The Folly of Embracing China as a Financial Angel

The views will be spectacular through the glass walls of the LUMINA towers, the new luxury residential development now rising in San Francisco's pricey Rincon Hill bayfront neighborhood. The 655-unit high-rise project designed by award-winning architect Bernardo Fort-Brescia of Arquitectonica is a joint venture of New York-based Tishman Speyer, which builds, owns, and manages prestige properties worldwide, and China Vanke, the largest residential property developer in the People's Republic of China.

China Vanke is taking a 70-percent stake in the $620 million project, its first venture into the American real estate market. Across the country on the East Coast, Chinese companies are also jumping in in a big way. *China Daily* reported June 27 on deals being completed in New York City, as the ground was being broken for LUMINA in the City by the Bay:

> In early June, Zhang Xin, Soho China CEO, the biggest private property company in Beijing, joined a group of investors to pay $1 billion for 40 percent of stakes in GM Building in New York. Five months ago, Beijing Vantone Real Estate Co Ltd, another major developer in China, signed an agreement with 7 World Trade Center in downtown Manhattan to rent 200,000 square feet for a China Center.

China Vanke's president, Yu Liang, told the *Wall Street Journal* his company is also looking at investing on the East Coast, most likely Boston, which has a large Chinese community. In September 2012, Beijing-based Xinyuan Real Estate Co. Ltd. purchased a parcel of land in the Williamsburg section of Brooklyn for $54.2 million. Xinyuan plans to build a luxury condo complex, with units for sale in the $4 million price range.

Grand China Fund has major multi-million-dollar residential projects going in Houston and Atlanta. Gaw Capital Partners is putting together $500 million for U.S. real estate purchases, reportedly with an eye to properties in Portland, Oregon, and Austin, Texas.

Greenland Holding Group is investing $1 billion in a mixed commercial-residential project in downtown Los Angeles.

In June, Wang Jianlin, chairman of China's largest commercial real estate developer, the Beijing-based Wanda Group, announced plans to invest around $1 billion to build a five-star hotel and luxury apartment complex in New York. That followed closely on the heels of his announcement that Wanda Group was shelling out $1.56 billion to buy Sunseeker, Britain's largest luxury yacht maker, and build a luxury hotel-apartment project in London.

Of course, Wanda Group made its big debut splash in America a few months earlier, in 2012, with its $2.6 billion buyout of AMC Entertainment, the world's second largest theater chain. A Wanda Group press release about the acquisition states:

> US-based AMC Entertainment Inc is the world's No.2 theater chain, with $2.5 billion revenue and

> 20,000 employees in 2011. Around 200 million people watched movies in AMC theaters in 2011. AMC owns 346 multiplex theaters across North America, and a total of 5,028 screens, including 120 IMAX screens and 2,170 3-D screens, making it the world's largest operator of IMAX and 3-D screens. Most of AMC's theaters are located in downtown areas of North America's large cities and 23 of North America's 50 top-grossing theaters belong to AMC.

"After the merger," notes the release, "the Wanda Group owns AMC, world's No.2 Cinema Line, and Wanda Cinema Line, Asia's No.1, becoming the world's largest cinema operator."

But when it comes to investing in the United States, "China, Inc." is not interested only in real estate and entertainment; it is on a buying binge, with a shopping list that includes virtually everything, from raw natural resources to food processing plants to manufacturing companies in the electronics, telecom, and automotive industries. Wanxiang America Corporation, the Chicago-based subsidiary of China's giant Wanxiang Group conglomerate, came to national attention earlier this year with its high-profile $256.6 million buyout of A123 Systems, the bankrupt lithium ion battery manufacturer based in Massachusetts. However, Wanxiang has been quietly building its presence in America for years, focusing largely on acquiring manufacturing facilities of automotive components. In 2002, Wanxiang "rescued" economically troubled Driveline Systems LLC, an axle maker located outside Rockford, Illinois. The following year Wanxiang bought into Rockford Powertrain, which produces drive shafts and other parts for heavy-equipment makers such as Caterpillar. According to *China Daily*, Wanxiang America Corporation "now has a workforce of about 6,000 in 14 states." (For more on China's incursion into the U.S. automotive industry, see our article "Will China 'Save' Detroit?")

