general concern with the rise of China as a strategic competitor.

Our analysis shows that investment from China in the United States is as much a political as an economic issue. Investments that make economic sense may run into difficulties where they cut against important political and national security interests. Recognizing that “politics matters” is an important step, but it is important to identify which aspects of politics are especially important. First, investors need to find ways to navigate the committee network in Congress and the Executive. Second, they need to recognize that preferences are partly determined by local interests and constituencies. Hence, it is very important to cultivate local interests and engage local politicians. Potential investors need to invest in learning about the political game, be part of that game and monitor key players.

In the ensuing sections we begin with the demand side by examining the preferences of interest groups and the mass public on the issue in Sections A.1 and A.2, before turning to the supply side and a focus on political institutions in Section A.3. We then examine the impact of demand side factors on a roll call vote on issues related to the Chinese FDI in Section B. We present two brief case studies of attempts by Chinese firms to invest in the US in Section C, before concluding.

² CCC membership is positively associated with support for the East Asia Security Act, arguably an anti-China vote.

A. The demand and supply risks of policy-making

In order to understand the demand side of politics we start by identifying the sources of individual preferences toward foreign investment and explore how these preferences get activated politically, i.e., which groups are more likely to become influential.³ We can treat their preferences as a function of income and ideology. Income effects are associated with the net welfare and distributive consequences of trade, investment and other economic interactions with a foreign country and its nationals. One key question in this analysis is how much do material interests (usually derived from individuals' position in the economy and/or ownership of assets affected by economic interactions with China) determine attitudes toward China. Ideational interests, on the other hand, are those related to nationalism and strategic concerns associated with the political externalities of economic relations and economic externalities of political relations.

1. Preferences and the demand side of policy-making

What drives preferences towards foreign investment? We can identify two different sources: material/economic interests, related to the effect of investment on the well being of the economy and individuals, and non-material interests/ideological interests associated with nationalistic, security and cultural concerns. Material and non-material interests can, in turn, be classified as supporting or opposing closer economic relations with China. One potential material/economic source of conflict on the politics of inward investment is the technological relationship that determines the degree of complementarity and substitutability in production between foreign investment and factors of production owned by domestic actors in the host country. Where foreign investment complements local factors of production, stakeholders in the host country may be especially supportive. For example, where labor is plentiful, but local capital is scarce, local stakeholders may welcome foreign investment. In contrast, where foreign investment substitutes for local factors of production, one might expect opposition from host country producers to be especially fierce. For example, where foreign investors seek to build firms from scratch that compete directly against local firms, local opposition from owners of capital is likely (Pinto 2004; Pinto and Pinto 2008).

More generally, foreign investment could affect the demand and relative prices paid to owners of capital and labor in the host country, creating incentives for these actors to try to

³ The first step in the process is identifying individuals' objective functions, i.e., what they are trying to maximize. We assume that individuals prefer more, rather than less income, and that they are willing to trade off part of that income for non-material, ideological or psychological benefit.

⁴ The role of inflexible policy is stressed in a recent body of literature in the transaction costs tradition: Williamson 1985; Henisz and Williamson 1999; Spiller and Tommasi 2003.

influence government to adopt their preferred policies.⁵ Moreover, even though business owners irrespective of their nationality share an interest in creating a more favorable business environment, domestic investors who are likely to have better access to the policy-making process would prefer restricting inflows of foreign investment that are likely to compete their rents away. This would result in a direct economic incentive for agents to organize politically in support of, or opposition to, initiatives to prevent the acquisition of domestic assets by certain types of investors. Thus, the distributional consequences of FDI may motivate conflict.⁶

In addition, non-economic concerns may lead to opposition to FDI. For example, a disposition toward more permissive or restrictive investment policies could be driven by security and political externalities associated with the type of investment, which in turn could depend on the sector, nationality and nature of the investor.⁷ The political and economic consequences of foreign investment are likely to resonate in the politics of investment, and consequently may be reflected in legislative and regulatory activity around the issue, creating one of the sources of *liability of foreignness* faced by foreign investors.⁸ The academic literature has also analyzed the effect of politics on investment decisions within an individual industry (Levy and Spiller 1994; Henisz and Zelner 2001; Henisz 2002, among others), but there is limited work on industries that may provide national security concerns.

Some individuals and groups who advocate economic nationalism, and hence restrictive policies, are confronted with a tradeoff that Harry Johnson (1965) eloquently described: “it is quite possible that the psychic enjoyment that the mass of the population derives from the collective consumption aspects of nationalism suffices to compensate them for the loss of material income imposed on them by nationalistic economic policies, so that nationalistic

⁵ The consequences of restricting capital mobility are discussed in Quinn and Inclan 1997, Quinn 1997, Alfaro 2004 and Alesina and Tabellini 1989; these four papers focus on capital controls, but make contrary predictions. See also Alesina, Grilli and Milesi-Ferretti 1994.

⁶ Trade relations could also predispose political actors positively or negatively toward China. Regions that are net exporters to China, for instance, are likely to support friendly Sino-U.S. relations, while individuals displaced by Chinese imports might harbor anti-China sentiment. Moreover, the distributive consequences of FDI inflows might be attenuated or magnified by trade linkages. Depending on its entry strategy and linkages with the local economy, a Chinese affiliate may reduce pressure on local competitors by selling its output back to the parent company or its affiliates abroad, help local businesses place their products in Chinese markets or it might increase import competing pressures when procuring directly from China. Given the dearth of micro-level data on Chinese investment at the state level in the U.S., this trade-investment linkage is a key in our strategy to identify connections to China in the roll call analyses conducted in section B.

⁷ Security concerns in the regulation of FDI in the U.S. are far from new as reflected in the 1917 Trade with the Enemy Act discussed elsewhere in this volume. The source of the concern is different: in the early 1900s foreign investors dominated critical sectors and technologies that were not available to indigenous firms. The intent of the policy-makers was to guarantee access to that technology and know-how, and develop domestic firms that could master them to reduce foreign dependence (Graham and Krugman 1995; Graham and Marchick 2006, p. 28). Today, the source of the strategic concern is that foreign powers (China in particular) could come use M&As to acquire sensitive or dual-use technologies not previously available to them. This is the rationale behind the Exon-Florio Amendment of 1988, and the Byrd Amendment of 1991.

⁸ See Lorraine Eden and Stewart Miller’s chapter in this volume.

policies arrive at a quite acceptable result from the standpoint of maximizing satisfaction” (Johnson 1965, p. 184).⁹ The existence of this tradeoff at the individual and group level has important implications for coalition formation: some individuals might be willing to embrace economic nationalism purely on grounds of self-interest (reflected in the commercial manipulation of the CFIUS process identified by Graham and Marchick 2006), yet others will be forced to trade off material (net welfare and individual level losses) and ideological preferences in order to support a national industry.

Economic and security concerns with foreign direct investment originating in China are likely to differ depending on the form of entry (whether greenfield investment creating new facilities or acquisitions of existing assets),¹⁰ the characteristics of the sector and the firm, and an investor’s relationship to other public and private actors.¹¹ Hence we should expect attitudes toward Chinese investment in the US to vary depending on the instrument of choice: government bonds and greenfield investment are likely to be less sensitive than M&As and more easily tolerated, whereas sensitivity to political externalities and security concerns may make the public less likely to support investments in natural resources and technology.¹² The perceived driving force behind Chinese investment into a developed country like the United States is likely to be access to technology and skill-intensive goods and services, but also natural resources, as the Lenovo-IBM and CNOOC-Unocal cases illustrate. This motivation might increase the strategic concern among individuals and leaders alike.¹³ Yet the Haier-Maytag and Huawei-3Com cases suggest that the response could also result from manipulation of the legislative and regulatory process even when strategic concerns are low.

The vehicle through which investment occurs is likely to affect the disposition of individual and collective political actors. Investment by a foreign state-owned enterprise (SOE) or by foreign government controlled firms could be more salient and sensitive. Ownership and governance structure of the parent is important in the case of Chinese investment as China

⁹ Johnson defined nationalism as: “... a state of social psychology or political sentiment that attaches value to having property in this broad sense physical and financial assets, plus rights to certain kinds of jobs owned by members of the national group” (Johnson 1965, p. 176). However, economic nationalism should not be confounded with protectionism, since under some circumstances the national interest could be better served by promoting foreign investment, exports and imports and integrating with the world economy (Helleiner 2002; Pickel 2003). The conditions under which we would expect economic nationalism to be associated with a particular investment (and trade) policy orientation depend on the nature and characteristics of the investor (including nationality and other strategic considerations), target sector and assets, and on the size, location, level of investment resource endowment and other characteristics of the economy.

¹⁰ See the chapter by Steven Gliberman and Daniel Shapiro in this volume.

¹¹ There have been around 900 Chinese investments in small and medium-sized firms in the U.S., worth approximately \$1 billion according to a Hildebrandt International report (Graham and Marchick 2006, p. 101)

¹² The timing of decision of the Chinese government to encourage Chinese firms to “go out” (in the 10th 5-year Plan of 2001) is also a critical factor, since the U.S. government has tended to impose higher restrictions of inward investment and MNEs activity in times of international conflict and heightened insecurity.

¹³ It is worth noting that of the top ten largest U.S. economic partners, China is the only one that is not considered an ally (Graham and Marchick 2006, p. 102).

recently created the China Investment Corporation, a sovereign wealth fund (SWF) worth over \$200 billion, to purchase assets abroad. Such SWFs have raised concerns that certain investments may have a political rather than an economic goal, particularly since most SWFs offer little information about their investments.¹⁴ Political responses in the US could be different if China funneled its investment through an investment agency, like Singapore or Dubai, and when sensitive assets in the US are sheltered from direct foreign control.¹⁵

Thus, individual and group responses toward Chinese FDI may be shaped by a variety of factors, including whether the investment is a substitute or complement of local factors of production; commercial linkages with economic actors in China and the region; the extent to which it raises concerns for national security; whether it is a greenfield investment or an acquisition of an existing asset; and the property type of the organization making the investment.

The combination of material and non-material interests could result in a coalition of strange bedfellows around the politics of regulating investment in general, and Chinese acquisition of US assets in particular. Identifying individual and collective actors' preferences is key for understanding their political motivations and activity, and the stances of those political agents who aim at representing these groups.

