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USA: Returning From China?*

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Nowadays, countries are fighting more than ever for international investments, and they have to provide interesting conditions for companies. Many international companies recognized China as very competitive place to install their factories. Often companies are now considering that the reduced costs (principally wages) in China are not anymore so attractive as before. These companies are returning back from China, finding domestically low wage costs making many investments interesting in their countries. An analysis of this new international scenario is made in this paper as much as a perspective for the future and the implications resulting from companies' investment movements.

Keywords: China, USA, competitive advantages, international investments, political risks

Introduction

International environment becomes very severe. Companies now face a very uncertain international context. Nowadays, competitiveness in the global market is the basis for the survival of companies. Countries try to receive international investments in order to create value for their economies, domestically. But the risks have increased significantly last years and any firm has to study the investment dossier very carefully.

In the global market, the competition is very strong and, in general, international companies tend to go to the countries that offer the best conditions. The situation of international capital shift must be studied, considering particularly the country's political risks, the availability of raw materials, the dimension of domestic market, among several other factors.

The new international context shows the strength through which governments have to promote the

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potentialities of their countries to get foreign direct investment (FDI). The particular case of the world's most important bilateral relationships exists between China and USA. An increasingly visible component of this relationship concerns precisely FDI. USA firms have invested in China for years almost US $60 billion since China opened to the world in 1978. These firms have had important conditions to invest in China and play an important role in many sectors of Chinese economy (Fagan, 2008).

Moreover, nowadays many USA companies are coming back from China to the USA to invest domestically in order to provide the regional market. More than that, there are strong indications that an increasing number of Chinese companies are interested in investing in USA and are prepared to allocate considerable resources for that purpose. Of course, they require to know about the USA regulatory framework, both when establishing themselves in there and when operating in USA market. The question that permits to know if USA is ready to receive FDI from China, including the form of cross-border Merger and Acquisition (M&A) is open. There are several relevant topics associated with the receptivity of USA business environment to future Chinese direct investment that Chinese companies must have in account (Fagan, 2008).

This study intends to discuss the new context of the global market, considering the USA companies and the recent internal position of China in terms of attraction to international investments and the possible return of these companies to the USA territory to install their plants. Now, the dynamics of international investments are facing new crossroads, and the way to be trailed may be come back to the USA. Some states seem now to become more competitive than before while China is losing a part of its advantages for some of its privileged factors. Now China has come to a new stage of its development, and international companies are now studying the new situation. Moreover, in this paper a reference is made to the fact that USA authorities are willing to catch FDI, particularly Chinese direct investment. For that, a specific and strategic framework, in a regulatory and institutional perspective, is created by USA authorities for these investments.

China: Investments' Attractiveness?

Considering that competitive advantage can be defined as the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen & Fahey, 1984; Porter, 1980 as cited by Chacarbaghi, 1999), the competitive advantages theory shows that each entity can become in a better situation if its choices are based on a competitive advantage at several levels, whichever they are at the national, the corporate, the local, or the individual levels. States or businesses should, as a consequence, follow policies that allow them to get competitive advantages in the market.

The long term survival of a company or the country's long term competitiveness may depend on the gains that the company or the country can obtain from getting competitive advantages in the global market.

The new international context demands that companies adapt fast to the changes in the global market that directly influence their competitive advantages. The global competition increasingly requires an incessant exploration of new ways to get value growth. The investments require that companies know well about the risks and the general environment of the destination country (political and macroeconomic conditions, infrastructures and human capital, domestic policies, bureaucratic environment…). The politics' stability of a country's government works often as being a determinant to get investments particularly from international companies. In fact, a company needs to know well the political expectations about a country and to get a dynamic strategy to be well succeeded in the international market. The complexity of this analysis requires the understanding of the way that the interrelationships are made.

In the last decade, China has obtained strong advantages to receive foreign investments, being the development of China the reflex of the success of China’s economic politics and competitive position in the world’s global market. One way for a company to get successful was to go to China, where the company could produce the same products at low cost that the company used to produce in the domestic market. This began to be done by some companies and rapidly the example was followed by others by installing plants in Chinese territory. This factor constitutes a way to get competitive advantages in the market.

Now, as there is a fast growing of wages in China and some factors are contributing to get better conditions on production, in USA some companies are considering coming back and installing their production in their origin countries.

Anyway, investments in China and Asian countries will keep interesting once the internal demand in many countries of the region is growing. Strong movements of capital will prevail in the coming years. Some companies may move from China to other neighbor countries and sometimes to other far away countries. And that may depend on many factors. In fact, considering the destination country, many of these factors are related to the analysis that the companies make concerning political risks, internal conditions for production and infrastructures, domestic demand, law, etc..

Therefore, the evaluation of the destination country is of vital importance to the international business. The analysis of a country’s political environment is considered essential to the operation of a foreign company business. This political environment has to be analyzed by the company.

USA: The Return?

President Bush in 2007 referred the need on promoting foreign investment in USA but also the need of guaranteeing a balance between maintaining an open environment for investment and preserving important security interests (President George W. Bush Statement on Open Economies, in May 10, 2007, in Fagan, 2008).

