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Chinese Money in the U.S. Dries Up as Trade War Drags On

By Alan Rappeport

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WASHINGTON — Growing distrust between the United States and China has slowed the once steady flow of Chinese cash into America, with Chinese investment plummeting by nearly 90 percent since President Trump took office.

The falloff, which is being felt broadly across the economy, stems from tougher regulatory scrutiny in the United States and a less hospitable climate toward Chinese investment, as well Beijing's tightened limits on foreign spending. It is affecting a range of industries including Silicon Valley start-ups, the Manhattan real estate market and state governments that spent years wooing Chinese investment, underscoring how the world's two largest economies are beginning to decouple after years of increasing integration.

"The fact that the foreign direct investment has fallen so sharply is symbolic of how badly the economic relationship between the United States and China has deteriorated," said Eswar Prasad, former head of the International Monetary Fund's China division. "The U.S. doesn't trust the Chinese, and China doesn't trust the U.S."

For years, Chinese investment into the United States had been accelerating, with money pouring into autos, tech, energy and agriculture and fueling new jobs in Michigan, South Carolina, Missouri, Texas and other states. As China's economy boomed, state and local governments along with American companies looked to snap up some of those Chinese funds.

But Mr. Trump's economic Cold War has helped reverse that trend.

Chinese foreign direct investment in the United States fell to $5.4 billion in 2018 from a peak of $46.5 billion in 2016, a drop of 88 percent, according to data from Rhodium Group, an economic research firm. Preliminary figures through April of this year, which account for investments by mainland Chinese companies, suggested only a modest uptick from last year, with transactions valued at $2.8 billion.

“I certainly hear in conversations with investors a lot of concern about whether the U.S. market is still open,” said Rod Hunter, a lawyer at Baker McKenzie who specializes in foreign investment reviews. “You have a potentially chilling effect for Chinese investors.”

A confluence of forces appear to be at play. A slowing economy and stricter capital controls in China have made it more difficult for Chinese investors to buy American, according to trade and mergers and acquisitions advisers. Mr. Trump's penchant for imposing punishing tariffs on Chinese goods and an increasingly powerful regulatory group that is heavily scrutinizing foreign investment, particularly involving Chinese investors, have also spooked businesses in both countries.

China, which has retaliated against American goods with its own tariffs, may also be turning off the investment spigot as punishment for Mr. Trump's economic crackdown.

Concerns about America's receptiveness to Chinese investment have been aggravated by a flurry of transactions that collapsed under heavy scrutiny from the Committee on Foreign Investment in the United States. The group, which is headed by the Treasury Department, gained expanded powers in

2018 that allow it to block a broader array of transactions, including minority stakes and investments in sensitive technologies like telecommunications and computing.

Shortly after the New Year, China's HNA Group took a $41 million loss on a glass and aluminum Manhattan high-rise after American regulators forced it to sell the property because of security concerns about its proximity to Trump Tower, only a few blocks away.

The investment chill could hurt the American real estate market particularly hard. A May report noted a "frenzy of disposal activity" among Chinese commercial real estate investors in the United States. Tony Cenicola/The New York Times

In March, the Chinese owners of a gay dating app known as Grindr were told by regulators to find a buyer for the company. The Trump administration feared Beijing could use personal information as leverage over American officials.

Those interventions followed prominent cases earlier in Mr. Trump's term, such as Broadcom's quashed bid for Qualcomm and the sale of MoneyGram to a unit of the Chinese e-commerce giant Alibaba last year. An agreement involving Lattice Semiconductor and an investment firm with reported ties to the Chinese government was also rejected.

In some cases, the chill has benefited American companies. In June, UnitedHealth swooped in to buy PatientsLikeMe, a health care technology start-up, after the committee said it was a security risk to allow the company's Chinese owner to have access to health data. The purchase amount was not disclosed.

But the increased scrutiny is also complicating efforts by American industries to team up with Chinese investors and leading to a retrenchment in certain sectors. The real estate sector, which has been buttressed by investors from China in the last decade, has had a steep falloff as relations sour and as Chinese officials clamp down on foreign real estate investment.