2. Individual and group attitudes toward Chinese investment

In this section, we explore the positions toward China of key stakeholders in the United States. For presentational purposes, we classify these stakeholders depending on their stance (pro or anti-China) and the motivation for their stance (economic or ideological/strategic). Table 1 presents a synopsis of this classification. One problem with this preliminary classification of material interests is that, on the economic dimension, we cannot separate whether the attitudes are driven by trade or investment concerns. However, we believe that both trade and investment are closely related in individuals' and groups' assessments of the benefit of engaging China.¹⁶

¹⁴ See Teslik (2008) for a discussion of sovereign wealth funds.

¹⁵ Note, however, that ownership and form of entry are conditional on the effect that the investment has on different actors in the economy: policy-makers' disposition toward sovereign wealth funds, for instance, varies depending on the assets targeted by those funds. Despite strong rhetoric against sovereign wealth funds and SOEs in the U.S. in 2006 aimed at blocking the Dubai Ports deal, Senator Schumer was a supporter of the Abu Dhabi Investment Authority acquisition of a 4.9% stake in Citigroup and Singapore's state-run Temasek Holdings' purchase of \$5 billion of Merrill Lynch stocks. Bob Davis and Dennis K. Berman, "Lobbyists smoothed the way for a spate of foreign deals." *The Wall Street Journal*, January 25, 2008, A1. Schumer said in support of the Citigroup deal: "It seemed to me that this is good for Citigroup, it's good for jobs in New York. It bolsters their capital position, allows what is fundamentally a very strong company to weather a difficult time," Heather Timmons and Julia Werdigier, "For Abu Dhabi and Citi, credit crisis drove deal", *The New York Times*, November 28, 2007. Wall Street firms are a key constituency of Schumer's, who is also the chair of the Senate Banking Committee.

¹⁶ Investment activity by Chinese firms in the United States is likely to be associated with higher trade with China, irrespective of the motivation of that investment: tariff jumping investment will create similar effects on product markets to Chinese imports, yet different effects on factor markets, since it could lead to higher demand for the factor that complements the Chinese firm in production. Resource and technology seeking foreign investment, on the other hand,

Table 1: American stakeholders’ position on economic liberalization towards China

		General attitude	
		Relatively pro-China	Relatively anti-China
Motivation	Economic	Financial firms (private equity, M&A players) Business associations (Business Roundtable, Financial Services Forum) Liberal think tanks (IIE; OFFI) Congress: U.S.-China Working Group U.S. states actively seeking foreign investment The public: richer, more educated people who value cosmopolitanism	Labor leaders and unions Conservative think tanks (American Enterprise Inst.; Heritage Foundation) Labor-affiliated think tanks Congress: Congressional China Caucus House membership The public: anti-globalization and concerned about trade with China and “U.S. jobs”; human rights advocates
	Nationalistic/strategic	“Panda huggers” in defense community (none identified)	U.S. military; security community Congress: Congressional China Caucus The public: <i>slight</i> tendency to be wary of China for people concerned about U.S. military superiority

Source: author’s assessment

Among economically motivated groups in the pro-China camp we find business associations, such as the Business Roundtable, which includes a broad coalition of chief executive officers aimed at promoting a pro-business regulatory environment, and the Financial Services Forum, which brings together the chief executive officers of 21 leading financial institutions.¹⁷ The Business Roundtable and the Financial Services Forum have been staunch

is likely to lead to higher exports to China. This differential effect is central in the two case studies discussed in section C.

¹⁷ The Business Roundtable places emphasis on US-China trade relations and proposes a more conciliatory language aimed at promoting US exports. The group has taken positions against Congressional activity aimed at imposing tariffs on Chinese imports to force China to revalue its currency, in favor of easing technology export controls, and reforming

supporters of Secretary Paulson's US-China Strategic Economic Dialogue, and strong advocates in public fora of initiatives aimed at "engaging" China.¹⁸

Among political groupings in Congress that support closer economic ties with China, we find the U.S.-China Working Group (discussed in section A.3), and political leaders from states actively seeking Chinese investment, such as Washington and North Carolina.¹⁹ Liberal think-tanks, such as the Organization for International Investment and the Peterson Institute for International Economics have adopted either a pro-China or neutral stance.²⁰ Among the public, surveys show that richer, more educated people tend to support economic liberalization in general, and opening to China in particular. This group is usually associated with a more cosmopolitan attitude.

Among those holding a relatively anti-China stance based on economic interests, we find labor leaders and other individuals and groups who tend to oppose economic liberalization due to concerns about jobs.²¹ The pharmaceutical, software and entertainment industries have adopted a negative stance toward Chinese investment in order to force the Chinese to crack down on piracy and enforce property rights protection. Big businesses in the auto, steel and furniture sector oppose investment by Chinese firms in their sector for self-interest: their biggest motivation is curbing competition from China and preventing Chinese firms from making further inroads in the domestic market. The labor-affiliated Economic Policy Institute is a key anti-China advocate; its motivations are mostly driven by the effects of Chinese imports on wages. Economic ideology associated with government intervention in the economy, lax property rights protection and restriction on market forces is the core motivation of the anti-China stances of the conservative Heritage Foundation, and of the American Enterprise Institute, a normally pro-business think-tank.

Among those adopting anti-China attitudes for nationalistic and strategic concerns, we find members of the U.S. Armed Forces and the defense community. The overall consensus of the defense community around the adoption of a hawkish stance toward China is driven by

CFIUS to promote Chinese investment aimed at protecting jobs at home and creating opportunities abroad. See <http://www.businessroundtable.org//newsroom/index.aspx>. The Financial Services Forum is a strong advocate of the free flow of capital and investment that would increase the demand for US assets. Robert Nichols, FSF's President and chief operating officer testified before the House Financial Services Committee on February 7, 2007 in favor of CFIUS reform. See <http://financialservices.house.gov/pdf/HTNichols020707.pdf>. Nichols argued that the vast majority of inward investment has no bearing on national security and advocated a complete overhaul of CFIUS, with special emphasis on reducing the scope of investment initiatives subject to review.

¹⁸ The Financial Business Forum is a member of the *Engage China Coalition*, an association of nine associations in the financial sector. <http://www.engagechina.com/>.

¹⁹ Several Washington state Democrats who voted "nay" for HR Resolution 344 regarding the CNOOC deal belong to this Group.

²⁰ See Edward M. Graham, and David M. Marchick, "A misplaced curb on investment," *Financial Times*, October 5, 2005.

²¹ For a review of debate on the effect of trade on wages and inequality see Wood 1994; Lawrence and Slaughter 1993; Freeman 1995; Slaughter 1999; Bhagwati and Dehejia 1994.

concern over China's rise and the potential for conflict resulting from the U.S. commitment to protect Taiwan Province of China.²² Members of the Congressional China Caucus and large sectors of the public who are concerned about U.S. military superiority and are wary of China's ascent as a regional and world power, have expressed similar concerns.²³

Appendices 1 and 2 provide survey data on attitudes among the mass public and selected elite groups in the U.S. toward trade and investment in general and economic interactions with China in particular. The surveys were conducted by the Chicago Council on Global Affairs (CCGA) and provide some interesting information about factors influencing individual attitudes toward China. The 2004 Global Views Survey shows strong support for trade with China. Yet the pattern of support varies across groups of individuals and leaders according to their ideology, and it reveals differential attitudes toward security and economic issues. Respondents who believe that US military superiority is important are *slightly* less likely to favor trade with China. Similarly, but in a more pronounced fashion, the importance of protecting U.S. jobs makes respondents less likely to favor trade with China. For instance, 62% of those believing that jobs are "very important" favor trade with China. But support for trade is slightly higher (71%) among those who believe it is only "somewhat important." Interestingly, strategic supremacy plays a modest role in respondents' attitudes toward trade with China. Among those who believe that it is important to make active efforts to "ensure no other superpowers", only a minority (32.8%) oppose trade with China. The figure only falls to 31.3% opposing trade among those not so concerned about preventing other superpowers. Higher levels of education are associated with respondents favoring trade with China more (74.2% of college and graduate school-educated, versus 55.8% for those with high-school or less).

On the more fundamental issue of diplomatic relations with China, higher income results in sharply greater support for diplomatic relations. Income also has a comparable effect on respondents' tendency to favor trade with China. This result firmly dovetails with economic expectations that trade with China hurts unskilled workers. Party identification also has an arguable association with attitudes toward trading with China. Right-wingers seem slightly more likely to oppose trade with China than left-wingers. Strong Republicans, for instance, oppose trade by 40.7%, versus 29.2% of strong Democrats. The individual level results from the CCGA surveys seem to confirm the existence of the two different dimensions that determine how attitudes toward China are formed: economic and ideological. However, it is worth noting that individuals tend to be more favorably predisposed toward trade with China in general, which

²² This concern is reflected in the academic community in the work of Aaron Friedberg, a Princeton Professor, who served as Vice-President Cheney's national security advisor between 2003-2005, and Thomas Christensen, another Princeton faculty member, currently serving as Deputy Assistant Secretary of State for East Asian and Pacific Affairs. See Friedberg (1993; 2005); Christensen (2002).

²³ These views are also present in the press. Bill Gertz, from the *Washington Times* and *The Gertz File* (<http://www.gertzfile.com/gertzfile/>), and William C. Triplett II a prominent conservative pundit, usually stress in their columns and blogs the security concerns and blackmail potential associated with Chinese investment and the "China threat".

may reflect the fact that they privilege in their responses their role as consumers who are more likely to benefit from the gains from trade through lower prices and a larger variety of products. Yet, to reiterate, individual preferences are not necessarily translated into policy outcomes. Some individuals find it worthwhile spending time and resources to organize politically in defense of their interests, but most do not. Political outcomes are, thus, more likely to reflect the preferences of those that turn their preferences into political influence. Hence, we need to analyze the preferences of politically active groups as well as the attitudes of the mass public.

