

FROM HOLLYWOOD TO HOG – BREAKING CONVENTIONAL PATH OF CHINESE FOREIGN DIRECT INVESTMENT

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ABSTRACT

This research studied two noticeable Chinese outward FDI (Foreign Direct Investment) occurred in 2012 and 2013. On September 04, 2012, a Chinese conglomerate Dalian Wanda Group completed its purchase of AMC theaters to create the global largest theater. A year later, China's Shuanghui International Holdings Ltd. got the approval from the U.S. regulators to seal the deal of buying the world's largest pork producer, Smithfield Foods Inc. Both deals survived the scrutiny from legislatures then obtained the shareholders' approval less than a year. Utilizing these two recent cases, this study suggests that Chinese multinational corporations (MNCs) may find the nontraditional way of breaking into U.S. market.

INTRODUCTION

During 1980s, the American public was resentful to witness the national iconic buildings, like the Empire Building or Rockefeller Center, fall into the possession of Japanese firms. The wave of M&A induces tremendous debates about national pride and social-cultural wars. Similar resentment to a foreign buyer was recurring when Switzerland food giant, Nestle made \$11.5 billion bid for the largest U.S. candy maker Hershey in 2002. In particular, Pennsylvania's attorney general, Mike Fisher commended this deal, "it's time to put a halt to a transaction that could harm the community" (Fisher, 2006). There are no exceptions to Chinese multinational corporations (MNCs) who tasted the disappointment from their own foreign direct investment experience in U.S. Many prior Chinese foreign direct investment cases: Lenovo's acquisition of IBM's PC division (2005), Chinese oil company CNOOC's (China National Offshore Oil Corporation) failure bidding of Unocal (2005) or Huawei's withdrawal of taking a stake in 3Com (2007) were mainly considered as Chinese strategies of gaining access to U.S. superior technology or strengthening its military leverage against U.S. Given much unpleasant experience of encountering the uphill resistance from congressional leaders, Chinese MNCs were recommended to shy away certain types of industries, like energy, homeland security-related. (He, and Lyles, 2008).

Nonetheless, the global financial crisis from 2007 to 2009 may build a new path for Chinese foreign direct investment. China has reported double digit growths of GDP, 9.6%, 9.2%, 10.4%, 9.3% and 7.8% from 2008 to 2012, respectively; while U.S. tried to pull itself out of the worst recession since the Great Depression and reported anemic performance of -0.4%, -3.1%, 2.4% 1.8% and 2.2% within the same period (World Bank, 2013). Chinese investors have utilized its hefty foreign exchange to increase the home ownership in U.S. Chinese home buyers constituted of 9% of all the foreign home buyers in U.S. market from March 2010 to March 2011 (Bloomberg, June 2011). In hindsight, the magnitude of China's exposure to the global financial crisis triggered by fallout of the U.S. sub-prime mortgage securities may not be as serious as many financial analysts (or economists) predicted. Hence, it is reasonable to speculate Chinese foreign direct investment take ownership of U.S. distressed industries in an attempt to help U.S. ride out the worst recession. Nonetheless, U.S. policymakers have track records of opposing Chinese acquisition of U.S.

companies. Should Chinese firms be mindful of its prior abominable experience associated with foreign direct investment in U.S.? Most importantly, can Chinese firms orchestrate new strategies to lessen any foreseeable opposition from legislatures?

This study analyzes two deals of creating the world's largest theater (AMC theaters) and purchasing the global number one pork producer (Smithfield Foods) by Chinese foreign direct investment in 2012 and 2013, respectively. This study postulates that Chinese sustainable high GDP growth, strengthening value of Chinese currency- Renminbi combined with Chinese domestic social issues like wealth disparity, industrial pollution, food safety, could open a new era for Chinese foreign direct investment in U.S.