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Alliance, Technology, and Globalization in Foreign Direct Investment: To What Extent Can Globalization Expand?

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Abstract

Economic relations among allied countries have long been examined in international relations, but research usually focuses on trade. In this paper, I apply and extend this argument to inward foreign direct investment (IFDI). Three cases of Chinese capital intended for investment in the United States (US) were examined to investigate whether the security relations with the partner country affect state decision-making regarding accepting IFDI. I demonstrated that the policy of accepting IFDI varied by whether the investing company's home country was an ally of the US. Implications of these findings are discussed, for example, globalization of capital will expand between allies and be limited with non-allies.

Keywords: Technology Policy, Inward Foreign Direct Investment, Security and Economy, US-China Relations, Globalization

Introduction

In this article, I analyze the impact of security factors on economic relations between countries. I address this issue with a particular focus on accepting inward foreign direct investment (IFDI). Accepting capital from foreign countries is, on the one hand, desirable because the expected result is positive economic effects such as economic growth or enhanced employment (Uran, 1991). On the other hand, fungibility prevails between economic gain and military power such that trading with the enemy has been a concern for a long time. This effect is called a negative external effect. Such economic activities can benefit other states, especially enemy or non-allied countries. Therefore, states sometimes control the acceptance of IFDI. For example, as described in section 4, the United States (US) government has a legal system that examines and rejects IFDI not desirable for security reasons. Trade among allies is more active than trade between non-allied states because the former does not need to consider negative external effects (Gowa, 1994; Keshk, Pollins and

Reuveny, 2004; Pollins, 1989; Takagi, 2012).

By contrast, the literature has provided little explanation for why some IFDI is not accepted although there are preliminary analyses (Gupta and Yu, 2007; Takagi, 2014). Therefore, which conditions affect a state's decision to accept IFDI remain unclear. Notably, as with trade, IFDI is assumed to have negative external effects on security; thus, a hypothesis is that IFDI from allies will be accepted more than that from non-allied countries. Therefore, this article examines whether security relations with the partner country affect state decision-making regarding accepting IFDI. Specifically, I analyzed the case of Chinese capital intended for investment in the US. In this article, the analysis is limited to cases in which the US rejected Chinese FDI (foreign direct investment) despite accepting IFDI from foreign countries other than China in advance. The research question (RQ) here is as follows: Is a Chinese company allowed to own a US-affiliated company originally owned by US allies? The analysis demonstrated that the acceptance of IFDI is largely related to the security position of the partner country in relation to the US.

In the next section, we review the basic logic of the relations between a security interest and economic interest in the case of trade. We introduce case studies to verify the hypothesis, to determine if the logic is the same as that of trade in FDI policies. Both Trade and FDI are examples of economic globalization. Globalization means that national borders will fade out as economic relations deepen. In this paper, I investigate the extent to which globalization can expand.

1. Implications of economic relations between states for security

1-1. Technology trade and security

A framework for understanding the trade of technology is available (Takagi, 2010). First, trade items are classified into three categories by their external effects on security: civilian, dual-use, and military technology (goods). In this order, the conversion effect to security (military power) becomes higher, and the conversion speed becomes faster. Military technology directly strengthens the military power of the partner country when it reaches the export partner, but civilian technology has the potential to be indirectly converted to the military power of the other party. The speed is gradual, and exports are promoted, reflecting economic interests. Dual-purpose technology is located between military and civilian technology (goods) (Table 1).

Table 1: Trade Commodity and Externality

Trade commodity	Fungibility and pace in military capability
Munitions	High
Dual-use technology/goods	Medium
Civilian goods	Low

Source: Takagi 2010

Next, the trading partners are classified into three categories—allies, non-allies, and hostile countries—by the degree to which negative external effects are considered. Regarding technology trade, technology, including military secrets, can be exported to allies, and civilian technology can be avoided if a possibility of indirect military diversion to hostile countries exists. Non-allied nations are neither friends nor enemies; thus, states become careful in determining the extent to which exports are permitted. In this manner, by embodying the trade items of technology and the exporting country, their relationship can be understood in more detail. Combining the two creates nine trade patterns (Table 2).