The CCGA Survey for 2004 also compiled the views of elites across various fields, from policymakers to businesspeople to academics and labor representatives. Support for trade with China among the elites is even stronger than the public's. In contrast to the public at large, political leanings have little impact on stances toward trade with China. In a similar vein, the Republicans surveyed were only slightly more prone to oppose trade with China (9% of Republican versus 8% of Democrats). Across categories of elites, it is obvious that labor leaders are more hesitant to embrace freer trade with China. Only 66% of labor leaders favor trade with China, a stark contrast to the other categories. (Business leaders, for instance, are 92% in agreement for freer trade). Finally, House respondents displayed a slight inclination to oppose trade with China versus their Senate counterparts (9% versus 3%, respectively). Looking more in depth at parties across Congress, the bulk of opposition to China trade seems to reside almost exclusively in the House. In fact, only one Senate respondent, a Democrat, opposed trade. In the House, Democrats were actually slightly more prone to favor trade with China (94% versus 87% for House Republicans).²⁴

Appendix 2 presents some general figures from the Chicago Council on Foreign Affairs surveys across time. Looking at results since 1990, it is apparent that more US respondents thought China's potential world-power status was critical in 1994 and 1998 than in the latest 2006 results (57% thought so in 1994 and 1998, versus only 36% in 2006). The tables in the appendix also suggest the existence of a somewhat increasing resentment against China. First, there is a slight increase over time in respondents who oppose freer trade with China.

Meanwhile, there is a slight decrease in those who favor U.S.-China diplomatic relations at all. Moreover, more U.S. respondents in 2006 expressed the belief that China practices unfair trade (58% agreed this was the case) than earlier the respondents of 2002 or 2004. In terms of Chinese FDI, U.S. respondents worry about it, but only slightly more than, say about Indian or Republic of Korea direct investment in the U.S.

The survey provides an interesting snapshot of the different attitudes that the public and elites hold regarding China. Yet it does not allow us to analyze whether these attitudes are driven by self-interest, altruistic or national security concerns. We have to be careful in our analysis of

²⁴ In the roll call vote analyses presented in section B, we find that representatives from states that are net importers of Chinese goods and services are associated with a more negative disposition toward China.

how much can be attributed to foreign investment, particularly to M&As, since recent scandals surrounding Chinese products, and negative attitudes toward Chinese exports in general may influence people's views.²⁵ We also reproduce a series of cross-tabs obtained from survey data on individual (and elite) attitudes toward trade with China as a function of income, education and degree of concern with national security and strategic issues.²⁶ These results provide a snapshot of the attitudes at a particular time and in a particular context, which may differ from the more recent political environment where sensitivities toward China seem to have intensified. This snapshot does not allow us to assess how individuals and leaders might react to a changing environment and different plausible scenarios in U.S.-China relations, nor does it allow us to estimate the degree to which actors might be willing to forego economic and material benefits for ideational and other non-material concerns, including national security.

In sum, we find that, while interest groups focused on the economy are active on both sides of the issue, groups opposing easy access for FDI from China benefit from a natural alliance with groups focused on national security issues. The mass public generally recognizes the importance of China as a rising player on the global stage and tends to favor trade with China despite concerns about unfair trade practices and the possibility of job losses. Of course, the mass public is often removed from policymaking on narrow issues such as FDI from China leaving well-organized interest groups as the most important influences on policy.

3. Political institutions and the supply side of policy

Identifying interest group and individual motivations toward FDI is an essential first step. But to understand and predict policy outcomes we also must examine how the policy-making process and political institutions aggregate these preferences. Because political institutions privilege some groups at the expense of others, they often have an independent impact on policy choices. We begin with the assumption that politicians want to maximize the probability of retaining office, but they do so in different ways in different political settings. In the U.S. Congress, representatives are elected in single-member districts, and therefore place special weight on delivering benefits to their constituents in the district. The President is elected from the nation as a whole and therefore often is seen as being less responsive to narrow concerns. These simple assumptions combine with four other features of the supply side of policy-making in the U.S. that are pertinent to foreign investment.

²⁵ See David Barboza, "An export boom suddenly facing a quality crisis." *The New York Times*, May 18, 2007; Davide Barboza, "China steps up its safety efforts." *The New York Times*, July 6, 2007. Louise Story and David Barboza, "Mattel recalls 19 million toys sent from China." *The New York Times*, August 15, 2007. A recent public opinion poll reported in the *New York Times* shows that U.S. consumers view Chinese imports as more dangerous than imports from other countries, yet concern about product quality is not limited to China. Steven Weisman And Marjorie Connelly, "Americans are open to Chinese goods, poll finds," *The New York Times*, October 22, 2007.

²⁶ The survey was run by the Chicago Council on Global Affairs in 2004.

a. Weak political parties

First, consider the implications of weak parties. In the U.S., representatives often self-nominate, raise their own funds to run for office, and develop their campaign strategies with little help from political parties. In office, members of Congress can often vote against the wishes of the party as a whole without suffering great costs. Indeed, legislators frequently depict themselves as defenders of local priorities. Politicians retain office not by toeing the party line as they do in most parliamentary systems, but by delivering benefits to their constituents. But they cannot deliver benefits to their constituents on their own. They instead must build legislative majorities by gaining the votes of other members who are also interested in delivering benefits to their districts. To persuade other members to vote for so-called “pork-barrel projects” in her district, a representative often must pledge to vote for pork-barrel projects in other districts.

This is complicated because bills that provide mutual benefits are often voted on sequentially. Legislators can seek to build a coalition by promising to vote for other members’ pet projects, but once a legislator gets his/her pet project approved, he/she has little incentive to vote in favor of pet projects in other districts because his/her constituents will bear some of the costs for these projects without getting any benefits. Because other legislators can anticipate this defection they may be reluctant to consent to vote for another legislator’s pet project in the first place.

In countries with strong parties, party leaders can compel members to vote for pet projects in other districts, but in a weak party system like in the U.S., members must build an individual reputation for being a trustworthy member of a voting coalition.²⁷ Ultimately, the legislative logrolls that bring benefits to constituents rely on the ability of lawmakers to build a reputation among their colleagues for being trustworthy partners. The importance of having a good reputation gives greater power to representatives from safe districts rather than to representatives from competitive districts (McGillivray 2004). Because legislators from safe districts are expected to be in office for a long time, they are likely to still be in office when they vote for a member’s pet project. This makes them especially attractive members for a potential coalition. While one might think that legislators in marginal seats have greater influence over policy given that parties would want to protect them against the possibility of losing the seat to the rival party, it is often the legislators in safe seats who can more reliably deliver their votes and thereby gain greater benefits for their district.

²⁷ In the U.S. system, then, protection to key industries can arise from two different routes: a universalistic log-rolling of interests, or preferential access to policy-makers in key Congressional positions. In proportional representation systems with party control over the ballots, on the other hand, where parties are strong, representatives typically owe their seat to party leaders and are often more responsive to the party than to voters. The electoral system hence provides incentives for parties to cater to the party’s core constituents (McGillivray 2004, pp. 19, 53).

This has three implications for the case of Chinese investment in the United States. First, it is critical to identify the preferences of constituents in particular legislative districts to determine their stance on the issue. For example, members from high-tech industrial districts are likely to be especially strong supporters of closer economic ties with China (e.g., Washington state, the research triangle in North Carolina), while members from districts whose industries compete with Chinese firms directly or indirectly may be less supportive. Second, it is important to determine whether representatives reside in safe or marginal seats. Long-serving members of Congress facing little electoral threat are likely to be especially influential. And last, in order to signal their preferences to their constituents and enhance their reputation as trustworthy coalition partners, Congressmembers create and participate in informal groups aimed at advancing their political agenda on specific issues.

As discussed in section A.1, economic considerations associated with the consequences of trade with China and Chinese investment on the well being of their constituencies are not the sole force motivating legislators. Representatives from districts with strong military components may emphasize the security aspects of closer economic relations with China. By playing on fears of Chinese government- controlled companies gaining access to assets that may have dual use capabilities, legislators can play to their base and build support within the district. Lawmakers' positions on the issue of foreign investment can be couched in a variety of terms for political purposes, such as national security, human rights or economic benefits; yet the underlying issue is likely to be constituency support.

The two dimensions driving individual attitudes toward China identified in section A.1, material and ideational, are also likely to be reflected in formation of Congressional coalitions on China. Two groupings within Congress are especially relevant to the issue at hand: the Congressional China Caucus (CCC) and the U.S. China Working Group (USCWG), with interests based on strategic concerns and economic links with China respectively. The Caucus's stated goal is to "investigate China's global reach and the consequences of its growing international, economic and political influence on U.S. interests."²⁸ The Caucus is chaired by Randy Forbes (R-VA) and Madeleine Z. Bordallo (D-Guam), two representatives with strong constituencies in the armed services. Representatives from Southern states are a prominent group within the China Caucus, such as Spencer Bachus (R-Al). Other key members of this group include Ike Skelton (D - MO), chair of the Armed Services Committee in the 110th Congress and a 16-term veteran, Gary Miller (R-CA), the assistant Republican whip, and Tim Ryan (D-OH), member of the Democratic Steering and Policy Committee and of the Taiwan Caucus. The Caucus has 34 members with 9 Democrats and 25 Republicans, including 14-term veterans Duncan Hunter of California and Frank Wolf of Virginia. On average, CCC members have served five terms in Congress. A cursory examination of several press releases, working papers, reports, and Congressional testimony provided by caucus members and staff reveals a

²⁸ See <http://forbes.house.gov/Biography/chinacaucus.htm>.

critical and cautious view of China. The focus seems to be primarily security-related, with relatively fewer pieces on economic issues.

A second important organization in Congress is the relatively pro-China US China Working Group. Mark Kirk (R-IL) and Rick Larsen (D-Washington) co-chair the Working Group which to date has 40 members in total. The U,S,-China Working Group's expressed purpose is "to build diplomatic relations with China and to make the Congress more aware of U.S.-China issues."²⁹ Contrary to the Caucus, the USCWG expresses relatively favorable opinions of China. Most of its members are moderate and tend to come from the coastal areas of the U,S.