These are a few of the other recent significant inroads into the American economy made by the Chinese government's sovereign wealth funds (SWFs) and Chinese corporations (most of which are state-owned enterprises, SOEs):

• Morgan Stanley — In 2010, the U.S. Federal Reserve approved the purchase of a 10-percent voting stake in the Wall Street investment bank Morgan Stanley by China Investment Corp (CIC), the giant sovereign wealth fund that is 100-percent owned by the Chinese government and controlled by China's Communist Party. Morgan Stanley is one of the Federal Reserve's "primary dealers," the 21 banks blessed with the profitable privilege of dealing directly with the Fed.

• Smithfield Foods — This past September, Shuanghui International Holdings Ltd., the largest shareholder of China's biggest meat processor, completed its $4.72 billion purchase of Smithfield Foods, the world's biggest pork producer and processor, whose brands include Armour, Farmland, and Smithfield.

• Huawei Technologies — In 2010, national security concerns barred Chinese telecom behemoths Huawei Technologies and ZTE Corp. from a multi-billion contract with Sprint Nextel Corp. due to national security concerns. But Huawei, which is the world's largest telecom equipment manufacturer and is closely tied to the Chinese government, continues to make headway in the United States nonetheless. It has a major corporate center in Dallas, Texas, and has opened a new research center in California's Silicon Valley.

• U.S. shale gas — Sinopec Group, China's huge energy SOE, has taken a $1 billion stake in Chesapeake Energy Corp's Mississippi Lime shale formation.

And China, Inc., flush with trillions of dollars in cash, is just getting started. "Investors around the world may be cooling on the U.S., but not China," noted a CNBC report in January 2013. "Chinese investment in the United States will likely break another record in 2013, according to research firm Rhodium Group. That's after a record year in 2012 with deals worth more than $6.5 billion, a 12 percent increase from the previous record of $5.8 billion in 2010," the CNBC report continued. The Rhodium Group study says the number reflects direct investment in U.S. businesses and does not include the estimated $2 trillion in U.S. Treasuries held by the Chinese government.

"From the first three quarters of 2007 to the first three quarters of 2012, Middle East investment in the US is down 86 percent, Canada down 75 percent, and Europe down 49 percent, according to the Bureau of Economic Analysis," CNBC stated, summarizing the Rhodium report. "But China? It's up 321 percent in the same time period."

Lining Up: Governors, Mayors, CEOs

For state and local governments and private companies teetering on the financial precipice, China is the new Daddy Warbucks — and they're all lining up to plead for his favor. In February 2012, California Governor Jerry Brown announced the formation of "a China-California Joint Task Force to drive more collaboration, investment and trade" between California and China. "I am creating a task force," said Brown, "that will work with Chinese states and the central government."

In April of this year, Brown led a delegation of "90 business, economic development, investment and policy leaders from throughout California" on a six-day visit to Beijing, Shanghai, Nanjing, Guangzhou, and Shenzhen for meetings with Chinese business and political leaders.

Also in April, another delegation of four state and territorial governors headed to China to participate in the third U.S.-China Governors Forum in Tianjin: Iowa Governor Terry Branstad (who led the delegation), Guam Governor Eddie Calvo, Virginia Governor Bob McDonnell, and Wisconsin Governor Scott Walker. The first forum was held in 2011 during the National Governors Association (NGA) Annual Meeting in Salt Lake City, Utah, where four Chinese provincial leaders participated. The second forum was held in Beijing in the fall of 2011.

Many other similar delegations have been trekking the same routes, chasing the same coveted China dollars. As we note in our article "Will China 'Save' Detroit?," Michigan Governor Rick Snyder is pinning much of his hopes for economic revival for Detroit and the state on Chinese investors, and in September he led his third trade mission to the People's Republic.