Table 2: Trade commodity and security relationship

	Ally	Non-ally	Enemy
Munitions	1	4	7
Dual-Use	2	5	8
Civilian	3	6	9

Source: Takagi 2010

Explanations of the nine trade patterns are as follows. The first trade pattern is the export of military technology to allies. As the export partner is an ally, the negative external effects are not a concern even if the military technology directly contributes to the military power of the partner country. The second trade pattern is the export of amphibious technology to allies. In this case, exports are promoted more because there are no concerns about negative external effects than because of the export of the first military technology. In the third trade pattern, exports of civilian technology to allies are encouraged for further economic gain. The fourth trade pattern is the export of military technology to non-allied nations. Different from the export to its allies, the exports to non-allied states are determined more carefully. Increased care is applied because the possibility that the opponent will become an enemy

country cannot be ruled out after the opponent's military power has been strengthened. The fifth trade pattern, the export of dual-use technology to non-allied countries, is the most unpredictable situation among the nine categories, and the expectation is that the amplitude of policy changes will be large. The reason for this difficulty of the logical inference is that because the country is a non-allied country, an incentive to refrain from exporting because of concerns about negative external effects prevails, but if economic benefits are prioritized, exports are desirable. The sixth trading pattern is the export of civilian technology to non-allied nations, which is substantially encouraged to obtain economic benefits. The seventh, eighth, and ninth trade patterns are the export of military technology, dual-use technology, and civilian technology to hostile countries, respectively. These policies are expected to be embargoed because of security concerns.

The paper's analytical range is in the fifth area of these policy spheres: the nexus of dual-use technology and non-allied states. In the next section, we explore whether the logic between economy and trade can be applied to the IFDI.

2. Cases and methods

2-1. Research target

This article analyzes whether security factors, namely, whether the investor is a US ally, affect the decision to accept IFDI. Before that analysis, the opposite hypothesis should be dismissed. When the states reject IFDI, several factors are supposed to affect that decision. From the standpoint of economic liberalism (Uran, 1991), the state's decision may be assumed not to reject any IFDI because it has positive economic effects. However, this hypothesis has been falsified because multiple instances of IFDI have been rejected. Thus, the next hypothesis can be considered from the perspective of economic protectionism (Reich, 1989; Goodman et al., 1996; Frye and Pinto, 2009). Goodman et al. (1996) argue that the determinants for IFDI acceptance or reject are whether the IFDI is compliment or replacement for existing US company. Frye and Pinto (2009) also contain these compliment-replacement factors in their variables. In this perspective, the critical industries cannot accept IFDI because if the foreign owner holds the majority of the company's share, which is related to critical interests of the states such as technology, transportation, or energy, national sovereignty might be harmed by the foreign companies.

However, in contrast with this logic, there are ambivalent results. Even in critical

industries, companies have either accepted or rejected IFDI. For instance, in the energy industry, when China National Offshore Oil Corporation (CNOOC), the Chinese oil enterprise, offered to acquire the US energy company Unocal in 2005, the US Congress strongly objected to the deal for national interest reasons (Dorn, 2005a; Dorn 2005b; Pottinger et al., 2005). However, in 2013, the same company (CNOOC) acquired Nexen, also IFDI in an energy company (Rampton and Haggett, 2013). Additionally, for the semiconductor industry and energy industry, the same observations were the same. From 2000 to 2016, 20 cases out of 33 IFDI from China were accepted in the US semiconductor industry (Hanemann et al., 2016). When Chinese semiconductor company Tsinghua Unigroup attempted to invest in Micron, the US government rejected the offer (in 2015) (Horia, 2015). However, Uphill Investment Co., a Chinese Consortium, acquired Integrated Silicon Solution Co. in the same year (United States Economic and Security Review Commission, 2015).