Republicans are a majority in the CCC (73.53%), and a minority in the USCWG (42.50%). Both parties are about evenly split with members who straddle both coalitions, i.e., who are members of the CCC and the USCWG. But pure-CCC members are overwhelmingly Republican (86.96%). DW-Nominate scores (that compute the position of policymakers in two dimensions based on their votes: liberal-conservative and North-South/social) for the first dimension are on average much higher (more conservative) for pure-CCC members than for mixed or pure-USCWG members.³⁰ The scores for pure-CCC members also feature less dispersion. Irrespective of party affiliation, USCWG members tend to be more moderate³¹ and have served 4.7 terms in Congress, on average.³²

When looking across the largest industries in terms of job-contribution in the districts of coalition members, there seem to only be slight differences. For instance, 13.8% of pure-USCWG members belong to districts in which manufacturing contributes the most jobs, while the same goes for 17.4% of pure-CCC members. In terms of occupation, members of the USCWG have a larger proportion of professionals and scientists in their districts. Madeleine Bordallo and Randy Forbes, co-chairs of the CCC, both have the defense industry (miscellaneous defense) among their top five campaign contributing industries. Further, Ike Skelton, an original founder of the CCC, along with Forbes, has defense-related industries as three out of five of his top contributing industries. Meanwhile, neither Mark Kirk nor Rick Larsen, co-chairs of the USCWG, have defense-related contributions in their top five contributing industries. Instead,

²⁹ For USCWG membership see: <http://www.house.gov/kirk/uscwg.shtml>

³⁰ Lewis and Poole 2004. See <http://voteview.com/dwnomin.htm>.

³¹ We coded as moderate if the Congress-member is a Democrat and member of the Blue Dog Coalition (right-center Democrats) or a Republican and member of the Republican Main Street Partnership (moderate Republican).

³² With 16 terms in office, Norm Dick (D-WA) is the longest serving member of the USCWG.

among Kirk's top five contributing industries we find securities and investments, while Larsen has information technology and computers among his biggest supporters.³³

Next, we examine what types of representatives are likely to join the Congressional China Caucus, a group generally skeptical of closer ties between the US and China. Table 2, column 1 presents a probit analysis of CCC membership for the 109th Congress. We find that, controlling for other factors, representatives from states with stronger ties to China, particularly those exporting large volumes to China are more likely to belong to the CCC. In addition, representatives from states with more workers in the "professions and science" are more likely to be members of the CCC. Partisanship does not seem to affect CCC membership: Republicans are no more likely than Democrats to join the Caucus. However, there is an ideological dimension at work. Right-wing representatives are more likely to join than left-wing representatives as indicated by the coefficient on *Ideology*. In addition, we can explore the relationship between committee membership and the likelihood of joining the CCC. Members of the House Armed Services committee were especially likely to join the CCC. This suggests a national security dimension to the decision to sign up for the CCC and echoes findings from the Congressional debates on the issue: CCC members tend to be more conservative and hawkish.

³³ Data on industry and occupation in Congressional districts was obtained from the US Census Bureau's Fast Facts from Congress site (<http://fastfacts.census.gov/home/cws/main.html>). Data on contributions was obtained from <http://www.opensecrets.org>.

Table 2. Probit analysis of group membership

Dependent variable	CCC membership	USCWG membership
Trade with China (2004)		
Ln Exports	0.546 ** (0.25)	0.523 ** (0.21)
Ln Imports	-0.728 * (0.42)	-1.059 *** (0.32)
Partisanship		
Republican	-0.546 (0.58)	1.405 ** (0.65)
Ideology (DW nominate score)		
First dimension	1.103 * (0.60)	-1.093 (0.67)
Regional dummies		
Northeast	-0.225 (0.44)	1.162 *** (0.40)
West	-0.459 (0.31)	1.273 *** (0.37)
Midwest	0.049 (0.39)	0.441 (0.42)
Constant	1.628 (2.48)	4.756 * (2.68)
House Committee dummies	Yes	Yes
State employment dummies	Yes	Yes
Observations	437	437
Wald χ^2 (N)	66.32 (22)	52.14 (22)
Prob > χ^2	0.0000	0.0000
Log pseudolikelihood	-83.1	-69.88
Pseudo R²	0.2077	0.2244

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source : authors' calculations

Membership in the USCWG is also positively associated with state exports to China, and negatively related to Chinese imports and to manufacturing employment (table 2, column 1). The positions adopted by the USCWG and its members systematically emphasize economic opportunities and do not dwell on national security issues. This is reflected in the vote on House Resolution 344 of June 2005, which called for the President to “initiate immediately a thorough review of the proposed acquisition, merger or takeover” if UNOCAL accepted CNOOC’s bid. The resolution passed by a margin of 398-15.³⁴ The USCWG accounted for 8 of the 15 “nays” for House Resolution 344.³⁵ Note that none of the “nays” came from the Congressional China Caucus (the “anti”-China group). Looking at the “nays”, it is apparent that Washington State Democrats are an important subgroup, accounting for 6 of the 15 votes (no other state-party combination rivals this contribution). That the relatively pro-labor Democrats were not against the CNOOC deal dovetails with economic theory, insofar as representatives of labor would tend to see Chinese capital as a complement and not a substitute. As for the fact that the state of Washington features so prominently, there are indications that the state has an active interest in Chinese investment. One prominent Washington body is the Washington State China Relations Council, whose membership includes companies in finance (Bank of America, United Commercial Bank), consumer goods (Costco), aerospace technology (Boeing) and several law firms. Its expressed goal is “promoting stronger commercial, educational, and cultural relations between the state of Washington and the People’s Republic of China.”³⁶

Why is Washington state so overwhelming pro-China? One reason provided by the Washington State China Relations Council is based on the economic advantages provided by the state’s proximity to China: the Council is the principal voice for promoting Washington State as the leading gateway to China. Due to its proximity to China, Washington State is in a unique position to take advantage of the growing Chinese economy. In 2002, Washington’s trade with China totaled well over \$15 billion, ranking second only to California in state exports to China.

In sum, one dimension of the conflict over Chinese investment in the U.S. appears to pit districts with strong national security interests against those in which high-tech industries with interests in China are especially prevalent.

³⁴ In section 2 we conduct a statistical analysis of the determinants of the roll call vote that led to the passage of H. Res. 344.

³⁵ H.Res. 344, is a non-binding resolution adopted by the House on June 30 2005 declaring: “that a Chinese state-owned energy company exercising control of critical United States energy infrastructure and energy production capacity could take action that would threaten to impair the national security of the United States.” <http://clerk.house.gov/evs/2005/roll360.xml>.

³⁶ See: <http://www.wscrc.org/default.cfm>.

b. Committee dominance

Second, policymaking is marked by the significant role played by committees in the U.S. Congress. As one former House member noted: “Congress is a collection of committees that come together periodically to approve one another’s actions” (Cox and McCubbins 2007, p. 1). Given constraints on time, resources and expertise, members of Congress often do not have the luxury of scrutinizing in great detail legislation outside of their committee assignments. This gives committees a near monopoly in their particular area of policy. In addition, members often choose to serve on committees that are especially likely to deliver benefits to their constituents. Legislators from agricultural states are most likely to serve on the Agriculture Committee and members from states with military bases are likely to serve on the Military affairs committee. This suggests that policy can veer from the interests of the average voter or average member of Congress.

Within committees, members from both parties iron out differences over policy and bills are then presented to the Congress as a whole for a floor vote. Given that most controversial issues are resolved within committees before a bill reaches the floor, it is not surprising that many bills pass with overwhelming bipartisan support.

In the case at hand it is critical to identify the preferences of the members of the Congressional committees responsible for passing legislation related to Chinese investment. This is complicated as several committees may claim jurisdiction over the issue. The House Ways and Means Committee and its Subcommittee on Trade are central players on the issue of U.S.-China economic relations. In addition, the House Armed Services Committee and the House Energy and Commerce Committee also weighed in on the UNOCAL case. In the Senate, the Finance Committee is central to trade issues with China, particularly with respect to the difficult issue of currency regulation.³⁷

The 2006 elections removed several prominent Republican China-skeptics from positions of authority on committees within the House of Representatives, including Henry Hyde of Illinois, the former Chair of the International Relations Committee; Duncan Hunter of California, the former Chair of the House Armed Services Committee; and Richard Pombo of California, the former Chair of the House Resources Committee. As Chevron’s headquarters are in Mr. Pombo’s district, it is no surprise that was an especially outspoken critic of CNOOC’s offer to UNOCAL.

The Democrats who assumed leading positions on foreign policy committees in the House in 2006 are somewhat more supportive of closer ties with China, but express strong

³⁷ Senator Charles Schumer (D-NY) and Senator Lindsey Graham (R-SC) introduced legislation calling for a 27% tariff on Chinese goods to persuade China to revalue its currency. It is interesting to note that Schumer who has been harsh critic of China’s currency policy and trade practices, did not oppose the UNOCAL/CNOOC merger. *The New York Times*, August 3, 2005. See also footnote 15.

reservations about China's intentions nonetheless. The new head of the powerful House Ways and Means Subcommittee on Trade, Sander Levin, a Democrat from Michigan, has long been a critic of China's currency policy, trading relationships and violations of human rights, but did vote to grant China permanent normal trade status in 2000.³⁸ John Dingell (D) Michigan, the new chair of the House Energy and Commerce and currently the longest serving member of the House, voted against granting permanent normal trade relations with China. Finally, Ike Skelton (D) Missouri, the new head of the House Armed Services Committee and member of the Congressional China Caucus, voted in favor of granting China permanent normal trade status in 2000, but was a vocal critic of the CNOOC's bid to take over UNOCAL. Thus, the composition of relevant committees in the U.S. House are not especially likely to support easy access for Chinese direct investment in the U.S.

c. The executive branch

Thus far the analysis has focused on political parties and Congress, but the Executive Branch is also a key player in formulating policy. Indeed, given the difficulty of building coalitions to pass legislation, Congress has at times delegated considerable policy-making authority to the Executive. Congress may do so to shift the political costs of taking a policy decision that will benefit the broad public interest, but hurt narrow and powerful constituencies. The President is elected based on support from the Electoral College and therefore has an interest in retaining support across a range of states. Thus, his constituency of supporters is broader than that of any particular member of Congress whose primary responsibility is to their electoral district.³⁹ As such, the Executive Branch has generally been more supportive of free trade and investment than has Congress (Baldwin 1985; Milner 1988; Bailey, Goldstein and Weingast 1997; Lohman and O'Halloran 1994).