Wall Street, CFR Cheerleaders

According to the supposed oracles consulted and regularly quoted by the mainstream media, wisdom dictates that we not look a gift horse in the mouth; China's investment in the United States is a win-win situation, they insist. That is the thrust of Policy Innovation Memorandum No. 13, published by the New York-based Council on Foreign Relations (CFR) in 2012, under the title "Fostering Greater Chinese Investment in the United States." The study was written by David M. Marchick, managing director of the Carlyle Group, the huge investment firm ($180 billion in assets) that has been very bullish on China. "Given the slow pace of the economic recovery, the United States would benefit hugely from additional FDI [Foreign Direct Investment]," Marchick argued. "Critics argue that Chinese investment could compromise U.S. security interests and lead to job offshoring," he continued. "While Chinese acquisition of certain U.S. companies in the defense or technology sectors would create national security concerns, the preponderance of potential Chinese investments in the United States would raise no such issues."

We will return to Marchick's contention about national security concerns momentarily, but first, allow us to highlight what we believe to be the real point of his paper, which is directed at the CFR's influential membership of business and financial elites, as well as political policymakers. "Moreover," declares Marchick, "the jobs created by additional Chinese investment in the United States would help generate greater American support for Chinese investment." Marchick is revealing the real reason for the current all-out push by the CFR and its corporate/banking/think-tank network to knock down all barriers to the trillion-dollar tidal wave of Chinese cash that will cascade into the American economy: to further their planned economic-political-social "convergence" of China with the United States.

Marchick makes it clear that he does not want to see any future popular outcries like the one that nixed the 2005 acquisition of Unocal by the China National Offshore Oil Corporation (CNOOC). He would be pleased if the interagency Committee on Foreign Investment in the United States (CFIUS) — which is already notoriously lax — would simply rubber stamp every proposed investment from the Communist People's Republic of China.

Prominent among the "Recommendations for U.S. Officials and Companies" in Marchick's CFR memorandum is this:

> Bust myths and perceived biases. The vast majority of Chinese investments in the United States do not require any regulatory approval, and a number of important recent deals with Chinese companies that do require it have been successfully approved by CFIUS in the initial thirty-day review period. For example, CNOOC, the same company that encountered opposition in its bid for Unocal in 2005, recently acquired minority interests in both the Eagle Ford Shale (in Texas) and Niobrara Shale (in Wyoming and Colorado) without any controversy. U.S. officials should continue to strictly scrutinize those few transactions that potentially harm U.S. national security. But most Chinese investments have not and should not raise real concerns. Senior U.S. officials should highlight the many successful investments Chinese companies have made during the Xi [Jinping] visit, countering the natural tendency to focus on the most problematic investments.

Following up on the Marchick memo, Edward Alden (CFR) authored a blog on the CFR's "Renewing America" web page entitled "Attracting Chinese Investment: Here's Where to Start." According to Alden:

> The United States needs to start by making it clear that this country actively wants and will encourage Chinese investment, and by working with China to eliminate misperceptions and clear away unnecessary obstacles where they exist. Both countries need to move beyond the bad feelings that were generated in 2005 when the Chinese oil company CNOOC faced a political firestorm over its effort to purchase Unocal.

Obviously, the public pushback that spoiled the CNOOC/Unocal deal has been sticking in CFR craws. Alden replays and emphasizes the Marchick theme:

> The experience with Japan is instructive. Trade relations with Japan soured badly in the 1980s when exports surged even as Japan's market remained largely closed to U.S. products. While Japan has never done much to open itself to imports, trade relations with the United States improved after Japan began investing heavily in this country, building cars and other products and creating good-paying jobs. As a result, members of Congress with large Japanese investments in their districts began defending those companies when trade disputes would arise.

The same needs to happen with China. David Marchick's paper offers a blueprint for where to begin.

Yes, if you want to neutralize domestic opposition to a political-economic merger between China and the

United States, it makes eminent good sense to make as many Americans as possible totally dependent on Chinese companies for their livelihoods. That is clearly where the globalist elites at the Council on Foreign Relations intend to take us.