On the basis of these cases, economic protectionism cannot explain the cases of acceptance and rejection in a generalized manner. Therefore, we must verify the other hypothesis besides economic liberalism and economic protectionism. The alliance factor explained at the beginning of this section is examined in the following analysis.

To examine this factor, namely, security protectionism, we will address the RQ mentioned above: Is a Chinese company allowed to own a US-affiliated company originally owned by US allies? This RQ controls variables other than the security factor while ensuring that the acquisition is not hampered in such an important industry in which it is often thought that foreign capital cannot be accepted. This case selection aids in assessing if a difference exists between the US government's response toward allies and non-allies.

2-2. Survey method

Foreign investment in the US involving security concerns is investigated and reviewed by the Committee on Foreign Investment in the US (CFIUS). In this article, I analyzed cases subjected to the CFIUS review; however, the contents of such a review and investigation have rarely been declassified, because of the highly confidential nature of the security matters. Therefore, the availability of information from primary government materials is limited, and obtaining detailed data is extremely difficult. This article used the following materials: *The Annual Report to Congress*, which the CFIUS is required to submit to Congress (U.S. Department of The Treasury); *the Annual Report for Congress* and monthly report issued by the US-China Economic and Security Review Commission (USCC), which

must also be submitted to the US Congress (USCC); and the *Congressional Research Service Report* issued by the Congressional Research Service, Library of Congress (CRS).

In addition, to compensate for the limitations due to limited information and to understand the content of the cases, various media reports and company press releases were also used. I also referred to information on the website of a private research company called Rhodium Group (Rhodium Group).

The data obtained from the aforementioned resources were examined by using a comparative case analysis method.

3. Results

3-1. Hypotheses and questions

In this case analysis, the following hypotheses are examined: States tend to deepen economic relations with allies in consideration of positive external effects and find negative external effects in economic relations with non-allies; therefore, states choose policies that prioritize security even at the expense of economic interest. In my application of this logic to the FDI case, I assumed that whether an acquisition of a US company is approved depends on whether the host country of the investing company is a US ally. In other words, we examine the impact of security factors regarding whether security relations with the partner country influenced the decision to accept IFDI.

3-2. Findings

Table 3 presents the results of the case analysis. This paper examined three cases of investments conducted by Chinese companies: Case 1 is about Ralls Corporation that tried to acquire Terna Energy SA; Case 2 is about Go Scale Capital that planned to invest into Royal Phillips's lighting division; and Case 3 is about Fujian Grand Chip Investment Fund (FGC) planning to acquire Aixtron both in the US and Germany.

Table 3: Comparative case analysis: Cases of acceptance of Inward Foreign Direct Investment (IFDI) from allies and non-allies

	Case 1 Ralls Corporation	Case 2 Go Scale Capital	Case 3 Fujian Grand Chip Investment Fund (FGC)
Year of withdrawal	September 2012	January 2016	December 2016
Targeted US company name (Parent company's nationality)	Terna Energy SA, (Greece)	Lumileds of Royal Phillips, (Netherland)	Aixtron, (Germany)
Sector	Wind power generation	Illumination	Semiconductor
Examination by CFIUS	Yes	Yes	Yes
Executive order	Yes	None (withdrawn during the examination process)	Yes
Reason for rejection	Proximity to naval training base	Gallium nitride	Gallium nitride, nanotube technology, and Contract with munitions industry
Security relationship between the parent company's principal country and that of the targeted US company and the United States	Allies (NATO)	Allies (NATO)	Allies (NATO)

Source: Takagi (2021) modified by Author

The details of each case are discussed in the next section. In all cases, Chinese companies were not approved for the acquisition of companies, and US allies were approved. In three cases, companies were located near crucial security facilities (e.g., military bases), related to important technologies, or engaged in government procurement. Despite the sensitivity of these affiliates, they were allowed to be owned by parent companies in NATO member countries (e.g., Greece, the Netherlands, and Germany). However, the US response to Chinese companies differed in that their request to acquire these affiliates was denied.