The Executive has in principle supported foreign investment from China in recent administrations. For example, while President Clinton campaigned on a platform of revoking China's "most-favored nation" trading status, he became a supporter of closer economic relations with China after assuming office. More recently, Secretary of the Treasury Henry Paulson is on record as supporting investment from China, noting: "I very much welcome investment in our country by all foreign nations, including China" (Reuters, October 16, 2007). Paulson is the promoter of the U.S.-China Strategic Dialogue Initiative, and has also taken the lead on policies aimed at punishing Chinese trade and currency practices. In response to legislation designed to impose across the board tariffs on China unless it revised its currency policy, he noted: "When we look at taking unilateral actions aimed at another nations, this can have enormous

³⁸ For example, see <http://www.cecc.gov/pages/hearings/092403/levin.php> and <http://www.cecc.gov/pages/hearings/020702/levin.php?PHPSESSID=a6fcdc1627ac5864bd77e8ba4c8d72c8>.

³⁹ Of course, some states are more influential than others in the presidential election. Witness President Bush's decision to levy tariffs on steel imports to offer protection to firms in swing states in the Upper Midwest prior to the election of 2004.

repercussions to our economic well-being. You know we are playing with fire” (*China Daily*, September 11, 2007).

At the same time, the White House has had to balance economic gains from investment from China with national security concerns. As Commander in Chief, the President is responsible for national defense. Given these competing obligations, President Bush adopted a “wait-and-see” attitude toward the purchase of UNOCAL, stating that he would be guided by the decisions of the Department of the Treasury’s Committee on Foreign Investment in the United States (CFIUS).⁴⁰

The Executive is however, more than just the President, as agencies and committees located within the Executive also shape policy on many issues. For example, CFIUS was created in 1975 by an Executive Order of the President to determine the national security impact of specific foreign investments (CRS 2007). The Committee determines whether a foreign investment is a sufficient threat to national security to warrant an investigation. If so, the CFIUS investigates and submits a report and a recommendation to the President who can then decide whether to block the investment. (See the chapter by David Fagan elsewhere in this volume.)

As the deliberations of the CFIUS are confidential, it is difficult to know its inner workings. Among recent Chinese investment activity in the US, the sale of the personal computer division of IBM to Lenovo was less controversial than the proposed sale of UNOCAL, given that the assets involved in the deal were low-tech, and the technology ubiquitous.⁴¹ Nonetheless, there was Congressional activity aimed at blocking the deal, particularly from lawmakers in the foreign affairs and armed forces committees who raised espionage and security concerns. Don Manzullo (R-IL), ranking member of the House International Relations Committee (now Foreign Affairs) and member of the Congressional-Executive Commission on China (created in October 2000 to monitor human rights in China), Henry Hyde (R-IL), Chair of the House International Relations Committee at the time, and Duncan Hunter (R-CA), then chair of Armed Services Committee, sent a letter to the Treasury Secretary asking that the Treasury representatives at CFIUS conduct a full investigation of the sale of IBM’s PC unit to Lenovo. The plans received clearance from the FTC on grounds that it did not violate anti-trust regulations on January 10, 2005.⁴² The deal ultimately received CFIUS approval on March 9, 2005, after a series of concessions from Lenovo aimed at pleasing US lawmakers and regulators.⁴³

⁴⁰ “The Executive Branch was virtually silent on the proposed CNOOC bid.” Congressional Research Service, 2006.

⁴¹ Otis Bilodeau, “U.S. begins inquiry into Lenovo-IBM deal,” *International Herald Tribune*, January 31, 2005.

⁴² Ibid.

⁴³ Stephanie Kirchgaessner, Richard Waters and Simon London, “IBM deal with Lenovo cleared,” *International Herald Tribune*, March 9, 2005.

The proposed UNOCAL-CNOOC deal ended with a different result. CNOOC withdrew its bid before it was reviewed by CFIUS. CNOOC stated that it was prepared to undergo the review and “address concerns relating to energy security and ownership of UNOCAL assets located in the US” (CRS 2007, p. 14). It also promised to retain the jobs of almost all UNOCAL employees and to continue selling almost all of the oil and gas from UNOCAL’s U.S. properties in U.S. markets; this promise was arguably aimed at sweetening the deal on economic grounds to gain support from local economic actors. Thus, even without a formal review, CFIUS can shape transactions involving foreign investment in the U.S.

On the heels of the political controversy over the Dubai Ports sale and the proposed UNOCAL-CNOOC merger, Congress has been active in trying to regulate inward FDI. In the 109th Congress, lawmakers introduced at least two-dozen measures that addressed foreign investment. These measures tended to broaden the definition of national security and enhance the power of CFIUS. In October 2001 Congress created the US China Economic and Security Review Commission (USCC), made up of private sector appointees (the Floyd D. Spence National Defense Authorization Act for 2001). The legislative mandate of the USCC is to monitor the national security implications of U.S. trade and investment relations with China.⁴⁴ The USCC, which holds an anti-China sentiment, has played a prominent role in public debates on Chinese investment in the US.⁴⁵ Immediately after CNOOC announced its plans to acquire UNOCAL, Richard D’Amato, former chair and current commissioner of the USCC, expressed the Commission’s position against the deal.⁴⁶ The Commission has also been vocal in the recent bid by the Bain Capital group in association with Chinese Huawei Technologies to merge with 3Com, the Massachusetts-based disk drives and computer network equipment producer.⁴⁷

Congress recently passed new legislation regulating FDI. The Foreign Investment and National Security Act (FINSA) (which came into effect October 24, 2007) builds on existing legislation governing CFIUS, but also expands the areas subject to review to investments

⁴⁴ Note on U.S-China Economic and Security Review Commission, <http://www.uscc.gov/>.

⁴⁵ *Financial Times*, August 4, 2005 “China group sees its influence grow in Washington.”

⁴⁶ D’Amato is a long-term adviser to Senator Robert Byrd (D-WV), a prominent member of the anti-China coalition in Congress. In an interview with the *LA Times* D’Amato said: “When we’re so dependent on foreign suppliers, giving away American sources of petroleum and hydrocarbons does not make much sense to me, *Los Angeles Times*, June 23, 2005, “Chinese oil firm bids for Unocal.”

⁴⁷ The evolution of the debate around the 3Com deal is particularly interesting due to the active participation of private actors such as Seagate and Cisco, which played an instrumental role in raising economic and national security concerns. See John Markoff, “Chinese seek to buy a U.S. maker of disk drives”, *The New York Times*, August 25, 2007; Laurie J. Flynn and Keith Bradsher, “Bain and Chinese company to acquire 3Com”, *The New York Times*, September 29, 2007. In October 10, 2007, eight representatives sponsored House Resolution 730 that states: “As currently structured, the proposed transaction involving Huawei threatens the national security of the United States and should not be approved.” One of the co-sponsors of resolution 730 was Rep. Thad McCotter (R-MI), a CCC member, and supporter of the interests of the IT industry. On Oct. 19, 2007, Senators John Kyl (R-AZ) and 13 other senators wrote a letter to the Executive Branch requesting a rigorous review of the 3Com deal. For information on this bill, see GovTrack.us. H. Res. 730--110th Congress (2007). In the end CFIUS decided to block the deal; see Steven R. Weisman, “U.S. security concerns block China’s 3Com deal”, *The New York Times*, February 21, 2008.

“critical to US infrastructure” added representatives from the Energy Department and the Labor Department to CFIUS, and requires CFIUS to notify Congress about each transaction it considers. In addition, the new legislation makes it more difficult for government-owned entities to invest in the US – a clause that will certainly be of interest to a number of investors from China. (See David Fagan’s chapter elsewhere in this volume.)

d. Multiple veto points

Finally, policymaking in the United States is marked by multiple veto points. Congress has two chambers, each of which can block legislation. Given that representation in the House is based on population, while the representation in the Senate is based on geography, lobby groups tend to be strong in one chamber or the other, but not in both (McGillivray 2004). Much of Chinese investment in the U.S. has been in natural resources, which tend to be concentrated in specific electoral districts.⁴⁸ This may help in the House, where representatives tend to back local interests, but not in the Senate where lobby groups need to create broad coalitions across many states to pass legislation. Overrepresentation in the Senate of sparsely populated states, usually those relatively better endowed with natural resources, on the other hand, could grant to additional political clout to investors in those states. However, as noted above, opposition to trade with China has been far more pronounced in the House than in the Senate, thanks to a convergence of interests between legislators in districts with a strong national security constituency and those fearing job loss in manufacturing.

The Executive Branch provides another potential veto point, and its position is particularly relevant during periods of divided government when one party controls the presidency and another controls at least one House of Congress. The Executive has generally been supportive of free trade and closer economic relations with China, but in recent years it has also been cross-pressured by concerns over national security and human rights. Within the Executive, CFIUS makes recommendations to the President on the advisability of specific investments. The composition of CFIUS ensures that several different agencies are positioned to weigh in on the national security dimension of foreign investment.

The federal structure of the U.S. government provides an additional layer of influential political actors. States can pass legislation that makes investment from abroad more or less attractive. Moreover, states often compete fiercely for FDI that can provide jobs and tax revenue, but they also face the possibility of opposition from narrow groups likely to be adversely affected by the investment. At the state level, Attorneys General usually have the right to challenge mergers to ensure that potential investors comply both with federal regulators and with the demands and preferences of state politicians. In the case of Chinese investment, for example,

⁴⁸ China expert Nicholas Lardy noted: “Whether it is phosphates in Florida, iron-ore deposits in the Upper Midwest, timber cutting rights in the Pacific Northwest – most of it [Chinese Investment] has been in the natural resources area” (Baxter 2005).

the Attorneys General of California, Texas, Montana, and New Mexico wrote to UNOCAL to express their opposition to the deal on the grounds that it would “adversely affect the environment, the health of their citizens and the solvency of their state treasuries...” (Thomson 2005, p. 6). These multiple veto points make it difficult to move policy dramatically and quickly from the status quo.

