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Author: David Dollar

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# ***United States-China Two-way Direct Investment: Opportunities and Challenges***

***David Dollar\****

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\* Address: David Dollar, John L. Thornton China Center, Brookings Institution, 1775 Massachusetts Ave NW, Washington, DC 20036, ddollar@brookings.edu

**Abstract:** There is surprisingly little cross investment between the U.S. and China, the two largest economies in the world. Only 1.5% of the stock of U.S. direct investment abroad was in China at end-2015. The stock of Chinese direct investment in the U.S. is also lower than would be expected given that the U.S. is the world's largest recipient of FDI. In recent years, however, the flow of direct investment from China to the U.S. has accelerated rapidly, and if current trends persist within a short time there will be a larger stock of Chinese investment in the U.S. than of U.S. investment in China. The small amount of U.S. investment in China can be traced to two primary factors: first, poor protection of property rights, including intellectual property rights (IPR), which limits the potential benefits that U.S. firms can receive from their technology and brands; and China's restrictions on direct investment in many sectors important to U.S. firms. Among G-20 countries, China is the most restrictive in terms of openness to direct investment. The relatively small amount of Chinese investment in the U.S. can also be traced to two factors: first, much of the initial impetus for Chinese firms to go out was to secure natural resources, while the U.S. is not a resource-rich country relative to its GDP or population; and second, the national security reviews of the Committee on Foreign Investment in the U.S. have soured many Chinese investors on the U.S. market. The two countries have agreed to negotiate a Bilateral Investment Treaty (BIT). This could open the doors to large amounts of investment in both directions if it addresses key issues. For U.S. firms, access to more sectors and better protection of IPR are crucial. Chinese firms seek a less politicized environment in which to invest. In its Third Plenum decision of 2013 the Communist Party leadership indicated its intention to open more sectors to foreign investment and competition. A BIT could help lock in these necessary reforms.

**Keywords:** U.S.-China relations; direct investment; trade restrictions; CFIUS

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