3-3. Summary of results

In each case, Greek, Dutch, and German companies were allowed to operate US subsidiaries, but Chinese companies were not approved when they attempted to acquire them. These findings suggest that security interests were prioritized over economic interests. Thus, the hypothesis was verified.

4. Case studies

In this section, the empirical descriptions of the three cases are reviewed. As aforementioned in section 2-2, materials were limited, constraining the examination. However, I was able to assess the entire process from submission of applications for acquisition by companies to the announcement of governmental disapproval. First, I describe the screening procedures of the CFIUS for mergers and acquisitions (M&A) by foreign companies, and subsequently, I outline the process of the three cases.

The CFIUS review process comprises three stages (Jackson, 2017).¹⁾ The first stage is a 30-day “National Security Review:” the Director of National Intelligence, not a member of the CFIUS, examines the M&A by a foreign company and considers whether it threatens US national security. The second stage is a 45-day “National Security Investigation,” conducted if the first-stage review results in one or more of the following three conditions: (1) the CFIUS determines that the case threatens US national security and that the threat has not been mitigated during or before the review; (2) the foreign person is controlled by a foreign government; and (3) the project allows foreigners to manage critical infrastructure that impedes national security, and the impeding factors have not been removed. In the final phase of the investigation, the CFIUS decides whether to advise the president that the application should be postponed or denied, though the president is not bound by this advice. If the CFIUS decides to advise the president, the process advances to the third “Presidential Decision” phase. The president makes a final decision within 15 days while considering various sources. From 1988 to 2018, fifteen of 2623 cases reached this third stage.

4-1 China’s Ralls Corporation was denied acquisition of Terna Energy SA of Greece

In March 2012, Delaware-based Ralls Corporation (hereinafter, “Ralls”) announced that it had acquired a wind power facility in Oregon from a Greek-based solar energy equipment manufacturer Terna Energy SA. Ralls owns the Sany Group as a Chinese subsidiary and is owned by Mr. Dawei Duan and Mr. Jialing Wu, who are citizens of the People’s Republic of China, senior executives of the Sany Group, and involved in the acquisition. At the acquired facility, Ralls was working on a wind power project called Butter Creek, to build 20 turbines at four facilities (Wilard, 2012; Wang, 2016).

The acquisition of Terna by Ralls was completed without interference from the CFIUS; thus,

the CFIUS requested that Ralls obtain subsequent approval in June. At the initial screening initiated by Ralls' application, the CFIUS expressed national security concerns because the land was adjacent to US Navy facilities. Regarding this concern of the CFIUS, the US Navy attempted to convey their objection to this M&A to CFIUS, that is, the wind farm was close to a US Navy weapons system training facility concerned with piloting unmanned aerial vehicles (Jackson, 2016: 27-29).

On July 25, the CFIUS announced a temporary mitigation order to reduce the threat posed by Ralls' acquisition of the wind farm. The order required the following: (1) cessation of all construction and operation at the planned site of the Butter Creek Project, (2) removal of all stockpiled or stored items from the sites no later than July 30, 2012, and no further deposits, stockpiling, or storage of any new items at the sites; and (3) cessation of access to the site (Jackson, 2016: 27-29). On July 30, the CFIUS began a new phase two investigation and on August 2, issued an Amended Order Establishing Interim Mitigation Measures. In addition to the first order, the second order (1) prohibited Ralls from selling acquired wind farm sites or their assets to other companies without removing all products from the Butter Creek project site; (2) required Ralls to notify CFIUS of any sale; and (3) required Ralls to provide CFIUS a 10-business day period for objection before any sale (Jackson, 2016: 27-29).