In sum, political institutions in the U.S. provide a number of means of entry for groups to exert influence in support of policies that they favor, and at the same time allow pivotal actors to obstruct the passage of new legislation of their disliking.

B. Congressional voting patterns: the intersection of supply and demand

Throughout the previous sections, we have made the case that policy outcomes are determined by the intersection of demand and supply conditions in politics. But it is hard to assess how lobbying, constituency pressure and the personal preferences of members of Congress affect their activity and votes because most contentious issues are worked out in committees before they reach they floor. However, we have identified two roll call votes in the House of Representatives in the 109th Congress on two different issue-dimensions associated with U.S.-Chinese relations. The statistical analysis on these two votes allows us to assess our predictions about the role of material and ideational motivations in regulating U.S.-China relations. The first vote is House Resolution 344 (roll call vote 360 of June 20, 2005), a motion expressing the House’s opposition to CNOOC’s attempt to acquire Unocal, and instructing the President to block the deal at CFIUS. The motion passed by a large margin: 398-15.⁴⁹ The second vote is on H.R. 3100 (roll call vote 374). a failed motion associated with the passage of the East Asia Security Act of 2005, which sought to authorize the President to adopt measures to deter arms transfers by foreign countries to China. This motion failed to get the two-third majority necessary to suspend rules and pass the East Asia Security Act.

In section A.3, we discussed the characteristics of the 15 Representatives adopting a relatively more pro-China stance. In this section, we conduct a more systematic analysis of the determinants of the vote by fitting a probit model where the binary dependent variable takes a value of 1 if a representative voted in favor of this resolution, i.e. took an anti-China stance, and 0 if the representative voted against the resolution, i.e., a pro-China stance. Table 3 presents the results of roll call analyses on H. Res. 344, opposing the CNOOC deal. The explanatory variables include proxies for characteristics of the constituencies, including commercial links with China (imports and exports measured at the state-level due to data limitations) and employment. We also add variables aimed at measuring the characteristics of the

⁴⁹ Voting in non-binding resolutions such as H.Res. 344 are associated with what Mayhew (1974) classifies as *position-taking*, namely activities performed by re-election driven incumbents aimed at signaling to their constituents their policy preferences. Votes on procedure, such as H.R. 3100, on the other hand are equivalent to votes for final passage of the bill, and hence more likely to be casted on partisan lines.

Representatives, such as ideology and partisanship, and Congressional Committee assignments.⁵⁰ One of our key explanatory variables is membership in the two China groups in the House (CCC, USCWG). Despite the limited number of “No” votes (pro-China), the results are quite compelling. Membership in USCWG is strongly associated with a pro-China vote (a negative coefficient on the USCWG dummy variable): the change in the predicted probability of voting “No” is -13 percentage points for members of this group.⁵¹ CCC membership, on the other hand, has no discernible effect on the probability of voting “Aye” in Roll Call 360.

⁵⁰ Unfortunately we were not able to obtain data on the geographic and sectoral allocation of Chinese investment in the U.S., which would have allowed us to assess the relative influence of the presence of Chinese firms at the district or state levels. The export data used in our analysis, on the other hand, could be considered as a broad proxy for the importance of economic ties with China. (footnote 16). Trade data are only available at the state level, and was obtained from the U.S.-China Economic and Security Review Commission (www.uscc.gov). Import data are allocated to states according to each state’s share of U.S. population. Employment data comes from the U.S. Census Bureau. The variables used for the analysis are the proportion of the state totals. As a measure of ideology, we use the first dimension of the DW Nominate score, obtained from past votes (Lewis and Poole 2004; see footnote 30). We use the scores for the 108th Congress for those representatives who moved on to Congress 109th, and the score for the 109th Congress for those who were not in the 108th Congress. While this is in principle problematic, since the scores for the 109th voted used RC 360 and 374 to estimate the ideal points, dropping these observations makes no substantive difference to our analysis. Regional dummies, partisanship and committee membership were coded by the authors using Congressional records.

⁵¹ Results obtained using Clarify 2.1 (King et al. 2000; Tomz et al. 2003) with parameters from model 1, setting the rest of the covariates to their means, and the partisan dummy to Republican. Note that trade with China has two effects on a representative’s vote on this issue: one is direct, and the other one indirect, through CCC and USCWG membership (table 2).

Table 3. Probit analysis: 109th Congress - vote on H.Res 344 (Roll Call 360)
(Dependent variable: 1="Aye")

	Model (1)	Model (2)	Model (3)	Model (4)
Congressional groups				
USCWG member	-1.06 *** (0.40)	-1.06 *** (0.40)	-1.06 *** (0.41)	-1.00 ** (0.46)
CCC member	0.56 (0.51)	0.57 (0.52)	0.58 (0.51)	0.04 (0.55)
Trade with China (2004)				
Ln Imports	1.97 *** (0.43)	2.00 *** (0.43)	2.03 *** (0.46)	2.58 *** (0.58)
Ln Exports	-1.52 *** (0.36)	-1.54 *** (0.37)	-1.56 *** (0.39)	-2.12 *** (0.50)
Employment (ratio of state employment)				
Finance	-33.62 * (18.58)	-34.03 * (18.80)	-35.96 * (19.47)	-9.96 (21.00)
Prof. and scientific	-30.28 *** (11.47)	-30.98 *** (11.21)	-32.20 *** (11.60)	-34.52 *** (12.48)
Mining	49.70 ** (19.67)	50.73 *** (18.07)	50.19 *** (18.81)	64.86 *** (24.51)
Ideology (DW nominate score)				
First dimension		-0.15 (0.37)	-0.46 (1.36)	-0.23 (0.38)
Second dimension				2.11 *** (0.52)
Partisanship				
Republican	-0.10 (0.30)		0.33 (1.25)	
Regional dummies				
West	-0.77 (0.49)	-0.75 (0.50)	-0.76 (0.49)	-0.39 (0.60)
Midwest	-1.14 (0.75)	-1.13 (0.74)	-1.16 (0.76)	-1.06 (0.80)
South	-0.94 * (0.56)	-0.89 (0.55)	(0.84)	-1.02 (0.64)
Constant	-2.87 (3.21)	-3.06 (3.00)	-3.37 (2.82)	-4.66 (3.36)
Observations	413	413	413	413
Wald χ^2 (N)	74.13 ##	75.27 (11)	77.97 (12)	49.61 (12)
Prob > χ^2	0.0000	0.0000	0.0000	0.0000
Log pseudolikelihood	-41.00	-40.93	-40.86	-34.06
Pseudo R²	0.3638	0.3649	0.3661	0.4715

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source : authors' calculations

The results also suggest that trade with China and sectoral employment at the state level affect the probability of casting a pro-China vote. Higher exports to China, and a higher ratio of employment in finance and professional and scientific activities at the state level are negatively correlated with an “Aye” vote, while representatives from states with higher levels of Chinese import penetration and those with a higher ratio of employment in mining are more likely to vote “Aye”. For a Republican representative from the West, for instance, the predicted probability of voting “No” increases 66 percentage points when the value of exports moves from the mean to the maximum level in the sample, holding the rest of the variables constant at their means, except for the dummy variables which are set to zero. The confidence interval on the change of the predicted probability is, however, wide: it ranges from -95 to -26 percentage points.⁵² A change in the ratio of employment in professional and scientific activity from the minimum to the maximum value in the sample is associated with a -24 percentage point change in the probability of voting “Aye.” Committee membership, on the other hand, has no significant effect on voting in the CNOOC case.

The previous results seem to confirm our intuition that positive economic links with China at the constituency level and membership in a pro-China group in Congress (which we have also shown to be associated with those economic interactions) are associated with a pro-China vote even in the highly controversial CNOOC case.

Next, we move to the analysis of the vote on the East Asia Security Act of 2005 (H. Res. 3100). Here our aim is to explore whether economic motivations affect the disposition of Congress members in the security realm. Table 4 reproduces the results from a series of statistical analyses of the probability of voting “Aye” on H. Res. 3100. Despite differences in the details of the two pieces of legislation, we find some similar patterns in the vote on Roll Call 374. Membership in the two main China-focused organizations in the House is related to voting patterns. Members of the USCWG were significantly less likely to support the bill, and members of the Congressional China Caucus were significantly more likely to favor the bill, than were the majority of House members who belonged to neither group. This pattern is expected as opponents of the bill felt that it was prejudicial to business interests working with Chinese counterparts. In addition, representatives from states with a greater volume of exports to China were significantly less likely to vote for the bill, while their counterparts from states importing more goods from China were more likely to support it. Again, party membership has little impact on vote choice.

⁵² Results obtained with Clarify using the coefficients from model (4).

Table 4. Probit analysis: 109th Congress - vote on H.Res 3100 (Roll Call 374)

Dependent variable: 1="Aye"

	(1)	(2)	(3)	(4)	(5)
Congressional Groups					
USCWG member	-0.546*	-0.533*	-0.498*	-0.563*	-0.368
	(0.29)	(0.29)	(0.30)	(0.29)	(0.31)
CCC member	0.539**	0.531**	0.484*	0.598**	0.573**
	(0.27)	(0.27)	(0.27)	(0.29)	(0.29)
Partisanship					
Republican	0.053	-0.27	0.086	0.090	0.288
	(0.13)	(0.39)	(0.42)	(0.43)	(0.43)
Ideology (DW nominate score)					
First dimension		0.361	0.082	0.024	-0.091
		(0.41)	(0.44)	(0.44)	(0.45)
Second dimension			0.449**	0.403**	0.616***
			(0.20)	(0.20)	(0.21)
Trade with China (2004)					
Ln Imports	0.283*	0.293**	0.323**	0.243	0.311**
	(0.15)	(0.15)	(0.15)	(0.23)	(0.16)
Ln Exports	-0.270***	-0.274***	-0.275**	-0.211	-0.280**
	(0.10)	(0.10)	(0.11)	(0.13)	(0.11)
Employment (ratio of state employment)					
Administrative				7.362	
				(4.91)	
Finance				-4.54	
				(10.80)	
Manufacturing				5.565	
				(3.68)	
Mining				-3.93	
				(14.20)	
Prof. and scientific				-4.484	
				(5.71)	
Retail				1.228	
				(10.70)	
Constant	-0.657	-0.603	-1.055	-1.235	-0.672
	(1.25)	(1.26)	(1.31)	(3.30)	(1.37)
House Committee dummies	No	No	No	No	Yes
Regional dummies	Yes	Yes	Yes	Yes	Yes
Observations	418	418	418	418	418
Wald χ^2 (N)	17.51 (7)	18.18 (8)	23.42 (10)	31.71 (16)	43.49 (21)
Prob > χ^2	0.0144	0.0199	0.0093	0.0109	0.0027
Log pseudolikelihood	-280.6	-280.2	-277.3	-271.6	-265.4
Pseudo R²	0.0308	0.0322	0.0424	0.0619	0.0834

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source : authors' calculations

Congress is a critical arena for economic relations between the U.S. and China, because here we see the intersection of both demand and supply side factors. Economic factors, such as trade links with China, were important predictors of voting patterns, as was membership in the congressional groups related to China. Membership in the CCC, a group of representatives concerned with the strategic implications of China's rise is associated with a more negative disposition toward China in general. Membership in the USCWG is driven by strong economic ties to China, and is correlated with a more positive disposition aimed at "engaging" China through economic integration and stronger diplomatic interactions. It is important to note that these results hold controlling for a range of other factors, including party membership, region and the ideology of Representatives. Party membership and region were generally unrelated to voting patterns or membership in the two China-related groups in the House. These results suggest that both demand and supply-side factors shape the behavior of House members on economic relations with China.