What National Security?

According to the CFR's Marchick memo, "Most Chinese investments have not and should not raise real concerns." That is a theme echoed repeatedly by panhandling politicians, Chambers of Commerce, trade associations, and investment funds. Even so-called conservative think tanks, such as the Heritage Foundation, belittle national security concerns when there's money to be made. In a July 16, 2013, paper, "China's Steady Global Investment: American Choices," Heritage writer Derek Scissors, Ph.D. claims: "In terms of national security, ownership of Chinese firms does not matter." However, virtually *all* investments in the United States by entities based in, and associated with, the People's Republic of China matter greatly and should raise real national security concerns.

The fact is that China is a communist country, ruled by the Communist Party, which officially views the United States as its "Number 1 Enemy." Notwithstanding the three decades of propaganda — by the regime and its Wall Street and American media allies — China has not "gone capitalist," at least not in the sense of adopting free-enterprise capitalism. The so-called economic reforms of former premier Deng Xiaoping ushered in an era of "state capitalism" that created giant government corporations that are instruments of the state, whose sole purpose is to serve the interests of the communist state. Chinese companies, whether openly state-owned (SOEs) or nominally "private," are tightly controlled by the Chinese Communist Party (CCP), the People's Liberation Army, and the Chinese security services.

In its November 2012 report to Congress, the U.S.-China Economic and Security Review Commission (USCC) noted that China's SOEs "provide the means for the central government to designate and control important segments of the economy." "At the same time," the USCC noted, "the government employs its corporations to advance its foreign policy objectives and international commercial interests."

The USCC report continues:

> Many, if not all, of the corporate officials chosen by the Chinese Communist Party (CCP) Central Organization Department are party members, and many of them become part of a revolving managerial class that cycles through the hierarchy of China's largest state-owned enterprises (SOEs). All the 130 leaders of the largest state-owned companies in 2011 were CCP members. In addition, 20 SOE executives served in 2010 on the CCP's Central Committee, which elects the ruling Politburo.

The USCC's 500-page report provides many examples of China's ongoing, aggressive program of industrial espionage, intellectual theft, and cyber warfare directed against American industries, utilities, and financial institutions, as well as U.S. federal, state, and local government entities. The report states:

> China depends on industrial espionage, forced technology transfers, and piracy and counterfeiting of foreign technology as part of a system of ''innovation mercantilism.'' China can avoid the expense and difficulty of basic research and unique product development by obtaining what it needs illegally. China's success is evident, in part, by the large increase in the U.S. trade deficit with China on advanced technology products.

"The year 2011 marked the 28th straight year in which the United States has registered a trade deficit with China," the USCC reported. "China's state-directed financial system and export-driven growth model; its market barriers to various U.S. exports; its discriminatory policies that favor domestic companies over foreign investors in China's market; rampant Chinese theft of intellectual property; and China's unreliable rule of law, as well as its inconsistent adherence to World Trade Organization (WTO) commitments, continue to disadvantage American competitors."

For the past several years, sophisticated cyber hackers have been attacking private and government computer systems, stealing data and sabotaging systems with viruses and infectious malware. Forensic investigators have traced many of these attacks to entities sponsored by the governments of China and Russia. Earlier this year, Mandiant, an American cybersecurity firm, issued an important report entitled "Exposing One of China's Cyber Espionage Units" that identifies one of the most active cybercrime actors as a unit of the People's Liberation Army, which is likely utilizing hundreds, if not thousands, of specialists to carry out a non-stop campaign of cyberespionage, theft, and sabotage worldwide. The Mandiant investigators have identified this unit, which they have named APT1 (for Advanced Persistent Threat 1) as the People's Liberation Army (PLA) Unit 61398 in the Pudong New Area of Shanghai. The Mandiant report states: "Our research and observations indicate that the Communist Party of China (CPC) is tasking the Chinese People's Liberation Army (PLA) to commit systematic cyber espionage and data theft against organizations around the world."