Following a CFIUS recommendation, President Obama issued an executive order on September 28, 2012, as a result of a presidential investigation (Exec. Order 2012). The order said that there was evidence that the acquisition by Ralls threatened to impair US national security and ordered Ralls to abandon the Oregon wind power project. In response to the order, on October 1, Ralls filed a lawsuit against the Obama administration's decision (Jackson, 2016; Wang, 2012).

The US Treasury, which chaired CFIUS, emphasized that the executive order would not be a precedent for investment from China or other foreign countries and that Secretary of Commerce Rebecca Blank said that the US essentially welcomed investment from China. Ralls officials highlighted differences in the responses to China and other foreign countries regarding approval, citing Danish and German companies operating wind farms in the region (Younglai, 2012).

4-2 A consortium of Chinese investors' (GO Scale Capital [GO]) were denied acquisition of Phillips Lumileds unit of the Netherlands

On March 31, 2015, Royal Phillips (hereinafter, Phillips) announced on its website that Phillips

and GO had signed an agreement that GO would acquire an 80.1% stake in Phillips' light-emitting diode (LED) components and automatic lighting equipment business and that Phillips would own the remaining 19.9% (Phillips, 2015). The purchase price was approximately USD 3.3 billion. Initially, the acquisition was expected to close by the third quarter of 2015. After this acquisition, Phillips launched a new company, Lumileds, to expand its business, with Phillips' lighting division as its primary customer.

The company's Chief Executive Officer, Frans van Houten, highlighted that GO had expertise in LED components and automotive technology because GO had invested in several power companies. The president of GO, Sonny Wu, was scheduled to become the temporary president of Lumileds.

Lumileds operates in more than 30 countries and employs approximately 8,800 individuals. Sales in 2015 were approximately USD 2 billion. The company's main products are automotive lighting components and LEDs for backlighting used in products such as smartphones and televisions. The speculation was that the acquisition would be a security concern because LEDs are a type of semiconductor and part of US critical infrastructure (Sterling, 2016).

GO is a Beijing-based private company backed by investors who invest in internet industries such as GSR Ventures or investors who invest in green technology industries such as Chen Kin Ming, who was successful in solar energy. A US company, Oak Investment Partners, also invested in the company (Brown et al., 2016).

However, in October, the CFIUS raised concerns about the acquisition; thus, Phillips stated it would mitigate any concerns (Lin, 2015). Ultimately, news media reported that the acquisition's success depended on Phillips's assurances to the CFIUS.

On January 22, 2016, Phillips announced on its website that they and Go had ended negotiations to allow GO to acquire an 80.1% stake in Lumileds (Phillips, 2016). Despite the endeavours to mitigate concerns raised by the CFIUS, no clearance was granted. Phillips said that the CFIUS forbade them from disclosing the concerns raised (Sterling, 2016). The method of developing semiconductors used for LED lighting is called metal-organic chemical vapour deposition (MOCVD), and the CFIUS has been monitoring it (Sterling, 2016). The CFIUS experts had investigated Lumileds' semiconductor manufacturing facilities because of its expertise in MOCVD. Thus, we observe that the US government has been attempting to delay China's acquisition of this advanced technology.

The refusal has forced Phillips to search for new buyers. The company also boldly

reduced its operations in the 2000s, divesting its semiconductor and television businesses and specializing in the health care business. The sale of the lighting division was part of this downsizing (Brown et al., 2016; Kirchfeld et al., 2016).

In December 2016, an agreement was reached for Apollo Global Management to acquire an 80.1% stake in Lumileds (Bray, 2016).

4-3 Grand Chip, the German unit of China's Fujian Grand Chip Investment Fund, was denied acquisition of Aixtron, a German semiconductor manufacturer

On December 2, 2016, the US president rejected the acquisition of Aixtron, a German semiconductor manufacturing equipment manufacturer, proposed by Grand Chip, the German unit of China's Fujian Grand Chip Investment Fund (FGC) (Nikkei, 2016). Aixtron is a spin-off company from RWTH Aachen University, which employs highly skilled engineers to produce the high-tech tools required for semiconductor manufacturing. The company's system allows for the placement of multiple layers of chemicals to create the crystals necessary to manufacture semiconductor integrated circuits and LEDs (Mozur and Ewing, 2016).