Examining roll call votes and the membership of China-related organizations in Congress allows us to analyze how different features of Representatives and their constituents shape policy choices, but it does not allow us to explore how specific features of specific foreign investments might influence their success. In the next section, we briefly present two case studies that highlight how the motivations of foreign investors and local conditions influence attempts by Chinese companies to invest in the United States.

C. Investment strategies and local politics: the Laiwu Steel and Wanxiang Group experiences in the Midwest

Case studies are not a good tool to generalize about investment from China as they may be driven by factors idiosyncratic to the particular investment, but they do allow us to examine some specific features of an investment in greater detail.⁵³ We begin by presenting a "most likely" case of a successful investment: the purchase of the Eveleth Mine in the Minnesota iron range by Laiwu, a large Chinese steel and metals firm, and Cleveland Cliffs, an Ohio-based supplier of iron ore pellets. The new company, United Taconite, was founded in December 2003. The Eveleth Mine opened in 1963, but, after years of poor performance, finally went bankrupt in May 2003, a casualty of the decline of steel production in the U.S. and heightened competition from foreign producers. The local economy is highly dependent on mining. Over the past 25 years, the number of jobs in mining declined from about 16,000 to 4,000. The need for new capital was pressing. Hence the investment from China complemented local factors of production and was largely well-received in the community because it promised to boost employment.

⁵³ It should be noted that neither of the case studies is from industries which raise concerns for national security. Thus, the politics that underpin these cases are quite different from the proposed UNOCAL-CNOOC merger.

The politics of the case were quite favorable. Congressman Jim Oberstar (D), who represents the district in which the Eveleth mine is located and Minnesota Governor Timothy Pawlenty (R), both strongly supported the investment and helped to broker the deal. Representative Oberstar traveled to Jinan, China, the home-base of Laiwu Steel Group and wrote glowingly about the trip on his Congressional Website. Governor Pawlenty also backed the deal noting: “There is also a big benefit [from foreign investment] to our natural resources areas. For example our major iron-ore and taconite industries in northeastern Minnesota had been pretty much on the decline. But because of the world demand for steel that has been driven by China, and China now investing in a taconite plant in Minnesota, the industry is rebounding at a remarkable rate.”⁵⁴ In 2005, Governor Pawlenty launched the Minnesota-China Partnership, and led a trade mission to Shanghai, Beijing and Hong Kong with hopes of attracting further investment.⁵⁵

The Laiwu Steel Group is state-owned and some observers have been skeptical of the extent to which firms owned by the Chinese government will maximize profits rather than political goals. In this case, however, state ownership did not raise strong objections, and three factors may have dampened this concern. First, the investment in the Eveleth Mine was not seen as a potential threat to national security or strategic interests, unlike the CNOOC merger, or, to some observers, the 3-Com and IBM cases. Second, Laiwu partnered with Cleveland Cliffs, an Ohio-based company that is the largest supplier of iron ore pellets to the steel industry in North America. In addition, Laiwu took a minority position. It holds 30% of the shares and Cleveland Cliffs owns the rest. Moreover, it signed a 10-year contract for 30% of the mine’s pellets which indicated a long-term commitment to the project.

In contrast, the Wainxang Group’s investment experience in the U.S. has been more difficult, in part because of its plans for the firms and because its investments are generally substitutes rather complements to local industry. The Wainxang Group is a private enterprise based in East China’s Zhejiang Province and is the largest auto-parts supplier in China with roughly US\$1.3b in annual sales. Its principal owner and founder, Lu Guanqiu, is reported to be one of China’s ten richest men (Bloomberg, July 2006, “China’s billionaires). The Group has holdings in Latin America and Europe, but its main foreign focus is the United States. Wainxang America manages the Wanxiang Manufacturing Fund of more US \$100m and has stakes in a variety of enterprises.⁵⁶ Its main form of business in the U.S. is the sale and distribution of auto parts that are largely imported from its Chinese factories. Its centerpiece in the U.S. is a 168,000 square foot warehouse in Elgin, Illinois.

⁵⁴ <http://www.forbes.com/home/feeds/afx/2005/11/14/afx2336515.html>.

⁵⁵ <http://www.governor.state.mn.us/priorities/initiatives/TradeMission/index.htm>;
<http://www.governor.state.mn.us/journal/missiontochina/index.htm>.

⁵⁶ Peter Wonacott, “Shopping for China: A scourge of the rust belt offers some hope there too”, *The Wall Street Journal* November 26, 2004.

Wainxang's experience of investing in the U.S. has been more controversial than Laiwu Steel's. In part this is related to the Wainxang's initial decision to cut costs and its decision to move jobs and equipment back to China. In 1998, it sought to take over a cash-strapped engine parts maker in Muskegon, Michigan, but the deal fell apart when the company's union rejected the reduced employment benefits offer by Wainxang.⁵⁷ According to one source, the local government in Michigan backed the deal in hopes of creating more jobs, but failed to convince the Union to accept the offer (*Wall Street Journal*, November 26, 2004). In 2001, Wainxang purchased the NASDAQ-listed brake supplier, Universal Automotive Industries, but the firm was soon delisted and subsequently liquidated. In 2003, it took over DriveLine Rockford Powertrain; while it helped to reduce costs, it also cut employment by more than one-third and experienced a walkout by 280 employees during a contract dispute. Even the management of DriveLine Rockford Powertrain noted "major quality issues" with Wainxang's products after the takeover (*Wall Street Journal*, November 26, 2004).

Yet, the Group has had more success with Rockford's DriveLine Systems, an axle-maker purchased in 2002. In this case, the Wainxang Group did not cut jobs and the company has prospered. In recent years it has continued to expand. For example, in January 2008 it concluded a memorandum of understanding with Ford to buy the drive-shaft division of Ford's Automotive Components Holding. Recognizing the difficulties of moving equipment and jobs to China while becoming a more important player in the U.S. auto-parts market, Liu noted: "The key question to get right now is how much activity to leave in the US and how much to bring to China."⁵⁸

These two cases underscore the political importance and saliency of the motivation, form of entry, and timing of an investment. Laiwu Steel's investment in Minnesota minimized local backlash by engaging key political actors and reassuring the community using a strategy aimed at reducing its control over the firm, securing employment levels, increasing exports to China and revitalizing a sector that was in dire straits prior to the firm's entry. The Wainxang Group's strategy was bound to create political backlash; the auto industry in the U.S. is undergoing a major overhaul, which may lead to a significant downsizing of the sector. Makers of auto-parts feel the competitive pressure of foreign imports and fear the rise of Chinese parts makers as much as they dread competition from Japan and Republic of Korea in the 1980s and 1990s. The Wainxang group's motivation to acquire technology and equipment that could be shipped back to China was a source of conflict with the labor union, while an increase of imports from the parent company channeled through U.S.-affiliates placed the company at odds with domestic producers. The negative political disposition toward the company in Michigan is a clear reflection of this strategy

⁵⁷ *Financial Times*, December 12, 2006.

⁵⁸ *Ibid.*

Summary and conclusion

We began by noting that the puzzle that easing access for FDI is generally thought to increase social welfare, but restrictions on the movement of investment capital abound. We examined a variety of political factors that help shed light on this puzzle. The case study analysis suggested that the motivations of the foreign investor and the local economic conditions help shape the likelihood of success. Where FDI serves as a complement to local factors of production, then the politics of FDI can be quite consensual. In addition, firms committed to retaining jobs are likely to face less resistance, even if the companies are state-owned. Yet, investor motivation may also affect the politics of investment negatively, particularly when the objective is controlling assets or acquiring sensitive technologies, which are likely to motivate policy-makers to block investments for strategic considerations.

Second, we find that mass public opinion has generally not been an especially significant barrier to closer economic relations with China, although more recent data may paint a somewhat different picture. National security concerns have generally been less important than concerns about jobs as a reason for opposing closer economic ties with China, and a majority of Americans believe that China practices unfair trade. Trade relations with China compete with a host of other issues for the public's attention, and it is difficult to mobilize public support for or opposition to trade relations with China.

Finally, and most importantly, we examined how the factors of supply and demand intersect in the policy process within Congress. We find that constituent features shape the policy preferences of representatives on economic policies toward China. Representatives from states with a strong presence in finance and with high levels of exports to China are especially likely to support closer economic relations with China. In addition, supply-side factors, such as the ideology of the Representatives and national security concerns, also play a significant role. Representatives with strong military presence in their district have played a leading role in the Congressional China Caucus, a key anti-China group in Congress. Indeed, one lesson from the failure of the proposed UNOCAL-CNOOC merger is that few representatives in the House are prepared to back high profile investments that are even indirectly related to national security concerns.