A May report from Cushman & Wakefield noted a "frenzy of disposal activity" among Chinese commercial real estate investors in the United States. In 2018, there were 37 property acquisitions by Chinese buyers worth $2.3 billion, but $3.1 billion of commercial real estate was sold off. The report said that the treatment of HNA and tough trade talk made Chinese investors feel unwelcome.

Chinese investors are also showing less appetite for residential real estate in the United States. Research released recently by the National Association of Realtors found that purchases of homes in America by Chinese buyers declined by 56 percent to $13.4 billion in the year to March.

“The magnitude of the decline is quite striking, implying less confidence in owning a property in the U.S.,” said Lawrence Yun, chief economist at the realtor’s group.

Despite the decline, China was still the top foreign buyer of American properties from April 2018 to March 2019.

The financial sector, including banks and private equity, is also feeling the effects. A fund that Goldman Sachs started with the China Investment Corporation in 2017 is being looked at closely by the Treasury Department, according to two Treasury officials. The fund, the China-US Industrial Cooperation Partnership, was set up to invest in American manufacturing and health care companies and then forge business ties in China.

A Goldman Sachs spokeswoman said that the bank was in compliance with all government regulations.

John Kabealo, a Washington-based lawyer who specializes in cross-border transactions, said that American private equity funds are now less likely to team up with foreign funds when making acquisitions because doing so could raise red flags.

“I think there’s a whole lot of concern in the fund world right now,” Mr. Kabealo said. “Funds still want to take Chinese money, but they’re being much more cautious in the way that they do it.”

Tougher regulatory scrutiny in the United States and a less hospitable climate toward Chinese investment have fueled the slowdown. Aly Song/Reuters

Even if the two countries reach a trade deal, tepid Chinese investment is expected to continue. The administration is rolling out new barriers to investment, including controls on the types of American technology that can be sold overseas and placing Chinese firms like Huawei on a government blacklist.

The Committee on Foreign Investment in the United States, which previously only had the authority to review transactions in which a foreign investor took a controlling stake of an American business, is now reviewing a broader range of transactions, including joint ventures and smaller investments by foreigners in American businesses that make critical technology.

“There’s certainly a degree of hesitation in China in investing in the U.S.,” said Aimen Mir, the former assistant secretary for investment security at the Treasury Department who recently joined the law firm Freshfields Bruckhaus Deringer. “It’s hard to argue against the fact that these rules have clearly had some impact on Chinese investment.”

Weaker Chinese investment is unlikely to derail the United States economy, as it is a small fraction of that from Britain, Canada, Japan and Germany. China also continues to be largest buyer of United States Treasuries; however, its holdings have fallen in recent years to $1.1 trillion, according to the latest Treasury Department data.

But the decline in investment could hurt areas that are already economically disadvantaged and that have become dependent on Chinese cash. States like Michigan have increasingly wooed Chinese investment, resulting in new factories and jobs in a part of the country that has struggled to recover from the Great Recession.

Craig Allen, the president of the U.S.-China Business Council, said the loss of Chinese investment would be felt predominately in rural states where Chinese investors have bought factories and revived struggling businesses.

“The not-so-welcome mat is out, and it is having a deleterious effect on relatively poorer areas in the United States that need jobs,” he said.

“The Chinese hear from our state and local officials that they’re welcome,” Mr. Allen said. “What they’re hearing from federal officials is quite different.”

In Kentucky’s Ballard County, local officials are grateful that China’s Shanying International Holdings acquired a shuttered paper mill last year. In May, the mill reopened and filled many of the 300 jobs that had been lost.

Mayor Brandi Harless of Paducah, Ky., who traveled to China to meet executives of the company this year, said that it would be a shame if trade tensions hampered manufacturing investments in towns such as hers.

“Given our national conversation, I expected there to be some hesitancy,” Ms. Harless said. “But I haven’t heard anyone in our community be negative about this opportunity.”