Initially, San'an Optoelectronics in Xiamen had negotiated with Aixtron concerning the acquisition but cancelled the stock purchase because it did not fulfill the unique qualification requirements. This cancellation of San'an significantly reduced Aixtron's share price, and Aixtron subsequently approved the acquisition by FGC. However, the source of the investment was unclear because Xiamen Investment Corporation, which owns 49% of FGC's shares, is a local government fund with close ties to San'an. The fact that Xiamen Investment Corporation is a local government fund also raised concern with the German authorities (Mozur and Ewing, 2016).

In May 2016, FGC proposed a takeover bid (TOB) through a German subsidiary of FGC to acquire all the shares of Aixtron for EUR 607 (USD 715 million), and Aixtron's management agreed to the plan. The German authorities approved the acquisition in September but announced that they would review it in October (optics.org, 2016). The reason for the review was that MOCVD, used for LED manufacturing, is also applied to more sensitive semiconductor devices such as high-frequency deposition and state-of-the-art military radar. The *Handesblatt Daily* reported that US intelligence officials had warned that Aixtron's technology could be used in China's nuclear program (Handley, 2016; *The Local*, 2016; optics.org, 2016; Qiong, 2016). This incident was the first time that Germany had responded to US pressure by reversing a decision to accept investment (Braude, 2017).

However, the German Minister of Economic Affairs stated that the decision was based on a process independent of the US review (Inverardi and Bartz, 2016). In addition, on November 18, FGC was also advised by the CFIUS to abandon the acquisition of Aixtron's US subsidiary because of security concerns (Yu, 2016). However, Aixtron and FGC did not accept this decision and appealed directly to US President Obama for approval of the acquisition (Mozur, 2016). On December 2, the White House announced that President Obama would not allow the acquisition (Exec. Order, 2016; U.S. Department of the Treasury, 2016). Accordingly, on December 8, both companies announced their discontinuance of the transaction.

Although the CFIUS did not disclose the grounds for the recommendation of the cancellation, three major concerns were raised in reports. First, FGC is a private company that receives financial support from the Chinese government, whose technology acquisition strategy is part of a new industrial policy, and Aixtron was a leading company in the technology of manufacturing chips based on an advanced semiconductor material called gallium nitride (Mozur, 2016). Gallium nitride is a powdery yellow substance used in Aixtron products such as LEDs, radars, antennas, and lasers. According to a news media report, security sources said that the main reason for the denied approval was to prevent China's access to the material (Inverardi and Ten Wolde, 2016). This technology is commonly used in products such as Blu-ray Disc players, but its heat resistance and radar resistance are used in many military and space-related products. For example, chips manufactured with this technology can increase the power and sensitivity of weapon systems and decrease their cost. Thus, these chips are used in Air Force radar systems called space fences, and in Patriot missile defence systems to track space debris (Inerardi and Bartz, 2016). Second, officials commented that nanotube technology obtained from a company in the United Kingdom that was acquired by Aixtron in 2007 and could be used for military purposes was also a concern (Inverardi and Ten Wolde, 2016). The third source of concern was that Aixtron's customers included Northrop Grumman, a major US defence-manufacturing company (Kirchfed et al., 2016).