All this suggests that FDI from China in the United States is as much a political as an economic issue. Investments that make economic sense may run into difficulties where they cut against important political and national security interests. Recognizing that "politics matters" is an important step, but it is also important to identify which aspects of politics are especially important. Party allegiance appears to have a rather weak influence on preferences toward economic relations with China. Among the mass public, party membership is not an especially good guide to attitudes toward economic relations with China. Moreover, among members of Congress, party membership is a poor predictor of voting behavior on key economic issues related to China. Democratic representatives are just as likely as Republican representatives to

cast anti-China votes. Unlike many issues, politics toward economic relations with China have not been driven by party competition.

While public opinion has been important on some international economic issues (witness the public debate on NAFTA), in the case of Chinese investment, public opinion toward economic ties with China has not proven to be an insuperable barrier, with the possible exception of high-profile investments with national security implications.

Three other political factors, however, have been especially important to our analysis. First, the distributional consequences of trade are an important obstacle to easing access for Chinese firms in the US market. While in general the mass public does not object to economic relations with China, representatives from states with constituencies expected to be harmed by greater trade and investment from China have been well-placed to block legislation promoting closer economies ties with China. In addition, representatives from states with a large presence of military bases or defense contractors who may benefit from concerns about China as a strategic rival are also an important constituency against expanding access for Chinese firms to the U.S. market. This alliance is emerging as a formidable obstacle to improving economic relations with China. This suggests that improved relations with China on other matters, such as national security and human rights, may help to lower the costs to politicians of supporting closer economic ties with China.

Second, it is critical to understand how the demand for policies as revealed by interest group and constituent preferences shapes policy, but it is equally important to understand how the supply side of politics influences policy as well. Political institutions mediate constituent demand and interest group pressures in ways that influence policy outcomes systematically. Simply identifying which interests groups are active on economic relations between the U.S. and China is a necessary step, but since powerful groups have emerged on both sides of the issue, it is difficult to predict which groups will be most important without taking into account how the policymaking process privileges some groups at the expense of others. For example, while the Executive Branch and the Senate have generally been more supportive of trade given their larger constituencies, the House of Representatives has been bigger hurdle to closer economic relations with China as members of the House answer to narrower constituencies. This suggests that efforts to improve the climate for investment from China to the U.S. should pay special attention to the House of Representatives.

Third, the nature of the investment itself helps to shape outcomes. Investments that complement local factors of production are likely to be easier to conclude than those that substitute for local factors of production. In addition, investments that maintain employment allow local politicians to claim credit for protecting constituent interests and can be valuable tools for local politicians. Firms from China that invest in the U.S. are likely to gain reputations based on the previous investments in the U.S. Thus, firms that threaten local jobs with their current investments may heighten local opposition to their future investments.

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Appendix table 1a. Attitudes toward China: individuals

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

MILITARY SUPERIORITY

	Very Important	Somewhat important	Not important
Yes, favor trade	376	321	54
(%)	62.4	66	66.1
No, oppose trade	196	142	25
(%)	32.5	29.1	30.1

Source: Chicago Council 2004 Survey, p.1160, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

PROTECT US JOBS

	Very Important	Somewhat important	Not important
Yes, favor trade	581	158	15
(%)	62	71	81.6
No, oppose trade	309	51	3
(%)	33.01	22.8	14.8

Source: Chicago Council 2004 Survey, p.1160, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

ENSURE NO OTHER SUPERPOWERS

	Make active efforts	Not make active efforts
Yes, favor trade	392	333
(%)	62.7	67.5
No, oppose trade	205	154
(%)	32.8	31.3

Source: Chicago Council 2004 Survey, p.1160, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

EDUCATION SUMMARY

	Total College Grad	Total College	HS or Less
Yes, favor trade	214	433	324
(%)	74.21	70.41	55.8
No, oppose trade	67	156	209
(%)	23.1	25.4	36.1

Source: Chicago Council 2004 Survey, p. 494, Tables file.

Q345 Feeling Towards Having Diplomatic Relations with China

	INCOME						
	<\$15K	15-24.9K	25K-34.9K	35K-49.9K	50K-99.9K	100K-149.9K	150K
Favor	108	128	114	206	268	54	16
(%)	58.7	71.6	76	79	79.8	76.5	95.9
Oppose	45	36	25	37	51	11	1
(%)	24.4	20.4	16.6	14.4	15.2	15.7	4.1

Source: Chicago Council 2004 Survey, p.285, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

	INCOME						
	<\$15K	15-24.9K	25K-34.9K	35K-49.9K	50K-99.9K	100K-149.9K	150K
Yes, favor trade	107	97	102	173	214	50	14
(%)	58.2	54.3	67.6	66.6	63.7	71.7	83.7
No, oppose trade	59	61	44	73	109	17	3
(%)	31.8	34.3	29.4	27.9	32.5	24.8	16.3

Source: Chicago Council 2004 Survey, p.173, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

	PARTY ID							
	Strong Rep	Not Strong Rep	Lean Rep	Pure Ind	Lean Dem	Not Strong Dem	Strong Dem	
Yes, favor trade	83	74	48	180	65	150	157	
(%)	54.5	65.6	67.9	59.5	56.8	70.7	68.1	
No, oppose trade	62	34	20	91	38	52	68	
(%)	40.7	30.5	28.5	30.2	33.7	24.4	29.2	

Source: Chicago Council 2004 Survey, p.832, Tables file.

Source: CCGA Global Views Survey

Appendix table 1b. Attitudes toward China: elites

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

	Conservative	Middle-of-the-Road	Liberal
Yes, favor trade	86 90%	120 91	157 91
No, oppose trade	7 8%	10 7	14 8

Source: Chicago Council 2004 Survey, p.181, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

	Republican	Independent	Democrat
Yes, favor trade	85 89%	88 93	172 91
No, oppose trade	8 9%	5 6	15 8

Source: Chicago Council 2004 Survey, p. 181, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

	Leader category						
	Religious	Business	Labor	Special Interest	Foreign Policy	Senate	House
Yes, favor trade	45 88%	35 92%	21 66%	22 88%	28 97%	19 94%	40 90%
No, oppose trade	4 8%	3 8%	11 34%	2 8%	1 3%	1 3%	4 9%

Source: Chicago Council 2004 Survey, p.182, Tables file.

Q120 Whether Favor/Oppose Engaging In Trade With: "China"

Base: Senate	Republican	Independent	Democrat
Yes, favor trade	11 100%	5 100%	13 87%
No, oppose trade	0 -	0 -	1 6%

Base: House	Republican	Independent	Democrat
Yes, favor trade	20 87%	5 71%	34 94%
No, oppose trade	2 9%	2 29%	2 6%

Source: Chicago Council 2004 Survey, p.572, Tables file.

Source: CCGA Global Views Survey

Appendix table 2: Attitudes toward China as a world power , various years

3/2. The Development of China as World Power (N=1,195)

Year	Critical (%)	Important but not Critical (%)	Not Important (%)	Not Sure/ Decline (%)	Total (%)
1990	40	43	9	8	100
1994	57	32	5	6	100
1998	57	32	6	5	100
2002 (telephone)	56	34	8	2	100
2004 (telephone)	40	39	16	5	100
2004 (internet)	33	54	10	2	100
Change in % points 2002-2004	-16	+5	+8	+3	100

2006 Results

3/1. The development of China as World Power

	Critical(%)	Important but not critical(%)	Not important (%)	Not sure/ Decline (%)	Total (%)
US	36	54	8	2	100
China	n/a	n/a	n/a	n/a	
India	43	31	18	9	100
South Korea	49	42	8	1	100
Australia	25	52	22	1	100

120/4. China (N=1,195)

Year	Yes, favor trade (%)	No, oppose trade (%)	Not sure/ Decline (%)	Total (%)
2002 (telephone)	71	26	3	100
2004 (internet)	63	31	6	100

345/4. China (N=1,195)

Year	Yes, favor trade (%)	No, oppose trade (%)	Not sure/ Decline (%)	Total (%)
2002 (telephone)	80	18	2	100
2004 (internet)	75	17	8	100

2002-2004 results

140/4. China (N=1,195)

Year	Practice fair trade (%)	Practice unfair trade (%)	Not sure/ Decline (%)	Total (%)
2002 (telephone)	32	53	15	100
2004 (internet)	36	51	13	100

2006 results

202/4. China

	Practice fair trade (%)	Practice unfair trade (%)	Not sure/ Decline (%)	Total (%)
US	31	58	12	100
China	n/a	n/a	n/a	
India	34	36	30	100
South Korea	44	54	2	100
Australia	n/a	n/a	n/a	

2006 results

Question 245 (1-6): In your opinion, should companies from the following countries generally be allowed or not allowed to purchase a controlling interest in [survey country] companies:

245/1. EU countries

	Should be allowed (%)	Should not be allowed (%)	Not sure/ Decline (%)	Total (%)
U.S.	39	55	5	100
China	50	33	17	100
India	48	34	18	100
South Korea	34	64	2	100
Australia	n/a	n/a	n/a	

245/3. China

	Should be allowed (%)	Should not be allowed (%)	Not sure/ Decline (%)	Total (%)
U.S.	24	71	5	100
China	n/a	n/a	n/a	100
India	48	36	16	100
South Korea	31	68	2	100
Australia	n/a	n/a	n/a	

245/4. Japan

	Should be allowed (%)	Should not be allowed (%)	Not sure/ Decline (%)	Total (%)
U.S.	28	66	5	100
China	43	38	19	100
India	n/a	n/a	n/a	
South Korea	33	65	2	100
Australia	n/a	n/a	n/a	

245/5. India

	Should be allowed (%)	Should not be allowed (%)	Not sure/ Decline (%)	Total (%)
U.S.	28	66	5	100
China	43	38	19	100
India	n/a	n/a	n/a	
South Korea	33	65	2	100
Australia	n/a	n/a	n/a	

245/5. South Korea

	Should be allowed (%)	Should not be allowed (%)	Not sure/ Decline (%)	Total (%)
U.S.	27	67	5	100
China	51	31	18	100
India	43	32	25	100
South Korea	n/a	n/a	n/a	
Australia	n/a	n/a	n/a	

Source: Chicago Council on Global Affairs (Global Views Surveys).