> As both the world’s largest investor and the world’s largest recipient of investment, the United States has a key stake in promoting an open investment regime. The United States unequivocally supports international investment in this country and is equally committed to securing fair, equitable, and nondiscriminatory treatment for U.S. investors abroad. Both inbound and outbound investment benefit our country by stimulating growth, creating jobs, enhancing productivity, and fostering competitiveness that allows our companies and their workers to prosper at home and in international markets. (p. 45)

This statement shows that USA is open to new investments theoretically, and in general FDI is considered important to the USA. Anyway, there is some kinds of investments in certain USA assets that may be entirely off-limits to Chinese companies because of regulatory considerations (i.e., Committee on Foreign Investment in the United States, CFIUS, may not approve the transaction), political considerations (i.e., the USA Congress or state or local officials may interfere to the point of killing the transaction, or both) (Fagan, 2008). Nevertheless, USA maintains an official policy of welcoming investment. The challenge for Chinese investors, therefore, is to find right transactions that enable them to invest in the USA market without incurring regulatory or political trouble. This is the aim of the foregoing recommendations—namely, to help provide Chinese investors with a broad roadmap to lessen regulatory and political risk and avail themselves of the open investment environment in USA (Fagan, 2008).

As for USA companies, there is a new reality. For many USA companies, there were significant changes in what international investments in China is concerned. This entire new environment has to be perceived and

American firms are building new strategies. In fact, considering the BCG report (Sirkin, Zinser, & Hohner, 2011), there are several factors that companies may analyze now in order to decide the country where invest to, and the possibility to move from China to USA. The reasons to be analyzed, on which companies should base their decisions are the following:

- Wages and benefit increases of 15% to 20% per year at the average Chinese factory will reduce the low cost advantage of China over the low cost labor of some states of USA (from 55% today to 39% in 2015), if it is adjusted for the higher productivity levels of USA workers. In reality, labor cost is just a part of a product's manufacturing cost. And so, the savings gained from outsourcing to China drop to single digits for many products;
- Considering the transportation costs that many products have and their duties, supply chain risks, industrial real estate, among other costs, these products shall have small gains obtained from Chinese production;
- Automation and other productivity improvements are expected not to be enough to keep costs' advantage of China;
- In China and other Asian countries the income rising will contribute for the demand increasing. The multinational companies will devote more of their capacity in China to supply domestic markets of the region. It is expected that many companies bring some of their production work back to the USA to supply North America markets;
- Manufacturing of some products will move from China to nations with lower labor costs as Vietnam, Indonesia or Mexico. Anyway, these countries continue to be limited once they do not have adequate infrastructures, skilled workers, scale, domestic supply networks, and there are additionally political and intellectual property risks, low worker productivity, corruption, and the risk of personal safety.

This process of investments' return to USA is now beginning and the adjustment for a new situation is in a very early stage. The shift will happen depending on a set of factors and on the industry sector itself. While China continues to have an interesting platform for production for many companies of Europe and Asia and even still remain interesting for many USA companies, the truth is that USA is becoming more attractive for the production of many goods to be sold in North America.

Concluding Remarks

USA may be rising in terms of potential for many industries. But this position will not replace the China's potential. Manufacturing power of China will be maintained. China has a very large domestic market and this Asia region is very strong in the context of the world economic order. In last years, China has converted all the potential to adjust the productive structures and has enlarged the basis of the production to many capital-intensive industries, which has guaranteed many skilled and talent work force and has developed many micro infrastructures and super structures to guarantee conditions for the Chinese development (at macro and micro levels). Many coastal cities in China are now very well positioned for new challenges. China has also guaranteed abroad the employment of their work force in excess at very competitive conditions, penetrating all over the world and guarantying an interesting positioning for the future. A positioning in terms of natural resources has already been got. China continues to be a strong low cost exporter to Western Europe and facing the difference in cost production for next years, it is expected that China will remain like that.

Anyway, there are significant changes in the relationship between USA and China, and trade trends. The reality is changing fast. The shifting cost structure between China and USA reveals more choices for companies' production in the future.

Many high labor products and products to be supplied to Asian countries may remain to be produced in China, keeping production in China makes sense for many products also because China is rapidly developing high technology incorporation and important economies of scale.

Companies have now to decide about their global supply networks taking into account the usual criteria of total cost of production, the proximity of markets and raw materials and so on, but at this moment, the companies' analysis must include the new circumstances of fast change on the global combination of factors. Companies must make this analysis considering particularly factors as worker productivity, transit costs, time to market considerations, logistical risks, energy costs, political risks among other factors. Nowadays, an essential factor is the flexibility and dynamism of the supply chains, as much as their capability to remain balanced. The flexibility to move from a center of production to another place is also crucial as much as to become closer to the final customer, according to the needs of new demands. The relative position of countries, considering the rapid effects of international investment movements and the new requirements for production, supply and to respond to the new trends of demands, determines a new stage for international trade.

Many USA companies are now considering getting back to the USA to install some of their plants to supply the North America market. Some features allow us to conclude that there are factors, such as the flexibility of the USA structures and capability of rapid reorganization that work in favor of the competitiveness of the USA. However, it is not expected that China loses its leading position in the international trade, and especially it is not expected that China loses its economic potential in the region. Its fundamentals are very strong and solid, and they guarantee a new position of China in what advanced technologies are concerned.

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