At a regular press conference on December 2, China Foreign Ministry spokesperson Geng Shuang insisted that acquisition by FGC was a "normal commercial activity," and he complained that politics had intervened in markets (Ministry of Foreign Affairs of the People's Republic of China, 2016; Inverardi and Ten Wolde, 2016). Moreover, after President Obama's executive order was announced, spokesperson Lu Kang said at a regular press

conference on December 5 that the acquisition of Aixtron by a Chinese company was for commercial purposes. He said that he would protest to the US government that they had politicized the matter and intervened in normal commercial activities by political means. Additionally, he demanded that the US end what he perceived as baseless accusations against Chinese companies and provide a fair, favourable environment for investment by Chinese companies that served a common interest by providing long-term prosperity for both parties (Ministry of Foreign Affairs of the People's Republic of China, 2016).

5. Discussion

Thus far, we have examined three cases that demonstrate the decision process concerning whether states accept IFDI from non-allied countries. Acquisitions of US affiliates have been licensed to countries other than China. In each case, despite the opportunity for a company to increase its capital by accepting IFDI, they were not allowed to accept Chinese investment. Thus, how is China perceived by the US? What kind of concerns or threat does the US perceive?

There are three concerns that US speculates about China. First, the common concern in all three cases was the uncertainty about the source of capital from China. In China, the distinction between state-owned enterprises and private enterprises is sometimes unclear. For example, in private companies, the executive board members might include governmental officials. In other words, subsidized companies may have undue advantages when operating in the US market. Another concern was that such unprofitable companies would compete with US companies for market monopoly.

Second, the US had an elevated sense of vigilance after China announced its policy called "China Manufacturing 2025" in May 2015, whose aim was to acquire cutting-edge technologies, particularly semiconductors, through M&A (Majerowicz and De. Medeiros, 2018). In several cases, US authorities permitted Chinese investment to acquire US semiconductor companies; thus, US authorities do not always block IFDI in semiconductor companies (Hanemann et al., 2016).²⁾ However, the acquisition of sensitive technology with the potential for military use was denied to China but granted for allies. Thus, the US policy toward accepting IFDI has differed for allied and non-allied countries.

The third reasons for US concern regarding IFDI from China might be China's increasing world status and its actions as a revisionist state with increasing power. The

negative external effects of providing key technologies to non-allied countries have been recognized.

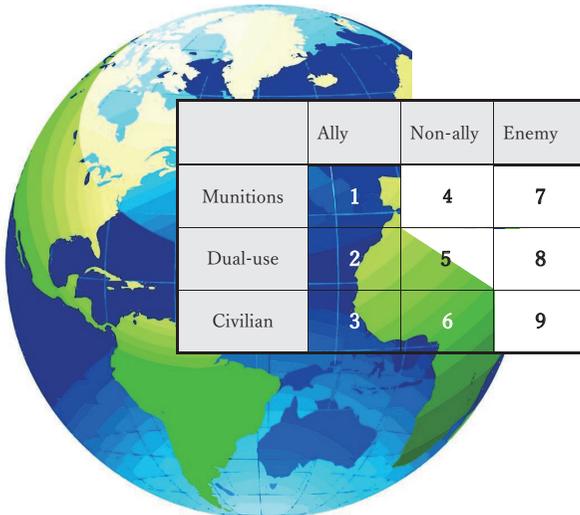
As aforementioned, US responses to investments have differed based on which country was investing. Thus, we propose that capital has a “face.”

Our argument also involves globalization, which has resulted in, for example, goods, individuals, money, and information flows that advance beyond a state’s borders.

However, borders between states remain. We have demonstrated that the expansion of financial globalization has been limited by states’ security concerns; thus, a free, unlimited financial flow has not been realized. The sphere where globalization can expand is in an economic exchange of civilian goods and technology with allied and non-allied countries, dual-use goods and technology with allies and some non-allies, and military good and technology with allies (Table 4). Globalization expands mainly within allied countries, which is the extent to which it can expand as only selective expansions are possible.