"The PLA's cyber command is fully institutionalized within the CPC and able to draw upon the resources of China's state-owned enterprises to support its operations," the Mandiant report authors state. "The CPC is the ultimate authority in Mainland China; unlike in Western societies, in which political parties are subordinate to the government, the military and government in China are subordinate to the CPC. In fact, the PLA reports directly to the CPC's Central Military Commission (CMC). This means that any enterprise cyber espionage campaign within the PLA is occurring at the direction of senior members of the CPC."

These are the same Chinese Communist officials and SOE corporate elites whom our governmental and corporate leaders regularly sup with and propose full merger with. They say we should trust them. Michigan's Governor Rick Snyder said in September, after his most recent trip to China, that he "went to build good 'guanxi'" — trust.

M-Live reporter Melissa Anders, who accompanied the governor's trade posse, explained:

> Guanxi (pronounced gwan-she) is the concept of developing trust, making connections and fostering relationships. It's a key component to doing business in China, since the Chinese make business decisions based in large part on their personal relationships.

"Snyder said his progress in building guanxi can be seen through the caliber of people he's been able to meet in China," reported Anders, "which this time included one of the Chinese vice premiers and real estate mogul and AMC Entertainment owner Wang Jianlin, who just last week was named the richest man in China."

Wanda Group billionaire Wang Jianlin, Snyder's guanxi comrade, served in the People's Liberation Army for 16 years and has been a Communist Party functionary since 1976. It is probably safe to surmise that, like many of Wang's fellow CCP "princelings," his meteoric success has far more to do with his party connections and his loyalty to the party line than any entrepreneurial genius on his part or anything special in goods and services that Wanda Group produces for Chinese or American consumers.

From Party Peacock to Feather Duster

Another guanxi relationship Gov. Snyder established was with Huang Qifan, mayor of Chongqing, one of China's largest (population 29 million) and most influential cities. But Mayor Huang is hardly a testimony to trust. For many years he was the right-hand man to Mayor Bo Xilai, a top Communist Party official and Politburo member forecast by many analysts to be the next president and party leader of China. But last year Bo and his wife were arrested and disappeared into China's prison system. All foreign journalists were barred from attending Bo's closed trial, which took place less than a month before Governor Snyder's visit. Huang survived the purge by denouncing his former boss and comrade, Bo Xilai, as well as denouncing himself, in a display of self-criticism and subservience to the party that harkens back to Mao's murderous Cultural Revolution. Bo's wife, Gu Kailai, was also tried in secret and then sent to an undisclosed prison, after receiving a suspended death sentence. Billionaire Xu Ming, the high-flying CEO of China's Dalian Shide conglomerate — and a close ally of Bo, Madam Gu, and Huang — has also bitten the dust, disappearing into prison after testifying against Bo. Shortly before Snyder arrived for his visit, police dragged Liu Hu, one of China's most famous investigative journalists, off to jail for exposing the corruption of Communist Party officials.

All the talk about trust, reform, transparency, and capitalism notwithstanding, the fact is that China remains a totalitarian regime rife with endemic corruption and ruled by the iron fist of the Communist Party. Mayor Huang, billionaire Wang Jianlin, and other peacocks of today may end up as tomorrow's feather dusters, like Bo, Gu, and Xu. Building a genuine trust relationship in such a setting is impossible. Politicians and corporate executives who think they can do so are deluding themselves. They are also further undermining America's productivity, economic independence, and national security.

In 1921, Soviet dictator V.I. Lenin launched his New Economic Policy (NEP), which welcomed western corporations, capital, and technology to build the Soviet Union's productive capacity. In 1928, the Soviets dropped their pretense of liberalization and imposed the iron fist of Stalinism. China has extended its NEP for three decades, but its new Party leadership under Xi Jinping indicates it is returning to the hard line of Stalin and Mao. It should be obvious to every American that it is fatally foolish to allow Beijing's Communist rulers not only to gain strategic economic and political influence in our country, but also to gain control over a significant portion of our food supply and critical industries.