In the case of US–China relations, they have economic interdependence despite their policy changes on tariffs, export restrictions, and investment prohibition. Some US multinational enterprises in China will continue to operate without decoupling after completion of China’s Zero-Covid policy. Chinese investment in the United States has been substantially reduced by US policy and Chinese policy, and both states intend to restrict the movement. However, Chinese investment in consumer products and the service industry increased 383% from 2018 to 2019 (Hanemann et al., 2020). These ambivalent realities express that globalization expands only in domains in which states do not interfere because of perceived security costs. From the perspective of economic interest, multinational enterprises should increase their number of deals; however, from the perspective of security interests, states have denied them the opportunity to do business with non-allied or enemy countries, except for transactions involving civilian goods. In this sense, the interests of states and multinational enterprises differ.

Table 4: Sphere of globalization can expand



Source: Author

Conclusion

In this article, I examined whether security factors affect IFDI acceptance policies. An analysis of cases in the United States confirmed that the policy of accepting IFDI varied by whether the investing company's home country was a US ally.

Before introducing the hypotheses, an implication of economic relations to security was demonstrated by the framework of the analysis. The framework comprised nine policy spheres in the form of matrix that contains three types of technology and three types of security relations in dyad. Technology is categorized into three types by using the logic of fungibility and the pace of each technology into military capability (Table 1). Among these nine spheres, the most complicated logic is necessary for those within a combination of dual-use technology and non-allied countries. Policies categorized into the sphere are difficult to infer causally because these policies have both security interests and economic interests and both interests are set-in zero-sum relations. Therefore, we must trace the process of cases in this category to identify the factors that influence policy decisions.

In this article, we have examined two types of hypotheses: economic liberalism and economic protectionism. However, these hypotheses were not verified. Therefore, the third hypothesis was also examined: security protectionism. We have presented three cases of

the US rejecting IFDI from a non-allied country. In neither case, the US government denied IFDI from China while accepting IFDI from allied countries. Thus, security was a factor that strongly influenced the decision-making regarding the acceptance of IFDI.

These cases demonstrated several reasons for US officials' concerns regarding Chinese investment. First, Chinese companies that portray themselves as privately owned are generally controlled by the Chinese Communist Party. Therefore, these private companies are considered to have the same problems as Chinese state-owned enterprises (SOEs), that is, once a company accepts the IFDI from SOE or private-pretended company, the recipient companies are worried about being controlled by a foreign government.

In addition, the executive board of Chinese enterprises is often obscure and organizational structures are usually unknown. This absence of transparency makes IFDI from China more unreliable than IFDI from other countries.

Second, China is attempting to acquire high technology such as semiconductors by taking over foreign enterprises. That acquisition program, called China Production 2025, began in 2015 (Ma, et al., 2018). Since then, the US government exercised increased caution regarding IFDI from China because the former wanted to deny the latter the opportunity to steal the technology to improve Chinese military capability (Boutin, 2019). For these three reasons, Chinese IFDI has been a concern for the US.

Third, the Chinese position in global politics has forced the US to be ready for hegemonic competition (Milhaupt, 2009; Allison, 2017). As aforementioned, states are always concerned with the fungibility of economic gains to military capabilities. China, a state with an increasing global status, is not a US ally; thus, the United States must use caution when accepting or rejecting IFDI from China. In addition, the companies that the Chinese investment were to acquire were companies managing sensitive technologies or located near sensitive military sites. Although those enterprises are allowed to merge with foreign affiliates of US allies, non-allied countries such as China are not. Security concerns have had an important effect, especially on China.

IFDI is a type of globalization and has financial aspects. This article demonstrated that globalization has expanded despite conditions and restrictions. Globalization has proceeded selectively. There is no universal and borderless financial globalization, but money has its face named as nationality. I expect that the globalization of capital will expand between allies and in some limited sectors with non-allies. I call it "selective globalization."

Notes

- 1) This review process was amended by the U.S. Congress in the Foreign Investment Risk Review Modernization Act (FIRRMA) 2018.
- 2) Between 2000 and 2016, 20 out of 33 acquisitions of U.S. semiconductor companies that Chinese companies tried were successful.

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